



WESTERN NEW ENGLAND UNIVERSITY

Financial Statements

June 30, 2020

(with comparative totals for June 30, 2019)

(With Independent Auditors' Report Thereon)

WESTERN NEW ENGLAND UNIVERSITY

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Western New England University:

We have audited the accompanying financial statements of Western New England University (the University), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, 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 U.S. generally accepted accounting principles; 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Western New England University as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 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.

KPMG LLP

October 27, 2020

WESTERN NEW ENGLAND UNIVERSITY

Statement of Financial Position

June 30, 2020

(with comparative totals at June 30, 2019)

(Dollars in thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 23,612	18,156
Accounts and pledges receivable, net (note 5)	3,974	4,913
Prepaid expenses and other assets	2,706	3,517
Deposits under bond indenture	—	450
Loans receivable, net (note 6)	3,142	3,878
Long-term investments (notes 7 and 8)	67,738	67,309
Investment in plant, net (note 9)	148,722	153,724
Investments held in trust by others (notes 7 and 10)	736	746
Total assets	<u>\$ 250,630</u>	<u>252,693</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,557	12,232
Deposits, deferred revenue and other liabilities	8,664	8,153
Bonds and capital leases payable (notes 11 and 12)	98,896	100,222
Government grants refundable	2,362	2,762
Total liabilities	<u>123,479</u>	<u>123,369</u>
Net assets:		
Without donor restrictions (note 15)	85,850	88,762
With donor restrictions (note 15)	41,301	40,562
Total net assets	127,151	129,324
Commitments and contingencies (note 18)		
Total liabilities and net assets	<u>\$ 250,630</u>	<u>252,693</u>

See accompanying notes to financial statements.

WESTERN NEW ENGLAND UNIVERSITY

Statement of Activities

Year ended June 30, 2020

(with summarized financial totals for the year ended June 30, 2019)

(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Operating revenues and other support:				
Revenues:				
Tuition and fees, net financial aid	\$ 79,278	—	79,278	76,606
Residence and dining	18,149	—	18,149	22,828
Net student revenue	97,427	—	97,427	99,434
Federal, state, and private grants	4,457	—	4,457	1,666
Interest income	11	48	59	61
Income and gains from long-term investments utilized (note 7)	1,280	1,471	2,751	2,440
Contributions	925	389	1,314	1,251
Other income	1,230	—	1,230	1,072
Other auxiliary services	109	—	109	138
Total revenues	105,439	1,908	107,347	106,062
Net assets released from restrictions (note 16)	1,677	(1,677)	—	—
Total operating revenues and other support	107,116	231	107,347	106,062
Expenses (note 17):				
Instruction	40,619	—	40,619	41,598
Student support	17,666	—	17,666	17,000
Student Aid	1,313	—	1,313	—
Academic support	13,737	—	13,737	13,996
Residence, dining, and other auxiliary services	16,970	—	16,970	17,594
Management and general	17,394	—	17,394	16,352
Total operating expenses	107,699	—	107,699	106,540
Change in net assets from operations	(583)	231	(352)	(478)
Nonoperating:				
Contributions	—	2,009	2,009	2,541
Realized and unrealized gains on investments (note 7)	(233)	(321)	(554)	2,714
Long-term investment gains utilized in operations (note 7)	(909)	(1,164)	(2,073)	(1,988)
Change in value of split interest agreements	(7)	(16)	(23)	(78)
Other changes	(1,180)	—	(1,180)	—
Change in net assets from nonoperating activities	(2,329)	508	(1,821)	3,189
Change in net assets	(2,912)	739	(2,173)	2,711
Net assets, beginning of year	88,762	40,562	129,324	126,613
Net assets, end of year	\$ 85,850	41,301	127,151	129,324

See accompanying notes to financial statements.

