

Eastern Nazarene College
Financial Statements for the year ending June 30, 2019
Summary of the Financial Report

Highlights:

Operating Results ended the year with a loss of \$1.4 million (p.4). Both enrollment and expenses were relatively flat with revenues up \$500,000 (2.8%) and expenses up \$170,000 (0.9%). Gifts and grants from individuals, districts and churches were \$2.7 million, flat with the prior year.

Debt was reduced by \$3.1 million to \$21.2 million and is down nearly \$7 million over the past 2 years. We received an offer from the City of Quincy to purchase 180 Old Colony for \$6.7 million and will be using the proceeds to maximize debt reduction and at the same time improve our debt service coverage ratio, minimize interest expense while maximizing future cash flows for operations and strategic investment.

Endowment assets provided funding for scholarships and expenses of \$1.15 million, with account values and assets flat at \$19.5 million.

EASTERN NAZARENE COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2019

EASTERN NAZARENE COLLEGE

Financial Statements

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Eastern Nazarene College
Quincy, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of Eastern Nazarene College (a Massachusetts not-for-profit organization) (the "College"), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider 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 Eastern Nazarene College as of June 30, 2019 and 2018, 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.

Emphasis of Matter

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

Report on Internal Control

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, on our consideration of Eastern Nazarene College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 21, 2019
(except for Note 7, for which the date is December 12, 2019)

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30, 2019 and 2018

EASTERN NAZARENE COLLEGE

Statements of Financial Position

June 30,

Assets

	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and equivalents	\$ 891,799	\$ 4,669,909
Accounts receivable:		
Student accounts receivable, net of allowance for doubtful accounts of \$615,256 and \$964,218 at 2019 and 2018, respectively	893,534	539,406
Pledges receivable, net	123,171	88,407
Other receivables	456,232	346,703
Perkins loans receivable, net of allowance for doubtful accounts of \$225,246 at 2019 and 2018	577,435	777,522
Prepays and other assets	335,342	359,388
Investments	27,676,822	28,709,724
Assets held in trust by others	212,707	215,672
Debt service reserve funds held by bond trustee	958,504	951,533
Property and equipment, net	<u>16,616,901</u>	<u>17,181,712</u>
Total Assets	<u>\$ 48,742,447</u>	<u>\$ 53,839,976</u>

Liabilities and Net Assets

Liabilities:		
Line of credit	\$ 3,000,000	\$ 3,000,000
Accounts payable and accrued expenses	1,972,846	1,687,949
Deferred revenues and student deposits	130,157	106,218
Long-term debt	18,208,142	21,359,482
Advances from the United States Department of Education	<u>723,805</u>	<u>759,280</u>
Total Liabilities	<u>24,034,950</u>	<u>26,912,929</u>
Net Assets:		
Without donor restrictions	5,274,148	7,478,000
With donor restrictions	<u>19,433,349</u>	<u>19,449,047</u>
Total Net Assets	<u>24,707,497</u>	<u>26,927,047</u>
Total Liabilities and Net Assets	<u>\$ 48,742,447</u>	<u>\$ 53,839,976</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues:			
Tuition and fees	\$ 18,505,372	\$ -	\$ 18,505,372
Less: financial aid	<u>(10,025,105)</u>	<u>-</u>	<u>(10,025,105)</u>
Net tuition and fees	8,480,267	-	8,480,267
Gifts and grants	1,250,569	570,531	1,821,100
Church gifts	1,458,828	-	1,458,828
Auxiliary enterprises	5,446,457	-	5,446,457
Government grants	163,915	-	163,915
Other revenues	170,196	13,822	184,018
Net assets released from restrictions	<u>1,315,729</u>	<u>(1,315,729)</u>	<u>-</u>
Total Revenues and Other Support	<u>18,285,961</u>	<u>(731,376)</u>	<u>17,554,585</u>
Expenses:			
Program Expenses:			
Instructional	4,618,808	-	4,618,808
Student services	3,453,888	-	3,453,888
Academic support	418,540	-	418,540
Auxiliary enterprises	<u>2,196,275</u>	<u>-</u>	<u>2,196,275</u>
Total Program Expenses	<u>10,687,511</u>	<u>-</u>	<u>10,687,511</u>
Supporting Services Expenses:			
Management and general	3,812,197	-	3,812,197
Fundraising	1,021,044	-	1,021,044
Depreciation and amortization	1,328,112	-	1,328,112
Plant operations and maintenance	1,993,550	-	1,993,550
Interest	<u>874,982</u>	<u>-</u>	<u>874,982</u>
Total Supporting Services Expenses	<u>9,029,885</u>	<u>-</u>	<u>9,029,885</u>
Total Operating Expenses	<u>19,717,396</u>	<u>-</u>	<u>19,717,396</u>
Changes in Net Assets from Operating Activities	<u>(1,431,435)</u>	<u>(731,376)</u>	<u>(2,162,811)</u>
Non-Operating Activities:			
Net investment income	(942,117)	718,643	(223,474)
Changes in the value of assets held in trust by others	-	(2,965)	(2,965)
Net rental income	<u>169,700</u>	<u>-</u>	<u>169,700</u>
Changes in Net Assets from Non-Operating Activities	<u>(772,417)</u>	<u>715,678</u>	<u>(56,739)</u>
Changes in Net Assets	<u>(2,203,852)</u>	<u>(15,698)</u>	<u>(2,219,550)</u>
Net Assets, Beginning of Year	<u>7,478,000</u>	<u>19,449,047</u>	<u>26,927,047</u>
Net Assets, End of Year	<u>\$ 5,274,148</u>	<u>\$ 19,433,349</u>	<u>\$ 24,707,497</u>

