



NAZARENE BIBLE COLLEGE

Financial Statements
With Independent Auditors Report

June 30, 2019 and 2018

NAZARENE BIBLE COLLEGE

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Nazarene Bible College
Lenexa, Kansas

We have audited the accompanying financial statements of Nazarene Bible College, which comprise the statements of financial position as of June 30, 2019 and 2018, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees
Nazarene Bible College
Lenexa, Kansas

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nazarene Bible College as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Nazarene Bible College has adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. This has had a material effect on the presentation of the June 30, 2019 and 2018 financial statements. Our opinion has not been modified with respect to this matter.

Capin Crouse LLP

Colorado Springs, Colorado
November 5, 2019 (except Note 15, as of August 21, 2020)

NAZARENE BIBLE COLLEGE

Statements of Financial Position

	June 30,	
	2019	2018
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 149,582	\$ 319,551
Accounts receivable–net	43,992	251,608
Prepaid expenses and other assets	40,020	82,422
Perkins loan receivable	42,254	42,869
Investments	1,163,852	1,225,112
	1,439,700	1,921,562
Property held for sale	3,131,422	5,644,236
Property, plant, and equipment–net	150,976	159,695
Investments held for endowments	2,772,847	2,709,756
	\$ 7,494,945	\$ 10,435,249
Total Assets	\$ 7,494,945	\$ 10,435,249
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 132,408	\$ 231,631
Federal student loan funds	29,083	29,083
Deferred revenue	77,341	329,791
	238,832	590,505
Defined benefit pension liability	4,369,176	3,657,768
	4,608,008	4,248,273
Net assets:		
Without donor restrictions	(25,657)	3,323,373
With donor restrictions:		
Restricted by purpose or time	823,709	792,740
Restricted in perpetuity	2,088,885	2,070,863
	2,886,937	6,186,976
Total Liabilities and Net Assets	\$ 7,494,945	\$ 10,435,249

See notes to financial statements

NAZARENE BIBLE COLLEGE

Statements of Activities

	Year Ended June 30,							
	2019				2018			
	Without Donor Restrictions	With Donor Restrictions		Total	Without Donor Restrictions	With Donor Restrictions		Total
Restricted by Purpose or Time		Restricted in Perpetuity	Restricted by Purpose or Time			Restricted in Perpetuity		
SUPPORT AND REVENUE:								
Tuition and fees, net	\$ 2,388,972	\$ -	\$ -	\$ 2,388,972	\$ 2,893,275	\$ -	\$ -	\$ 2,893,275
Gifts and grants	1,323,860	75,273	-	1,399,133	1,115,471	43,089	-	1,158,560
Investment and interest income	131,110	-	-	131,110	158,165	-	-	158,165
Auxiliary enterprises and other	71,984	-	-	71,984	34,161	-	-	34,161
Total Support and Revenue	3,915,926	75,273	-	3,991,199	4,201,072	43,089	-	4,244,161
NET ASSETS RELEASED:								
Purpose and time restrictions	185,277	(185,277)	-	-	55,655	(55,655)	-	-
EXPENSES:								
Institutional support	1,964,458	-	-	1,964,458	2,098,941	-	-	2,098,941
Instruction	1,272,848	-	-	1,272,848	1,404,612	-	-	1,404,612
Academic support	795,322	-	-	795,322	864,292	-	-	864,292
Marketing and recruitment	266,011	-	-	266,011	274,021	-	-	274,021
Operations and maintenance	129,077	-	-	129,077	196,946	-	-	196,946
Auxiliary	63,972	-	-	63,972	2,375	-	-	2,375
Depreciation and amortization	54,444	-	-	54,444	72,992	-	-	72,992
	4,546,132	-	-	4,546,132	4,914,179	-	-	4,914,179
Change in Net Assets from Operating Activities	(444,929)	(110,004)	-	(554,933)	(657,452)	(12,566)	-	(670,018)

(continued)

See notes to financial statements

NAZARENE BIBLE COLLEGE

Statements of Activities (continued)