WESTERN NEW ENGLAND UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2020

(with comparative totals for the year ended June 30, 2019)

(Dollars in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (2,173)	2,711
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,415	8,318
Realized loss on sale of equipment	2	—
Net unrealized and realized loss (gain) on long-term investments	554	(2,714)
Contributions restricted for long-term investment	(4,405)	(3,191)
Change in:		
Investments held in trust by others	10	86
Accounts and pledges receivable	939	2,135
Prepaid expenses and other assets	811	(439)
Loans receivable	736	795
Accounts payable and accrued expenses	1,385	1,834
Deposits, deferred revenue and other liabilities	511	(1,714)
Government grants refundable	(400)	—
Net cash provided by operating activities	6,385	7,821
Cash flows from investing activities:		
Purchases of plant and equipment	(3,733)	(5,018)
Proceeds from maturity and sale of long-term investments	5,172	13,646
Purchases of long-term investments	(6,155)	(10,832)
Net cash used in investing activities	(4,716)	(2,204)
Cash flows from financing activities:		
Contributions restricted for long-term investment	4,405	3,191
Change in deposits under bond indenture	450	7,658
Payments on capital leases	(153)	(192)
Payments of long-term debt	(915)	(874)
Net cash provided by financing activities	3,787	9,783
Net increase in cash and cash equivalents	5,456	15,400
Cash and cash equivalents at beginning of year	18,156	2,756
Cash and cash equivalents at end of year	\$ 23,612	18,156
Supplemental data:		
Interest paid	\$ 4,489	3,695
Noncash investing and financing activities:		
Fixed assets purchased through a capital lease acquisition	—	137
Plant and equipment purchases included in accounts payable	60	—

See accompanying notes to financial statements.

WESTERN NEW ENGLAND UNIVERSITY

Notes to Financial Statements

June 30, 2020

(with comparative totals for June 30, 2019)

(Dollars in thousands)

(1) Organization

Western New England University (the University) is a private, nonsectarian, co-educational university located on a 215-acre campus in a suburban neighborhood in Springfield, Massachusetts and is accredited by the New England Association of Schools and Colleges. Originally founded in 1919 as the Springfield Division of Northeastern University, it became established with its own charter and identity as Western New England College in 1951. Building of the new and current campus began in 1958. Its name was changed to Western New England University in July 2011.

The University offers a wide range of undergraduate degree programs as well as graduate programs and first-professional opportunities, in Arts and Sciences, Business, Engineering, Law, Pharmacy and Health Sciences, which includes a Doctor of Occupational Therapy program. There are 225 full-time faculty members in the University's four Colleges and one School.

The University annually enrolls approximately 3,825 students: 2,600 full-time undergraduates, 325 in full and part-time programs in the School of Law, and 340 full time students in the College of Pharmacy and Health Sciences, and a variable number in part-time undergraduate or graduate degree programs offered on campus. The University attracts students from approximately 40 states and 36 foreign countries. There are more than 48,000 alumni of the University.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The statement of activities includes 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 U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

(b) Net Asset Classes

The accompanying financial statements present information regarding the University's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions: net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties.

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With donor restrictions: net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Changes in net assets are classified as operating and nonoperating. Nonoperating changes in net assets are: net realized and unrealized gains and losses on long-term investments, less amounts distributed for operating purposes; and reclassifications of net assets received in prior periods and contributions with donor restrictions. All other unrestricted activity is reported as operating without donor restrictions.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(c) Operations

The statement of activities reports the change in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the University's undergraduate, graduate, professional and doctoral programs. Income appropriated for spending from the University's invested assets are reported as operating revenue. All contributions, except for those for capital or long-term investment, are reported as operating revenue. Contributions for capital or long-term investment, realized and unrealized net gains/losses on all investments, net of amounts appropriated for operations, and changes in the value of split interest agreements are reported as nonoperating revenue.

(d) Revenue Recognition

All unconditional contributions, donations, legacies, and gifts are recorded as revenue when received or when a promise to give is received. Contributions with donor-imposed restrictions, including unconditional promises to give, are reported in net assets with donor restrictions and are recognized as revenue when or as the University satisfies performance obligations by rendering promised goods or services. Restricted gifts that impact more than one reporting period are recognized as increases in net assets with donor restrictions and are released to net assets without donor restrictions when the donor restrictions, or time restrictions, are satisfied.