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

EASTERN NAZARENE COLLEGE

Statements of Activities and Changes in Net Assets - Continued

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Revenues:			
Tuition and fees	\$ 19,371,120	\$ -	\$ 19,371,120
Less: financial aid	<u>(10,886,883)</u>	<u>-</u>	<u>(10,886,883)</u>
Net tuition and fees	8,484,237	-	8,484,237
Gifts and grants	1,289,163	613,029	1,902,192
Church gifts	1,434,000	-	1,434,000
Auxiliary enterprises	5,074,757	-	5,074,757
Government grants	156,094	-	156,094
Other revenues	183,071	15,550	198,621
Net assets released from restrictions	<u>1,135,693</u>	<u>(1,135,693)</u>	<u>-</u>
Total Revenues and Other Support	<u>17,757,015</u>	<u>(507,114)</u>	<u>17,249,901</u>
Expenses:			
Program Expenses:			
Instructional	4,518,581	-	4,518,581
Student services	3,532,943	-	3,532,943
Academic support	484,667	-	484,667
Auxiliary enterprises	<u>2,010,444</u>	<u>-</u>	<u>2,010,444</u>
Total Program Expenses	<u>10,546,635</u>	<u>-</u>	<u>10,546,635</u>
Supporting Services Expenses:			
Management and general	3,832,549	-	3,832,549
Fundraising	848,492	-	848,492
Depreciation and amortization	1,118,215	-	1,118,215
Plant operations and maintenance	2,181,326	-	2,181,326
Interest	<u>1,018,725</u>	<u>-</u>	<u>1,018,725</u>
Total Supporting Services Expenses	<u>8,999,307</u>	<u>-</u>	<u>8,999,307</u>
Total Operating Expenses	<u>19,545,942</u>	<u>-</u>	<u>19,545,942</u>
Changes in Net Assets from Operating Activities	<u>(1,788,927)</u>	<u>(507,114)</u>	<u>(2,296,041)</u>
Non-Operating Activities:			
Net investment income	1,609,092	2,195,480	3,804,572
Changes in the value of assets held in trust by others	-	(10,229)	(10,229)
Net rental income	<u>145,737</u>	<u>-</u>	<u>145,737</u>
Changes in Net Assets from Non-Operating Activities	<u>1,754,829</u>	<u>2,185,251</u>	<u>3,940,080</u>
Changes in Net Assets	(34,098)	1,678,137	1,644,039
Net Assets, Beginning of Year	<u>7,512,098</u>	<u>17,770,910</u>	<u>25,283,008</u>
Net Assets, End of Year	<u>\$ 7,478,000</u>	<u>\$ 19,449,047</u>	<u>\$ 26,927,047</u>