	Year Ended June 30,							
	2019			2018				
	Without Donor Restrictions	With Donor Restrictions		Total	Without Donor Restrictions	With Donor Restrictions		Total
Restricted by Purpose or Time		Restricted in Perpetuity	Restricted by Purpose or Time			Restricted in Perpetuity		
NON-OPERATING ACTIVITIES:								
Contributions	-	-	18,022	18,022	-	-	22,768	22,768
Loss on impairment of property held for sale	(2,463,854)	-	-	(2,463,854)	-	-	-	-
Investment gain on endowments	-	140,973	-	140,973	-	177,810	-	177,810
Release-purpose restriction	-	-	-	-	78,579	(78,579)	-	-
Pension-related changes other than net periodic pension cost	(440,247)	-	-	(440,247)	512,954	-	-	512,954
Change in Net Assets	(3,349,030)	30,969	18,022	(3,300,039)	(65,919)	86,665	22,768	43,514
Net Assets, Beginning of Year	3,323,373	792,740	2,070,863	6,186,976	3,389,292	706,075	2,048,095	6,143,462
Net Assets, End of Year	<u>\$ (25,657)</u>	<u>\$ 823,709</u>	<u>\$ 2,088,885</u>	<u>\$ 2,886,937</u>	<u>\$ 3,323,373</u>	<u>\$ 792,740</u>	<u>\$ 2,070,863</u>	<u>\$ 6,186,976</u>

See notes to financial statements

NAZARENE BIBLE COLLEGE

Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,300,039)	\$ 43,514
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	54,444	72,992
Reinvested dividends	(69,208)	(55,522)
Net unrealized and realized gains on investments	(202,875)	(280,453)
Loss on impairment of property held for sale	2,463,854	-
(Gain) loss on sale and disposal of property, plant, and equipment	3,483	(6,636)
Change in defined benefit pension liability	711,408	(245,395)
Change in operating assets and liabilities:		
Accounts receivable	207,616	11,503
Inventory	10,527	10,527
Prepaid expenses and other assets	31,875	(68,707)
Accounts payable and accrued expenses	(50,263)	(20,592)
Deferred revenue	(252,450)	88,198
Net Cash Used by Operating Activities	(391,628)	(450,571)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(48,956)	(41,830)
Proceeds from sales of property, plant, and equipment	-	6,800
Proceeds from sales of investments	270,000	350,000
Net Perkins loans and federal student loan transactions	615	(1,782)
Net Cash Provided by Investing Activities	221,659	313,188
Net Change in Cash and Cash Equivalents	(169,969)	(137,383)
Cash and Cash Equivalents, Beginning of Year	319,551	456,934
Cash and Cash Equivalents, End of Year	\$ 149,582	\$ 319,551
SUPPLEMENTAL DISCLOSURE:		
Property, plan, and equipment transferred to property held for sale	\$ -	\$ 1,013

See notes to financial statements

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

1. NATURE OF ORGANIZATION:

Nazarene Bible College (the College) is a nonprofit educational institution of the Church of the Nazarene (the Church) specializing in training and educating students for Christian vocations. The College is governed by a board of trustees which is elected by the General Assembly of the Church. The College is a nonprofit corporation exempt, as a subordinate unit of the Church, from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the College is subject to federal income tax on any unrelated business taxable income. In addition the College is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

The principal sources of revenue are from tuition, fees, and gifts from the Church. The College operates in both online formats and in Colorado Springs, Colorado, and has affiliations with various Multicultural Extension Training Centers (METCs) throughout the United States. The administrative offices of the College are located in Lenexa, Kansas.

The METCs are designed to provide classroom education to students in their cultural context. The accompanying financial statements do not include the operations of the METCs because they do not meet the criteria of reporting of related entities for consolidation purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The College maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, and money market accounts. As of June 30, 2019 and 2018, the College's cash balances exceeded federally insured limits by approximately \$0 and \$70,000, respectively. The College has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

INVESTMENTS AND INVESTMENTS HELD FOR ENDOWMENT

Investments and investments held for endowment consist of a group investment fund held at Northern Trust (Northern) measured at fair value using net asset value (NAV) as a practical expedient. Earnings are included within investment and interest income on the statements of activities.

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from students for tuition and fees and are net of an allowance for doubtful accounts of \$82,150 and \$65,150 as of June 30, 2019 and 2018, respectively. Management's estimate of uncollectible accounts was based upon an analysis of past due accounts and historical collections. Accounts are written off when all methods to collect have been exhausted. As of June 30, 2019 and 2018, there were no accounts that were accruing interest.