Student revenue consists of charges for tuition and fees, residence and dining and are recorded as revenue during the year in which the related services are rendered. Such revenue is presented at transaction prices, which are determined based on standard published rates for the services provided. Tuition and fees are net of any scholarships and aid awarded by the University to qualifying students. The amount of revenue per student varies based on the specific programs in which the student is enrolled, as well as whether the student lives on campus. Scholarships and aid awarded for tuition and fees amounted to \$52,318 and \$49,810 at June 30, 2020 and 2019, respectively.

Contributions of cash or other assets that must be used to acquire long-lived assets are reported in net assets without donor restrictions provided the long-lived assets are placed in service in the same reporting period; otherwise, the contributions are reported as net assets with donor restrictions until the assets are acquired and placed in service.

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(with comparative totals for June 30, 2019)

(Dollars in thousands)

(e) Cash and Cash Equivalents

The University considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents, except those held as long-term investments.

(f) Deposits under Bond Indenture

Deposits under bond indenture consist of the unexpended proceeds of certain bonds payable, which will be used for construction of certain facilities. As of June 30, 2020 there are no deposits under Bond Indenture.

(g) Investments

Investments are reported at fair value. Investments in securities traded on a national exchange are based upon quoted market prices. The University also holds shares or units in alternative investment funds involving hedge strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require using current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information.

The University's interest in alternative investment funds are reported at the net asset value (NAV) reported by the fund managers, because the University owns interests in such entities rather than the underlying securities owned by each partnership or fund, even though the underlying securities may not be difficult to value or may be readily marketable. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments.

These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Although such investments may be sold in a secondary market transaction, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value. However, the University has no current plans to sell such investments in the secondary market.

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(h) Physical Plant Assets

All plant assets are stated at cost except gifts in kind, which are recorded at their estimated fair value on the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. When plant assets are retired or disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in the statement of activities.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

(i) Unamortized Bond Costs

Deferred bond issue costs are stated net of accumulated amortization, and are amortized over the lives of the related bonds.

(j) Income Taxes

In November 1956, the University was granted exempt status under the Internal Revenue Code (IRC) Section 501(a), as an organization described in Section 501(c)(3). Under IRC Section 501(a), the University is generally exempt from income taxes. The University assesses uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements at June 30, 2020 and 2019.

(k) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the programs and supporting services benefited. Note 17 summarizes the University's functional expenses by natural classification.

(l) 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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Notes to Financial Statements

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(with comparative totals for June 30, 2019)

(Dollars in thousands)

(m) Reclassifications

Certain reclassifications have been made to 2019 information to conform to the 2020 presentation.

(3) Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2016-18, Restricted Cash, issued by the Financial Accounting Standards Board (FASB) in November 2016, makes changes to Topic 320, *Statement of Cash Flows*, by providing specific guidance on the cash flow classification and presentation of changes in restricted cash and cash equivalents on the statement of cash flows. This ASU became effective for the University for the year ended June 30, 2020, and the University's adoption did not have a material effect on the University's financial statements.

(4) Liquidity

The financial assets and liquidity resources available within one year for general expenditure such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt as of June 30 were as follows:

	2020	2019
Financial assets:		
Cash	\$ 17,917	13,604
Accounts and loans receivable, net	2,118	2,425
Pledge payments available for operations	180	142
Long-term investments available for operations	11,125	10,036
Subsequent year endowment appropriation	3,918	2,751
Other unrestricted invested funds	266	247
Total financial assets available within one year	\$ 35,524	29,205

The University has \$23,354 and \$24,560 in funds designated by the Board to function as endowment, which can be made available for general expenditure with approval from the Board, subject to investment liquidity provisions as of June 30, 2020 and 2019, respectively. The Board of Trustees approved a change to the investment policy, in light of the financial challenges posed by the COVID-19 pandemic, to allow a temporary increase to the spending distribution rate, to be approved on an annual basis. On September 29, 2020 the Board of Trustees approved a change in the spending rate on the general purpose portion of the endowment to be increased to 10% for the fiscal year 2021. The additional spending is included in the 2020 subsequent year endowment appropriation. The University has \$4,785 and \$3,460 within cash and cash equivalents that is subject to donor restrictions as of June 30, 2020 and 2019, respectively. Funds subject to donor restrictions are an available resource provided those restrictions are met by actions of the University or the passage of time. An additional liquidity resource includes a line of credit for \$7,500, with a maturity date of March 22, 2022.