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

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses

For the Year Ended June 30, 2019

	Program Services				Management and General	Fundraising	Total
	<u>Instructional</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>Auxiliary Enterprises</u>			
Expenses:							
Salaries and wages	\$ 3,037,371	\$ 1,836,178	\$ 313,185	\$ 810,018	\$ 2,185,055	\$ 429,023	\$ 8,610,830
Employee benefits	853,062	361,466	40,690	75,023	961,415	63,570	2,355,226
Other fees	277,734	91,814	-	1,029,553	441,649	3,076	1,843,826
Depreciation and amortization	-	-	-	-	1,328,112	-	1,328,112
Office	86,807	194,011	7,577	19,367	550,754	80,493	939,009
Interest	-	-	-	-	874,982	-	874,982
Occupancy	7,215	87,618	-	179,806	576,560	-	851,199
Advertising and promotion	7,767	387,618	5,619	1,472	34,461	257,504	694,441
Payroll taxes	219,497	120,472	17,050	37,698	145,995	31,595	572,307
Miscellaneous	12,848	63,135	12,040	36,834	214,347	114,432	453,636
Retirement	113,710	74,344	12,801	-	98,588	15,344	314,787
Insurance	-	19,453	-	6,504	256,450	-	282,407
Travel	2,243	216,350	3,000	-	38,570	26,007	286,170
Professional fees	-	-	-	-	201,051	-	201,051
Information technology	-	-	-	-	100,583	-	100,583
Conference	554	1,429	6,578	-	269	-	8,830
	<u>\$ 4,618,808</u>	<u>\$ 3,453,888</u>	<u>\$ 418,540</u>	<u>\$ 2,196,275</u>	<u>\$ 8,008,841</u>	<u>\$ 1,021,044</u>	<u>\$ 19,717,396</u>

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

EASTERN NAZARENE COLLEGE

Statements of Functional Expenses - Continued

For the Year Ended June 30, 2018

	Program Services				Management and General	Fundraising	Total
	<u>Instructional</u>	<u>Student Services</u>	<u>Academic Support</u>	<u>Auxiliary Enterprises</u>			
Expenses:							
Salaries and wages	\$ 3,266,785	\$ 1,963,746	\$ 355,138	\$ 562,190	\$ 2,297,284	\$ 379,352	\$ 8,824,495
Employee benefits	725,239	346,614	47,641	89,398	1,026,189	51,362	2,286,443
Other fees	23,078	63,979	-	1,061,951	519,639	7,700	1,676,347
Depreciation and amortization	-	-	-	-	1,118,215	-	1,118,215
Interest	-	-	-	-	1,018,726	-	1,018,726
Office	87,949	173,593	6,171	22,643	538,962	119,878	949,196
Occupancy	302	94,730	-	200,745	528,241	-	824,018
Advertising and promotion	26,064	361,338	23,767	864	43,002	184,829	639,864
Payroll taxes	238,403	129,888	19,963	26,505	160,393	28,012	603,164
Miscellaneous	17,743	143,806	11,813	39,541	157,911	37,448	408,262
Retirement	124,809	72,736	11,837	-	121,113	20,850	351,345
Professional fees	-	-	-	-	246,637	-	246,637
Insurance	-	19,650	-	6,504	212,341	-	238,495
Travel	3,906	162,863	1,500	103	27,823	18,561	214,756
Information technology	-	-	-	-	133,210	-	133,210
Conference	4,303	-	6,837	-	1,129	500	12,769
	<u>\$ 4,518,581</u>	<u>\$ 3,532,943</u>	<u>\$ 484,667</u>	<u>\$ 2,010,444</u>	<u>\$ 8,150,815</u>	<u>\$ 848,492</u>	<u>\$ 19,545,942</u>