PERKINS LOAN FUNDS

Loans made to students under the National Direct Student Loan Act (Perkins loans) are not due for repayment until subsequent to graduation and may be cancellable through teaching, military service, death, or bankruptcy. Management believes all loans are fully collectible and has not recorded an allowance as of June 30, 2019 and 2018. These loans are reflected as assets in the statements of financial position. Delinquent loans are computed using a historical default rate. Loans in default assigned to the U.S. Department of Education are charged to the allowance in the year in which they are assigned. Loans are written off when all methods to collect have been exhausted. A prorated portion of the federal contributions may be refundable to the federal government in the future and is shown as a liability.

PROPERTY, PLANT, AND EQUIPMENT

The College records property, plant, and equipment at cost or, if donated, at fair value as of the date of the gift. Property, plant, and equipment donated with restrictions regarding its use and contributions of cash to acquire property and equipment are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time. The College capitalizes purchases or donations greater than \$1,000. Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives:

Building and improvements	40 years
Land improvements	25 years
Furniture and equipment	5-10 years
Vehicles	5-10 years
Computers and software	5 years

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY HELD FOR SALE

During the year ended June 30, 2017, as a result of the College moving its operational headquarters, the property, plant, and equipment and undeveloped land located in Colorado Springs was actively marketed, resulting in a reclassification from property, plant, and equipment to property held for sale. Property held for sale is valued at the lower of carrying value or fair value less costs to sell.

During the year ended June 30, 2019, the property held for sale went under contract and is expected to close January 2020. Based on the fair value of the contract less estimated selling costs, an impairment loss of \$2,463,854 was recorded and is included within impairment loss on property held for sale on the statements of activities.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The College participates in the delivery of student financial assistance under various programs and administered by the U.S. Department of Education. The related activity is subject to audit both by an independent certified public accountant and representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of non-compliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties, or the discontinuation of eligibility for participation. A significant amount of the revenue earned by the College is received from student financial assistance funds provided to students. In the opinion of management, the ultimate outcome of any such audits will not have a material impact on the College's financial statements.

CLASSES OF NET ASSETS

The net assets of the College are reported in the following two classes:

Net assets without donor restrictions represent those net assets whose use is not restricted by the donors; however, their use may be limited by board designation. Included in net assets without donor restrictions are resources that are used to support current operations, including property, plant, and equipment. Board designated amounts are not available to management for operations.

Net assets with donor restrictions include donor-restricted contributions for specified exempt purposes, earnings from endowments, and gift instruments requiring the principal be invested in perpetuity.

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

Management of the College has interpreted the Colorado 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 College classifies as net assets restricted in perpetuity (a) the original value of the gifts donated to the endowment, and (b) the original value of the subsequent gifts to the endowment. This will then have the net assets restricted in perpetuity reflect the historical cost value of the endowment. All investment gains and losses will be added to the net assets with purpose restrictions until which time a determination is made as to its disposition.

Spending policies and how the investment objectives relate to spending policy: The College has a policy of appropriating for distribution each year 5 percent of its endowment fund's balance as of the prior fiscal year end, except that disbursements shall not exceed earnings. In establishing this policy, the College considered the long-term expected return on its endowment investments. The primary investment objective of endowment funds is to follow those policies that will preserve the principal value, provide predictable income and, to the extent possible with prudence, to increase the principal to offset the long-term effects of inflation. Accordingly, over the long-term, the College expects the current spending policy to allow its endowment to grow on an annual basis. Actual results in any given year may vary.

REVENUE, SUPPORT, AND EXPENSES

Tuition and fees are recognized when students have participated in classes and/or extra-curricular activities, net of scholarships and grants, and are non-refundable by the College. Amounts received in advance are recorded as deferred income and amounts earned but not received are treated as accounts receivable. Tuition and fees are recorded net of scholarships of \$713,486 and \$927,038 for the years ended June 30, 2019 and 2018, respectively, in the statements of activities.

Contributions are recorded when made, which may be when cash or other assets are received or unconditionally promised. The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, 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.

Investment income is recognized when earned. Unrealized gains and losses are recorded to reflect the investments at their fair market value.