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Notes to Financial Statements

June 30, 2020

(with comparative totals for June 30, 2019)

(Dollars in thousands)

(5) Accounts and Pledges Receivable

Amounts receivable consist of the following at June 30:

	2020	2019
Accounts receivable:		
Student	\$ 1,633	1,900
Other	388	120
Less allowance for doubtful accounts	(705)	(625)
	1,316	1,395
Pledges receivable	2,807	3,668
Less allowance for doubtful accounts and present value discount	(149)	(150)
	2,658	3,518
Total accounts and pledges receivable, net	\$ 3,974	4,913

The University's gross pledges receivable as of June 30 are due as follows:

	2020	2019
Less than one year	\$ 1,136	862
One to five years	1,671	2,806
	\$ 2,807	3,668

Pledges are discounted at rates ranging between 0.16% and 2.25%.

Fundraising expenses for the years ended June 30, 2020 and 2019 totaling \$911 and \$1,081, respectively, have been classified as management and general expenses in the statements of activities.

(6) Loans Receivable

Loans receivable consist of the following at June 30:

	2020	2019
Student loans	\$ 3,804	4,688
Less allowance for doubtful accounts	(662)	(810)
Total loans receivable, net	\$ 3,142	3,878

WESTERN NEW ENGLAND UNIVERSITY

Notes to Financial Statements

June 30, 2020

(with comparative totals for June 30, 2019)

(Dollars in thousands)

(7) Investments and Fair Value

The University maintains a pooled investment fund for purposes of maximizing investment return. The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation.

At June 30, 2020 and 2019, the carrying values of the University's cash and cash equivalents, receivables, accounts payable and accrued expenses, and deposits, deferred revenue and other liabilities approximated their fair values based on their short-term maturities.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Except for investments reported at net asset value (NAV) or its equivalents as a practical expedient to estimate fair value, the University uses a three-tiered hierarchy to categorize those financial instruments carried at fair value based on the valuation methodologies employed. The hierarchy is defined as follows:

- **Level 1** – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- **Level 2** – valuation based on inputs other than the quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- **Level 3** – valuation based on unobservable inputs for the assets or liabilities, for which little or no market data is available.

The following table summarizes the valuation of investments as of June 30, 2020:

<u>Investment</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Investments measured at NAV or equivalent</u>	<u>Total</u>
Long term investments:					
Cash equivalents	\$ 341	—	—	—	341
Fixed income securities – bonds	7,279	—	—	—	7,279
Equity investments – stocks	36,730	—	—	—	36,730
Equity investments – long/short	—	—	—	7,089	7,089
Hedge	—	—	—	11,530	11,530
Real assets	4,769	—	—	—	4,769
Total long term investments	49,119	—	—	18,619	67,738
Other assets:					
Investments held in trust by others	—	—	736	—	736
	<u>\$ 49,119</u>	<u>—</u>	<u>736</u>	<u>18,619</u>	<u>68,474</u>

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Notes to Financial Statements

June 30, 2020

(with comparative totals for June 30, 2019)

(Dollars in thousands)

The following table summarizes the valuation of investments as of June 30, 2019:

Investment	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV or equivalent	Total
Long term investments:					
Cash equivalents	\$ 304	—	—	—	304
Fixed income securities – bonds	6,564	—	—	—	6,564
Equity investments – stocks	38,162	—	—	—	38,162
Equity investments – long/short	—	—	—	6,556	6,556
Hedge	—	—	—	10,504	10,504
Real assets	5,219	—	—	—	5,219
Total long term investments	50,249	—	—	17,060	67,309
Other assets:					
Investments held in trust by others	—	—	746	—	746
	<u>\$ 50,249</u>	<u>—</u>	<u>746</u>	<u>17,060</u>	<u>68,055</u>

There were no changes in methodologies used at June 30, 2020 and 2019 and there were no transfers among levels during the years ended June 30, 2020 and 2019.