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

EASTERN NAZARENE COLLEGE

Statements of Cash Flows

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ <u>(2,219,550)</u>	\$ <u>1,644,039</u>
Adjustments to reconcile changes in net assets to net cash provided by (applied to) operating activities:		
With donor restricted contributions held in perpetuity	(401,204)	(332,092)
Depreciation	1,308,139	1,095,495
Amortization	19,973	22,720
Bad debts	(177,206)	-
Realized and unrealized investment gains, net	317,705	(3,659,304)
Changes in the value of assets held in trust by others	2,965	10,229
Changes in operating assets and liabilities:		
Student accounts, pledges, and other receivables	(321,215)	650,172
Prepays and other assets	24,046	21,828
Payments of Perkins loans	-	(181,473)
Collections of Perkins loans	200,087	110,256
Change in advances from the United States Department of Education	(35,475)	4,718
Accounts payable and accrued expenses	284,897	(459,244)
Deferred revenues and student deposits	<u>23,939</u>	<u>(1,968)</u>
Net Adjustments	<u>1,246,651</u>	<u>(2,718,663)</u>
Net Cash Applied to Operating Activities	<u>(972,899)</u>	<u>(1,074,624)</u>
Cash Flows from Investing Activities:		
Proceeds from bond projects fund held by bond trustee	-	1,641,519
Advance to debt service reserve fund held by bond trustee	(6,971)	(6,917)
Property and equipment acquisitions	(743,328)	(1,539,536)
Proceeds from sale of investments	5,998,656	8,307,425
Purchases of investments	<u>(5,283,459)</u>	<u>(2,478,153)</u>
Net Cash Provided by (Applied to) Investing Activities	<u>(35,102)</u>	<u>5,924,338</u>
Cash Flows from Financing Activities:		
With donor restricted contributions held in perpetuity	401,204	332,092
Advances on (payments to) line of credit, net	-	(1,500,000)
Proceeds from issuance of long-term debt	-	2,000,000
Principal payments on long-term debt	<u>(3,171,313)</u>	<u>(2,122,910)</u>
Net Cash Applied to Financing Activities	<u>(2,770,109)</u>	<u>(1,290,818)</u>
Net Increase (Decrease) in Cash and Equivalents	(3,778,110)	3,558,896
Cash and Equivalents, Beginning of Year	<u>4,669,909</u>	<u>1,111,013</u>
Cash and Equivalents, End of Year	\$ <u>891,799</u>	\$ <u>4,669,909</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 875,761</u>	<u>\$ 1,024,578</u>
Non-Cash Transaction:		
Proceeds from bond projects fund held by bond trustee to pay bond payable	<u>\$ -</u>	<u>\$ 2,000,000</u>

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements

June 30, 2019 and 2018

Note 1 - **Organization**

Eastern Nazarene College (the “College”), located in Quincy, Massachusetts, is a Christian liberal arts four-year institution affiliated with the International Church of the Nazarene. The College is accredited by the New England Commission of Higher Education and offers more than forty traditional undergraduate programs and nine other programs including graduate and adult studies degree completion and certificate programs. The total student population of approximately 800 is principally drawn from the New England area. The College’s mission is to provide a quality education in a distinctly Christian environment.

The College participates in student financial aid programs sponsored by the United States Department of Education, which facilitates the payment of tuition and other expenses for students.

Note 2 - **Summary of Significant Accounting Policies**

Basis of Presentation and Accounting

The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America which require the College 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 expensed for any purpose in performing the objectives of the College. These net assets may be used at the discretion of the College's management and the board of trustees.

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

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 restrictions in the statements of activities and changes in net assets. Restricted contributions in which the restrictions are met in the same year are reported as without donor restrictions revenue.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Measure of operations

The statements of activities and changes in net assets report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the College's ongoing purpose. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

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 about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable, value of investments, categories in the fair value hierarchy, estimating depreciation, amortization and the recoverability of long-lived assets.

Cash and Equivalents

Cash and equivalents include all highly liquid debt instruments with maturities of three months or less and include banks deposits and money market funds.

Allowance for Doubtful Accounts

Student accounts and Perkins loans are periodically evaluated for collectability based on past experience and history with students. Other receivables are evaluated for collectability and an allowance for doubtful accounts is established as needed. For the years ended June 30, 2019 and 2018, management did not deem it necessary to establish an allowance for other receivables.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Pledges Receivable

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.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Therefore, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities and changes in net assets.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Assets Held in Trust by Others

The College is named as the beneficiary of several charitable remainder trusts and charitable gift annuities, as well as an irrevocable trust, all of which are administered by a third party. The irrevocable trust is reported in permanently restricted net assets, and the reported value is measured by the fair market value based on quoted market prices of the trust assets. The charitable remainder trusts and charitable gift annuities are reported in temporarily restricted net assets at the present value of the estimated future benefit to be received when the assets are distributed.

Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to sixty-five years. The College's policy is to capitalize property and equipment acquired and expense normal repairs and maintenance as incurred. The College's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may be not recovered.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Other Assets

Other assets consist of prepaid expenses, bookstore inventory, and other supplies. Inventories are stated at the lower of cost or market, and cost is determined using the first-in, first-out method.

Deferred Revenues and Student Deposits

Deferred revenues represent unearned income related to academic courses and programs that transcend the fiscal year-end. Student deposits are required payments by students who will be attending the College in the next academic year and are recognized ratably as revenues upon the students' matriculation.

Advances from the United States Department of Education

Advances from the United States Department of Education include funds advanced to the College under the Federal Perkins Loan Program. Such funds may be reloaned by the College after collection, but in the event that the College no longer participates in the Federal Perkins Loan Program, the amounts are generally refundable to the United States Department of Education.

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 were eligible to receive a spring semester Perkins loan disbursement. No further extensions were granted for the program as of the date of issuance of these financial statements.

Fair Value Measurements

Promulgations of the Financial Accounting Standards Board ("FASB") have established a framework for measuring fair value, which provides a 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Fair Value Measurement - continued

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; and
 - Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on 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.

Management establishes the fair value measurement valuation policies for the valuation of all investments and assets held in trust by others. Annually, at a minimum, management reviews the continuing viability of the valuation techniques used to establish fair value measurements and evaluates and adjusts, as necessary, the unobservable inputs used in the fair value measurements based on current market conditions and other third-party information.

Endowment Funds

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor-restricted funds and focuses on the prudent spending of the entire donor-restricted fund, including accumulated earnings, rather than the historical dollar concept.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Endowment Funds - continued

UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UPMIFA requires donor-restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization.

The College's investment policy for endowment funds establishes a primary objective to invest with an emphasis upon consistency of performance, moderate volatility, and a balance between capital appreciation, preservation of capital, and current income. The intent of this goal is to preserve, over time, the principal value of assets as measured in real, inflation-adjusted terms.

The College's endowment funds are primarily for the awarding of scholarships. The goal of the College's endowment spending and distribution policy is to preserve the purchasing power of the endowment and provide predictable support of operations and scholarships. Under this policy, as approved by the Board of Trustees, scholarship and support funds target 3-5% spend calculated on a trailing three-year average of the fund balances associated with the endowment.

As of June 30, 2019 and 2018, the College did not have endowment funds with an aggregate fair value less than donor-stipulated levels. These would be commonly referred to as "underwater".

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Gifts and Grants

The College reports gifts of cash, other assets, land, buildings, and equipment as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of assets with explicit donor restrictions that specify how the assets are to be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about the length of time those long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donor-restricted gifts, whose restrictions are met in the same reporting period, have been reported as unrestricted support in the statements of activities and changes in net assets.

Church Gifts

Amounts collected from individual Nazarene churches in the Northeast region are given to the College on an annual basis.

Income Taxes

The College has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code. As a not-for-profit entity exempt from income taxes, the College may, however, be subject to tax on unrelated business income.

Accounting principles generally accepted in the United States of America require an entity to assess the probability that a tax position has a "more likely than not" sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances that statute of limitations may remain open indefinitely.

Functional Allocations of Expenses

Expenses are categorized by program services, management and general, or fundraising on a direct identification basis, where practical, and on a percentage allocation basis based on management's judgement. A variety of cost allocation techniques are used such as time and effort and square footage.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

Adoption of New Accounting Pronouncement

Not-for-Profit Entities - Presentation of Financial Statements for Not-for-Profit Entities - The FASB issued Accounting Standards Update ("ASU") 2016-14. The adoption of this pronouncement had a material effect on the presentation of the financial statements but did not necessitate an adjustment to total net assets of prior periods or operations of the current period. The pronouncement changes the net asset classification and investment return and enhances the disclosures for information about liquidity and availability of resources and expenses. The ASU has been applied retrospectively to all periods presented.