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE, SUPPORT, AND EXPENSES, continued

Auxiliary enterprises income is recognized when earned. There are no advance receipts of payments and all payments are collected when the item is sold, creating no accounts receivable.

Expenses are reported when costs are incurred in accordance with the accrual basis of accounting.

ADVERTISING

The College uses advertising to recruit prospective students. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2019 and 2018, was \$257,120 and \$201,619, respectively.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The College adopted the provisions of this new standard during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added including liquidity and availability of financial assets (Note 3), and disclosures related to functional allocation of expenses were expanded (Note 10). Adoption of this standard had no effect on the change in net assets by class or net assets or in total.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following table reflects the College's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year; held in trust; held in perpetual endowments and the accumulated earnings thereof, net of appropriations within one year; subject to donor purpose or time restrictions, net of spending pursuant to the restrictions within one year; or because funds are set aside by the governing board.

Financial assets:	
Cash and cash equivalents	\$ 149,582
Accounts receivable—net	43,992
Investments	1,163,852
Investments held for endowments	2,772,847
Financial assets, year-end:	<u>4,130,273</u>
Less those unavailable for general expenditure within one year, due to:	
Investments held for endowments	<u>(2,547,947)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,582,326</u>

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS, continued:

The College has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. As part of the College's liquidity management, it invests cash in excess of daily requirements in appropriate short-term interest bearing accounts. The College also has an unsecured line of credit, which may be drawn upon in the event of an anticipated liquidity need. See Note 8 for further detail.

4. FAIR VALUE MEASUREMENTS:

The College uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, *Fair Value Measurements and Disclosures*, the following table lists investments in group investment funds by major category as of June 30, 2019.

Investment Category	Fair Value Determined Using NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Group investment fund	<u>\$ 6,542,759</u>	<u>\$ -</u>	Daily	Immediate

The following table lists investments in private equity funds by major category as of June 30, 2018.

Investment Category	Fair Value Determined Using NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Group investment fund	<u>\$ 6,665,685</u>	<u>\$ -</u>	Daily	Immediate

The group investment fund is a fund held by Northern that seeks to maintain a diversified portfolio across multiple asset classes. Targeted allocation of this fund is 3% cash and cash equivalents, 33% fixed income, 54% equities, and 10% other.

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

5. INVESTMENTS:

Operating investments as of June 30, 2019 and 2018, consist of the following:

	June 30,	
	2019	2018
Church of the Nazarene Operating Fund	\$ 6,542,759	\$ 6,665,685
Assets held for defined benefit plan	(2,606,060)	(2,730,817)
Assets held for endowment	(2,772,847)	(2,709,756)
	<u>\$ 1,163,852</u>	<u>\$ 1,225,112</u>

Investment and interest income consists of the following:

	Year Ended June 30,	
	2019	2018
<u>Non-operating</u>		
Realized and unrealized gain	<u>\$ 140,973</u>	<u>\$ 177,810</u>
<u>Operating</u>		
Realized and unrealized gain	\$ 73,483	\$ 117,475
Interest and dividends	69,208	55,522
Less: investment expenses	(11,581)	(14,832)
	<u>\$ 131,110</u>	<u>\$ 158,165</u>

6. PROPERTY, PLANT, AND EQUIPMENT—NET:

Property, plant, and equipment—net consist of:

	June 30,	
	2019	2018
Computers	\$ 1,039,820	\$ 992,757
Equipment and library books	96,219	126,491
	<u>1,136,039</u>	<u>1,119,248</u>
Accumulated depreciation and amortization	(985,063)	(959,553)
	<u>\$ 150,976</u>	<u>\$ 159,695</u>

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

7. RETIREMENT PLANS, continued:

DEFINED BENEFIT PLAN, continued

	June 30,	
	2019	2018
Reconciliation of Funded Status:		
Funded status (underfunded)	\$ (4,369,176)	\$ (3,657,768)
Defined Benefit Pension Liability	<u>\$ (4,369,176)</u>	<u>\$ (3,657,768)</u>
	Year Ended June 30,	
	2019	2018
Net Periodic Benefit Cost:		
Service cost	\$ 87,031	\$ 112,946
Interest cost	257,133	239,255
Expected return on plan assets	(179,425)	(182,146)
Net loss amortization	<u>154,221</u>	<u>181,234</u>
Net Periodic Benefit Cost	<u>\$ 318,960</u>	<u>\$ 351,289</u>