The following table presents the activity for investments measured at fair value on a recurring basis using significant inputs (Level 3) for the years ended June 30:

	2020	2019
Fair value at beginning of year	\$ 746	832
Unrealized losses	(10)	(86)
Fair value at end of year	<u>\$ 736</u>	<u>746</u>

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June 30, 2020

(with comparative totals for June 30, 2019)

(Dollars in thousands)

The University's total return on its invested assets consists of the following components for the years ended June 30:

	2020	2019
Operating:		
Interest and dividends (pooled)	\$ 678	452
Utilized gains	2,073	1,988
Income and gains from long-term investments utilized	2,751	2,440
Nonoperating:		
Net realized gains on sale of investments	1,525	3,330
Net unrealized losses on investments	(2,079)	(616)
Net realized and unrealized (loss) gain on investments	(554)	2,714
Less gains utilized in operations	(2,073)	(1,988)
Total investment return	\$ 124	3,166

Interest and dividends are presented net of manager fees of \$236 and \$200 for the years ended June 30, 2020 and 2019, respectively.

Hedge funds are redeemable with the funds or limited partnerships at net asset value under the original terms of the subscription agreement and/or partnership agreements. The investments' fair values as of June 30, 2020 are shown below by their redemption frequency.

	Daily	Monthly	Quarterly	Total	Days notice
Cash equivalents	\$ 341	—	—	341	1
Fixed income securities – bonds	7,279	—	—	7,279	1–7
Equity investments – stocks	36,730	—	—	36,730	1–7
Equity investments – long/short	—	7,089	—	7,089	30
Hedge	—	—	11,530	11,530	65
Real assets	4,769	—	—	4,769	2
Total	\$ 49,119	7,089	11,530	67,738	

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(with comparative totals for June 30, 2019)

(Dollars in thousands)

(8) Endowment

The University's endowment consists of 235 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowment). As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

The University has interpreted the Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines as prudent for the uses, benefits, purposes and duration of which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure. In accordance with UPMIFA, the University considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

1. Duration and preservation of the endowment fund
2. Purposes of the University and the endowed fund
3. General economic conditions
4. Possible effects of inflation or deflation
5. Expected total return from income and the appropriation of investments
6. Other resources of the University
7. Investment policy of the University

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the donor-restricted amount will remain intact. This perspective is aligned with the accounting standards definition that donor-restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be invaded on a temporary basis. Unless otherwise stated in the gift instrument, the assets in the endowment fund shall be donor-restricted net assets until appropriated for expenditure.

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(Dollars in thousands)

Endowment funds consisted of the following at June 30, 2020 and 2019:

<u>2020</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		<u>Total</u>
		<u>Original gift</u>	<u>Accumulated gains (losses)</u>	
Quasi	\$ 23,354	—	—	23,354
Donor restricted:				
Underwater	—	7,806	(285)	7,521
Other	—	20,730	4,300	25,030
	<u>\$ 23,354</u>	<u>28,536</u>	<u>4,015</u>	<u>55,905</u>

<u>2019</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		<u>Total</u>
		<u>Original gift</u>	<u>Accumulated gains (losses)</u>	
Quasi	\$ 24,560	—	—	24,560
Donor restricted:				
Underwater	—	3,609	(30)	3,579
Other	—	23,010	5,534	28,544
	<u>\$ 24,560</u>	<u>26,619</u>	<u>5,504</u>	<u>56,683</u>

Changes in endowment funds for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Balance, June 30, 2019	\$ 24,560	32,123	56,683
Interest and dividends, net of fees	243	307	550
Realized/unrealized losses	(197)	(325)	(522)
Contributions	—	1,917	1,917
Distributions	(1,252)	(1,471)	(2,723)
Balance, June 30, 2020	<u>\$ 23,354</u>	<u>32,551</u>	<u>55,905</u>