New Accounting Pronouncements

Revenue from Contracts with Customers - FASB issued ASU 2014-09 effective, as amended, for periods beginning after December 15, 2018, for non-public companies. The purpose of the pronouncement is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. The ASU requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition, in addition to improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Management is in the process of evaluating this pronouncement and has not yet determined its impact, if any, on the financial statements.

Leases - FASB issued ASU 2016-02 effective for non-public and most not-for-profit entities for fiscal years beginning after December 15, 2019. The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Summary of Significant Accounting Policies - Continued**

New Accounting Pronouncements - continued

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, an amendment to Topic 958 - Not-for-Profit Entities - FASB issued ASU 2018-08. The purpose of this pronouncement is to provide guidance in determining whether resource providers and resource recipients are participating in an exchange transaction, or if the transfer of funds is a contribution, by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. For non-public resource recipients, the amendment is effective for periods beginning after December 15, 2018. For non-public resource providers, the amendment is effective for periods beginning after December 15, 2019. Management is in the process of evaluating this pronouncement and has not yet determined its impact on the financial statements.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note 3 - **Pledges Receivable**

Discount rates of approximately 0.50% have been applied to pledges due in years subsequent to both years ending June 30, 2019 and 2018. Pledges receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 25,000	\$ 15,000
Due in two to five years	<u>100,000</u>	<u>75,000</u>
	125,000	90,000
Less: discount to net present value	<u>1,829</u>	<u>1,593</u>
	<u>\$ 123,171</u>	<u>\$ 88,407</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Fair Value Measurements**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Public Securities: Market value using quoted market prices.

Privately Held Securities: Estimated values based on security type.

Mutual Funds: Net asset value of the shares held at fiscal year-end.

Real Estate: Market value using current year appraised values produced by qualified realtor based on sales in a competitive market under all conditions requisite to a sale between unrelated parties.

Limited Partnerships: Valuations are calculated by the investment manager and take into account the fund's underlying assets.

Assets Held in Trust by Others: Either market value using quoted market prices or net asset value of the shares held at fiscal year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Fair Value Measurements - Continued**

The following tables set forth, by level, the College's assets:

	<u>June 30, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,201,209	\$ -	\$ -	\$ 1,201,209
Mutual Funds	3,482,773	-	-	3,482,773
Real Estate	-	22,937,855	-	22,937,855
Limited partnerships	-	-	50,985	50,985
	<u>4,683,982</u>	<u>22,937,855</u>	<u>50,985</u>	<u>27,672,822</u>
Non-recurring Basis:				
Privately held securities	-	-	4,000	4,000
Total Investments	<u>\$ 4,683,982</u>	<u>\$ 22,937,855</u>	<u>\$ 54,985</u>	<u>\$ 27,676,822</u>
Assets held in trust by others	<u>\$ 212,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,707</u>
	<u>June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Recurring Basis:				
Public Securities	\$ 1,080,777	\$ -	\$ -	\$ 1,080,777
Mutual Funds	3,123,913	-	-	3,123,913
Real Estate	-	24,437,261	-	24,437,261
Limited partnerships	-	-	63,773	63,773
	<u>4,204,690</u>	<u>24,437,261</u>	<u>63,773</u>	<u>28,705,724</u>
Non-recurring Basis:				
Privately held securities	-	-	4,000	4,000
Total Investments	<u>\$ 4,204,690</u>	<u>\$ 24,437,261</u>	<u>\$ 67,773</u>	<u>\$ 28,709,724</u>
Assets held in trust by others	<u>\$ 215,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,672</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Fair Value Measurements - Continued**

The following table sets forth a summary of changes in the fair value of the College's Level 3 assets for the years ended June 30, 2019 and 2018:

	<i>Privately Held Securities</i>	<i>Limited Partnerships</i>
Balances, June 30, 2017	\$ 4,000	\$ 84,336
Net sales	-	(21,464)
Net investment income	-	901
Distributions of capital	-	-
	<hr/>	<hr/>
Balances, June 30, 2018	4,000	63,773
Net sales	-	(9,965)
Net investment income	-	(2,823)
Distributions of capital	-	-
	<hr/>	<hr/>
Balances, June 30, 2019	<u>\$ 4,000</u>	<u>\$ 50,985</u>