Pension related changes other than net periodic benefit cost, included in nonoperating activities, are as follows:

	Year Ended June 30,	
	2019	2018
Amortization of net loss to net periodic benefit cost	\$ (594,468)	\$ 331,720
Amortization of prior service cost to net periodic benefit cost	<u>154,221</u>	<u>181,234</u>
	<u>\$ (440,247)</u>	<u>\$ 512,954</u>

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

7. RETIREMENT PLANS, continued:

DEFINED BENEFIT PLAN, continued

Weighted-average assumptions and method disclosures include:

	Year Ended June 30,	
	2019	2018
Discount rate	3.45%	4.15%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	2.50%	2.50%
Amortization method	Straight-line	Straight-line

DEFINED CONTRIBUTION PLAN

On January 1, 1996, the College's employees also became eligible to participate in the Church's defined contribution plan. Under this tax-sheltered 403(b)(9) annuity plan, participants can contribute pre-tax earnings toward their retirement. The College then contributes a matching portion of up to 3% of the employee compensation. Employees hired prior to May 1, 2017, are grandfathered at the College contribution of up to 7% of employee compensation if not a participant in the Defined Benefit Plan. Employees who participate in the Defined Benefit Plan are eligible for a matching portion of up to 4% of the employee compensation. Employees vest in their employer contributions after five years of service. Total contributions by the College amounted to \$55,354 and \$54,126 for the years ended June 30, 2019 and 2018, respectively.

8. LINE AND LETTER OF CREDIT:

In September 2017, the College obtained a revolving line of credit of \$350,000 with an interest rate of 5.5%, held at a financial institution, secured by real property, accounts receivable, equipment, and general intangibles. The line of credit matures September 2020. As of June 30, 2019 and 2018, the line of credit was not drawn upon. The College also held a letter of credit with a financial institution totaling \$6,415 as of June 30, 2019. The letter of credit was not drawn upon as of June 30, 2019.

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

9. RELATED PARTY TRANSACTIONS:

The College received contributions from the Church for education services of \$943,833 for both years ended June 30, 2019 and 2018. These contributions represent approximately 22% and 24% of total support and revenue received during the years ended June 30, 2019 and 2018, respectively.

The College received funds from various individual Nazarene congregations as an annual offering. For the years ended June 30, 2019 and 2018, the annual offerings totaled \$144,616 and \$132,879, respectively.

During the year ended June 30, 2018, the College entered into an operating lease with the Church for office space. Lease expense totaled \$61,772 for the years ended June 30, 2019 and 2018.

10. FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing various program services and supporting activities of the College have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. These expenses require allocation on a reasonable basis that consistently applied. Salaries and benefits are allocated based on average estimates of time and effort by employees. Depreciation and occupancy expenses are allocated based on square footage. Remaining expenses are allocated based on the underlying nature of the expense. The College had not identified joint costs for the years ended June 30, 2019 and 2018.

The following table presents the functional allocation of expenses for the year ended June 30, 2019 with comparative natural classifications for the year ended June 30, 2018:

	For the Year Ended June 30, 2019				2018 Total
	Program Services	General & Administrative	Fund-raising	Total	
Salary and benefits	\$ 2,378,858	\$ 777,891	\$ 161,652	\$ 3,318,401	\$ 3,592,175
Occupancy	159,713	44,083	9,646	213,442	298,853
Supplies & other	253,168	81,996	19,355	354,519	443,250
Professional services	223,538	109,900	14,768	348,206	305,290
Advertising/Events	183,436	44,906	28,778	257,120	201,619
Depreciation and amortization	41,377	10,889	2,178	54,444	72,992
	<u>\$ 3,240,090</u>	<u>\$ 1,069,665</u>	<u>\$ 236,377</u>	<u>\$ 4,546,132</u>	<u>\$ 4,914,179</u>
<u>2018 Total</u>	<u>\$ 3,563,763</u>	<u>\$ 1,120,924</u>	<u>\$ 229,492</u>	<u>\$ 4,914,179</u>	

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

11. NET ASSETS WITH DONOR RESTRICTITONS:

Net assets with donor restrictions consist of:

	June 30,	
	2019	2018
Restricted by purpose or time:		
Scholarships	\$ 122,160	\$ 136,260
Benevolence	17,587	17,587
Undistributed endowment earnings:		
Scholarships	473,664	449,249
Lectureship	138,519	125,320
Other	71,779	64,324
	<u>823,709</u>	<u>792,740</u>
Restricted in perpetuity:		
Assets held for endowment fund	<u>2,088,885</u>	<u>2,070,863</u>
	<u>\$ 2,912,594</u>	<u>\$ 2,863,603</u>

12. ENDOWMENT FUNDS AND RELATED ASSETS:

Assets held for endowment fund consist of:

	June 30,	
	2019	2018
Church of the Nazarene Operating Fund	<u>\$ 2,772,847</u>	<u>\$ 2,709,756</u>
Permanently restricted net assets consist of:		
Scholarships	\$ 1,165,174	\$ 1,147,152
Pastoral care	517,864	517,864
Other	405,847	405,847
	<u>\$ 2,088,885</u>	<u>\$ 2,070,863</u>

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

12. ENDOWMENT FUNDS AND RELATED ASSETS, continued:

The endowment net asset composition by type consists of:

	June 30,	
	2019	2018
Donor restricted endowment funds:		
Restricted by purpose or time	\$ 683,962	\$ 638,893
Restricted in perpetuity	2,088,885	2,070,863
	<u>\$ 2,772,847</u>	<u>\$ 2,709,756</u>

Changes in endowment net assets for the year ended June 30, 2019:

	With Donor Restrictions		
	Original Gift	Accumulated	
	Amount	Gains	Total
Endowment net assets,			
beginning of year	\$ 2,070,863	\$ 638,893	\$ 2,709,756
Investment income	-	140,973	140,973
Contributions	18,022	-	18,022
Appropriated for expenditure	-	(95,904)	(95,904)
	<u>\$ 2,088,885</u>	<u>\$ 683,962</u>	<u>\$ 2,772,847</u>

Changes in endowment net assets for the year ended June 30, 2018:

	With Donor Restrictions		
	Original Gift	Accumulated	
	Amount	Gains	Total
Endowment net assets,			
beginning of year	\$ 2,048,095	\$ 539,662	\$ 2,587,757
Investment income		177,810	177,810
Contributions	22,768	-	22,768
Appropriated for expenditure	-	(78,579)	(78,579)
	<u>\$ 2,070,863</u>	<u>\$ 638,893</u>	<u>\$ 2,709,756</u>

NAZARENE BIBLE COLLEGE

Notes to Financial Statements

June 30, 2019 and 2018

12. ENDOWMENT FUNDS AND RELATED ASSETS, continued:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. There were no deficiencies of this nature as of both June 30, 2019 and 2018.

13. OPERATING LEASES:

As part of its exempt activities, the College has incurred certain obligations and commitments relating to internet and software services. Total lease expense for the years ended June 30, 2019 and 2018 was \$179,891 and \$299,086, respectively. Future minimum payments related to operating leases are:

<u>Year Ending June 30,</u>	
2020	\$ 101,491
2021	36,591
2022	37,823
2023	38,013
2024	6,335
	<hr/>
	\$ 220,253
	<hr/> <hr/>

14. OPERATING AND NONOPERATING ACTIVITIES:

The activity of the College has been reported in the statements of activities in the following two categories: operating and non-operating. Operating includes the core educational activities of the College. Non-operating includes all other activity that is not considered to be "core educational", such as the loss on impairment of property held for sale, contributions with donor restrictions to be held in perpetuity, pension-related changes other than net periodic pension cost, and investment income related to endowments. These activities may be reoccurring or one time events and management does not rely on or budget for these non-operating activities.

15. FINANCIAL RESPONSIBILITY

In September 2019, regulations related to Section 498(c)(1) of the Higher Education Act were updated. Although these financial responsibility calculation updates are effective July 1, 2020, not-for-profit institutions can implement the requirements of Appendix B, Subpart L of Part 668 for fiscal year 2019. The College has chosen to implement the regulation for the year ended June 30, 2019. With this implementation, the post-employment defined pension liability of \$4,369,176 and net assets with donor restrictions less those held in perpetuity totaling \$823,709 were included within the primary reserve ratio calculation.

16. SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 5, 2019, which is the date the financial statements were available to be issued.