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	Without donor restrictions	With donor restrictions	Total
Balance, June 30, 2018	\$ 24,506	28,434	52,940
Interest and dividends, net of fees	171	210	381
Realized/unrealized gains	1,041	1,250	2,291
Contributions	—	3,479	3,479
Distributions	(1,163)	(1,250)	(2,413)
Other	5	—	5
Balance, June 30, 2019	\$ 24,560	32,123	56,683

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported as reductions in net assets with donor restrictions and aggregated \$285 and \$30 as of June 30, 2020 and 2019, respectively. Future market gains will be used to restore this reduction in net assets.

(c) Return Objectives and Risk Parameters

The University's primary investment objective for the endowment is to earn a total return within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the endowment's assets, while generating an income stream to support the activities of the University. To achieve its investment objective to the extent provided by law, the endowment's assets are allocated among seven asset classes, compared against several benchmarks and are reviewed annually.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University 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 Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power and risk tolerances.

The University targets a diversified asset allocation that places emphasis on investments in domestic and global equities, fixed income, hedge funds, and real assets strategies to achieve its long-term return objectives within prudent risk constraints. The Investment Committee reviews the policy portfolio asset allocation, exposures and risk profile on an ongoing basis.

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(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University's endowment funds and charitable gift annuities are in a unitized investment pool, which is currently invested with twelve investment managers. Endowment spending is calculated under a total return policy, which permits the University to spend 5% of the average market value of the endowment assets for the previous thirteen quarters as determined annually on December 31. Allowed spending of endowed funds totaled \$2,723 and \$2,413 for the years ended June 30, 2020 and 2019, respectively. Total spending from the University's net asset funds, including those not endowed, for the years ended June 30, 2020 and 2019, was as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Spending from endowment	\$ 1,252	1,471	2,723
Other spending	28	—	28
	\$ 1,280	1,471	2,751
	2019		
	Without donor restrictions	With donor restrictions	Total
Spending from endowment	\$ 1,163	1,250	2,413
Other spending	27	—	27
	\$ 1,190	1,250	2,440

In establishing these policies, the University considered the expected return on its endowment and its programming needs. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power and to provide a predictable and stable source of revenue to the annual operating budget. Additional real growth will be provided through new gifts, any excess investment return or additions by the Board of Trustees.

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(9) Investment in Plant

Plant assets consist of the following at June 30:

	2020	2019	Estimated useful lives
Land	\$ 4,526	4,526	—
Buildings	214,868	213,699	30–60 years
Improvements	13,574	12,975	10–20 years
Equipment	59,184	55,335	3–10 years
Construction in progress	170	2,175	—
	292,322	288,710	
Less accumulated depreciation	(143,600)	(134,986)	
	\$ 148,722	153,724	

Depreciation expense amounted to \$8,673 in 2020 and \$8,577 in 2019.

(10) Investments Held in Trust by Others

An investment held in trust by others represents the fair value of the University's rights to split interest agreements and pooled life income funds. All of the perpetual trusts included in the University's split interest agreement assets are classified as donor-restricted net assets. The present value of the future payments is estimated to equal the current fair value of these investments and accordingly, are recorded by the University at this value.

The University's share of its split-interest agreements and pooled life income funds had a fair value of \$736 and \$746 as of June 30, 2020 and 2019, respectively. The income from these investments is restricted for scholarships.

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(11) Leases

The University has noncancelable leases principally for equipment, which are accounted for as operating leases. Rent expense under these leases was \$213 for fiscal year 2020 and \$283 for fiscal year 2019. The approximate future minimum rental commitments under operating lease agreements are as follows:

Year ending June 30:		
2021	\$	141
2022		94
2023		50
2024		<u>19</u>
Total	\$	<u><u>304</u></u>

The University also leases laptop computers and athletic equipment under a capital lease. The following is a schedule by year of required future lease payments as of June 30, 2020.

Fiscal year ending June 30:		
2021	\$	<u>85</u>
Total required minimum lease payments		85
Less amount representing interest		<u>(3)</u>
Present value of minimum lease payments	\$	<u><u>82</u></u>

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(12) Bonds and Capital Leases Payable

	2020	2019
Massachusetts Development Finance Agency (MDFA) Revenue Bonds Series 2008, which are exempt from federal taxes, and bear interest at the date of issuance through and including May 28, 2018 of 1.27%. Subsequent interest is set at 65% of the prevailing 10 year U.S. Treasury rate plus 2.5%. The bond matures in 2028 and is secured by a mortgage on the S. Prestley Blake Law Center.	\$ 2,479	2,739
Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Series 2015, which is exempt from federal taxes, bear interest at rates ranging from 2% to 5% and matures annually through 2045. The bonds are secured by a mortgage on all the University's core campus including The Center for Sciences and Pharmacy.	33,485	34,140
Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Series 2018, which is exempt from federal taxes, bears interest at rate of 5% and matures annually through 2048. The bonds are secured by a mortgage on all the University's core campus including the University Commons.	55,850	55,850
Bonds payable	91,814	92,729
Unamortized bond premium	8,171	8,476
Bond issuance costs	(1,171)	(1,218)
Total bonds payable, net	98,814	99,987
Obligation under capital leases	82	235
Total bonds and capital leases payable	\$ 98,896	100,222

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The following is a schedule of bonds payable as of June 30, 2020 over the next five years and thereafter by the University:

Year ending June 30:		
2021	\$	1,855
2022		1,942
2023		2,039
2024		2,136
2025		2,244
Thereafter		<u>81,598</u>
Total	\$	<u>91,814</u>

The 2008, 2015 and 2018 Bond Series indentures require the maintenance of certain financial covenants. The University was in compliance with these requirements at June 30, 2020 and 2019. In addition, the University has pledged all revenues, and has granted the Issuer a security interest in tuition receipts and tuition receivables.

(13) Line of Credit

The University has an uncollateralized line of credit with a bank in the amount of \$7,500 as of June 30, 2020 and 2019. The line of credit bears interest, which is variable at a rate per annum equal to the Wall Street Journal prime rate. A commitment fee equal to 0.25% of the original principal amount of the note is payable each year on the anniversary date of the line. No borrowings against this line were outstanding at June 30, 2020 or 2019.

(14) Retirement Plan

The University maintains a 403(b) contributory retirement plan with Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF). The plan covers substantially all full-time employees. The University's contributions in 2020 and 2019 amounted to \$3,110 and \$3,075, respectively.

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(15) Net Assets

Net assets as of June 30 consisted of the following:

	2020	
	Without donor restrictions	With donor restrictions
Undesignated	\$ 8,495	—
Plant	49,826	—
Loan	1,807	—
Other	—	179
Facilities	—	2,973
Academic support	1,719	—
Student support	445	2,067
Life insurance, charitable remainder trust	—	1,361
Annual scholarships and awards	—	679
Unspent endowment allocation	204	401
Endowment funds:		
Scholarships and awards	23,354	32,366
Faculty development	—	144
Other	—	1,131
Total	\$ 85,850	41,301

	2019	
	Without donor restrictions	With donor restrictions
Undesignated	\$ 5,824	—
Plant	53,952	—
Loan	2,337	—
Other	—	100
Facilities	—	2,893
Academic support	1,576	—
Student support	415	2,020
Life insurance, charitable remainder trust	—	1,280
Annual scholarships and awards	—	610
Unspent endowment allocation	98	351

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	2019	
	Without donor restrictions	With donor restrictions
Endowment funds:		
Scholarships and awards	\$ 24,560	31,997
Faculty development	—	151
Other	—	1,160
Total	\$ 88,762	40,562

(16) Net Assets Released from Restrictions

Net assets were released as follows for the years ended June 30:

	2020	2019
With donor restrictions satisfied:		
Student aid	\$ 1,598	1,429
Instruction and research	59	50
Other institutional activities	20	22
Total	\$ 1,677	1,501

(17) Functional Expenses

The statements of activities present expenses by functional classification. The University also summarizes its expenses by natural classification. The University's primary program service is academic instruction. Expenses reported as student support and residence, dining and other auxiliary services are incurred in support of this primary program activity.

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Operation and maintenance of plant and depreciation expenses are allocated based on square footage. Interest expense is allocated based on the functional purpose for which the debt proceeds were used. Expenses by both their nature and their function for the years ended June 30, 2020 and 2019 are as follows:

2020						
	Instruction	Student support	Academic support	Residence, dining and other auxiliary services	Management and general	Total
Salaries and wages	\$ 26,062	8,647	6,991	2,421	8,544	52,665
Employee benefits	9,032	2,771	2,419	889	3,074	18,185
Supplies, services, other	2,583	4,361	3,323	7,201	5,138	22,606
Depreciation and amortization	1,309	1,669	801	4,158	478	8,415
Interest	1,633	218	203	2,301	160	4,515
Grants to Students	—	1,313	—	—	—	1,313
	\$ 40,619	18,979	13,737	16,970	17,394	107,699

2019						
	Instruction	Student support	Academic support	Residence, dining and other auxiliary services	Management and general	Total
Salaries and wages	\$ 26,636	8,430	7,021	2,318	7,777	52,182
Employee benefits	8,645	2,432	2,288	776	3,101	17,242
Supplies, services, other	3,434	4,388	3,622	7,943	4,813	24,200
Depreciation and amortization	1,294	1,549	792	4,259	424	8,318
Interest	1,589	201	273	2,298	237	4,598
	\$ 41,598	17,000	13,996	17,594	16,352	106,540

(18) Commitments and Contingencies

The University participates in the Massachusetts College Savings Prepaid Tuition Program. This program allows participants to pay in advance (against a bond) for future tuition at the cost of tuition at the time of the bond purchase increased by the Consumer Price Index plus 2%. The potential cost associated with this program cannot be determined as it is contingent on future tuition increases and the bond purchasers who attend the University.

The University also participates in a number of federal programs that are subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

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(19) Risks and Uncertainties-Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, the University could be materially and possibly adversely affected by the risks, or the public perception of the risks, related to the outbreak of COVID-19.

As a result of the pandemic, beginning in March 2020, the University suspended in-person education and most other campus-based activities. Students continued to meet their academic requirements for the remainder of the 2019 – 2020 academic year online. The University granted refunds of \$3,900 in fiscal year 2020 for resident and dining services on a prorated basis, resulting in a reduction of residence and dining revenue for the year ended June 30, 2020. Although the University incurred certain incremental costs due to the pandemic, including transitioning to online education and work environments, it also experienced reductions in certain other recurring costs, such as travel, utilities and event related costs.

In addition, the University received certain funding under the CARES Act to provide aid to students during the year that ended June 30, 2020. The University was awarded \$1,342 from the Higher Education Emergency Relief Fund (HEERF) for this purpose. The funds were used for emergency financial aid grants to students under the 18004(a)(1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The University disbursed \$1,313 to students as of June 30, 2020 to assist the students in their transition to remote learning with the remaining \$29 to be utilized in fiscal year 2021. In fiscal year 2020, the University was awarded an additional \$1,313 from the HEERF to support institutional expenditures relating to the pandemic with the remaining \$29 to be utilized in fiscal year 2021.

The start of 2020-2021 academic year includes on ground, online and hybrid education. Faculty and staff are working both on-campus and remotely to ensure continuity of essential operations. Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for when instruction and campus operations will return to normal.

The pandemic could continue to materially affect the University's ability to conduct its operations, the cost of its operations, and the generation of certain revenue, including revenue from enrollment, campus housing, international activities, and other operating activities, as well as from financial markets and fundraising, and such effects could be consequential to the University. The full extent of the impact of COVID-19 on the University will depend on various future developments, particularly the duration and depth of the pandemic, which may be influenced by emerging medical treatments and applicable health and safety regulations. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

(20) Subsequent Events

The University evaluated subsequent events for potential recognition or disclosure through October 27, 2020, the date on which the financial statements were issued.