Note 5 - **Property and Equipment**

A summary of the major components of property and equipment at June 30, is as follow:

	<u>2019</u>	<u>2018</u>
Land	\$ 704,742	\$ 704,742
Buildings	11,305,711	11,305,711
Improvements	16,018,099	15,573,622
Equipment and furnishings	20,843,313	16,667,315
Construction in progress	572,133	4,449,280
Total	<u>49,443,998</u>	<u>48,700,670</u>
Less: accumulated depreciation	<u>(32,827,097)</u>	<u>(31,518,958)</u>
Land, Buildings, and Equipment, net	<u>\$ 16,616,901</u>	<u>\$ 17,181,712</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 6 - **Line of Credit**

The College has a revolving line of credit with a financial institution providing maximum borrowing capacity of \$3,000,000. The prime rate at June 30, 2019 and 2018 was 5.50% and 5.00%, respectively. All borrowings are collateralized by a security interest in all business assets of the College and a junior mortgage on certain properties listed in Note 7. The outstanding balance on this line of credit was \$3,000,000 at June 30, 2019 and 2018.

Note 7 - **Long-Term Debt**

Bond Payable

During fiscal year 2015, the College issued \$23,000,000 in Massachusetts Development Finance Agency (the "Agency") Revenue Bonds, Series 2014 (the "Bond"). The purpose of the bonds was to refinance prior long-term debt and finance capital projects. The Bonds have certain covenants related to debt service coverage and liquidity. The Bonds are collateralized by a security interest in revenues, and a first priority interest in the East Elm and Old Colony campuses, and certain other property held by the College. In July 2017, the College modified the Bond agreement to allow for the release of \$2,000,000 from the Bond Project Fund to be applied against the principal balance of the bond.

In accordance with FASB ASU 2015-03, the outstanding balance of the Bonds as of June 30, 2019 and 2018, of \$18,535,493 and \$19,115,559, are reported net of issuance costs of approximately \$327,000 and \$347,000, respectively. Bond issuance costs will be amortized as interest expense over the remaining life of the Bonds using the straight-line method. Amortization for the years ended June 30, 2019 and 2018 was approximately \$20,000 and \$23,000. Annual amortization for the remaining life of the Bonds will be approximately \$17,000.

Loans Payable

The College entered into a notes payable agreement in November 2016, bearing interest at the prime rate plus 1.50% adjusted monthly through November 2036, requiring variable monthly principal payments and secured by real estate investments of the College. The outstanding balance at June 30, 2018 was \$591,248. The balance was paid in full during fiscal year 2019.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 7 - **Long-Term Debt - Continued**

Loans Payable - continued

In September 2017, the College entered into a \$2,000,000 term loan agreement with interest at 5.5% and due September 2019. The note calls for interest-only payments in the first year and principal and interest payments beginning in October 2018. The proceeds were used to pay off the \$1,500,000 line of credit as well as provide additional working capital for the College. The balance was paid in full during fiscal year 2019.

The College entered into a \$750,000 note payable agreement requiring interest-only payments at 3.50% per annum with interest paid monthly beginning August 2016 through July 2018. The note was secured by real estate investments of the College. The balance was paid in full during fiscal year 2018.

Future principal maturities of long-term debt subsequent to June 30, 2019 are as follows:

Fiscal Years Ending June 30,	
2020	\$ 609,933
2021	631,312
2022	653,440
2023	676,343
2024	700,050
Thereafter	<u>15,264,415</u>
	18,535,493
Less: issuance costs, net	<u>327,351</u>
	<u>\$ 18,208,142</u>

The College is in technical default of the debt service coverage, liquidity and certain terms of the line of credit covenants as of June 30, 2019. Subsequent to year end, the lending institution granted the College a waiver for these debt covenant breaches.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Net Assets**

Net Assets Without Restrictions

Net assets without donor restrictions comprise the receipt of funds related to activities the College engages in that are not restricted in nature, and gains on certain endowed net assets. Net assets without restrictions consist of the follow at June 30,:

	<u>2019</u>	<u>2018</u>
Board designated funds	\$ 690,718	\$ 701,107
Undesignated	<u>4,583,430</u>	<u>6,776,893</u>
	<u>\$ 5,274,148</u>	<u>\$ 7,478,000</u>

Net Assets With Restrictions

Net assets with donor restrictions consist of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Endowment (for perpetuity)	\$ 13,279,695	\$ 12,876,361
Scholarships and awards (for purpose)	4,893,826	5,330,315
Capital improvements (for purpose)	335,602	273,602
Instructional and academic support (for purpose)	666,632	631,308
General support (for purpose)	144,968	232,550
Assets held in custody of others (for purpose)	<u>112,626</u>	<u>104,911</u>
	<u>\$ 19,433,349</u>	<u>\$ 19,449,047</u>

Net Assets Released from Restrictions

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the purposes specified by donors for the years ended June 30, as follows:

	<u>2019</u>	<u>2018</u>
Scholarships	\$ 1,093,130	\$ 1,046,579
Capital improvements	4,000	-
Instruction and academic support	61,147	68,604
General support	<u>157,452</u>	<u>20,510</u>
	<u>\$ 1,315,729</u>	<u>\$ 1,135,693</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - Endowment Net Assets

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 701,107	\$ 18,847,658	\$ 19,548,765
Investment return	31,914	718,644	750,558
Change in the value of assets held in trust by others	-	2,129	2,129
Contributions	1,550	401,204	402,754
Amounts appropriated	<u>(43,853)</u>	<u>(1,114,633)</u>	<u>(1,158,486)</u>
Endowment net assets, end of year	<u>\$ 690,718</u>	<u>\$ 18,855,002</u>	<u>\$ 19,545,720</u>
	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 653,501	\$ 17,393,249	\$ 18,046,750
Investment return	83,244	2,195,480	2,278,724
Change in the value of assets held in trust by others	-	2,814	2,814
Contributions	1,632	332,092	333,724
Amounts appropriated	<u>(37,270)</u>	<u>(1,075,977)</u>	<u>(1,113,247)</u>
Endowment net assets, end of year	<u>\$ 701,107</u>	<u>\$ 18,847,658</u>	<u>\$ 19,548,765</u>

Board-designated unrestricted funds are quasi-endowments. These contributions do not have donor-imposed restrictions. The College's Board of Trustees have determined that these particular donations will be retained by the College as investments rather than expending for operational or other purposes.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Retirement Benefits**

The College participates in a defined contribution retirement plan and tax deferred annuity plan administered by the Teachers Insurance and Annuity Association (“TIAA”) and the College Retirement Equities Fund (“CREF”) for all eligible employees. This plan requires a minimum 5.00% contribution from eligible employees along with the College contributing an additional 7.50%. Contributions from the College to this plan amounted to \$326,558 and \$367,831 for the years ended June 30, 2019 and 2018.

Note 11 - **Rental Income**

The College receives rental income through the leasing of numerous residential dwellings under tenant-at-will agreements. On a majority of these tenant-at-will agreements, the College is responsible for occupancy costs such as water and utilities. The properties are deemed to be held for investment and therefore are not depreciated. The properties are included in investments within the statements of financial position. Rental income is included within the statements of activities and changes in net assets under the caption net rental income. A summary of net rental income as of June 30, is as follows:

	<u>2019</u>	<u>2018</u>
Gross rents	\$ 358,131	\$ 253,623
Less:		
Utilities	78,596	81,311
Repairs and Maintenance	<u>109,835</u>	<u>26,575</u>
Net Rental Income	<u>\$ 169,700</u>	<u>\$ 145,737</u>

Note 12 - **Commitments, Contingencies, and Uncertainties**

Third-Party Agreements

The College has a contract with a third-party vendor expiring in fiscal 2020 for the provision of food services. Annual costs to the College are dependent upon the number of residential students.

Government Grants

All funds expended by the College in connection with government grants are subject to review or audit by governmental agencies. In the opinion of management, any liability resulting from a review or audit would not have a significant impact on the financial statements of the College.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - Commitments, Contingencies, and Uncertainties - Continued

Operating Leases

The College leases various equipment under operating lease agreements. Rental expense associated with these operating leases amounted to approximately \$87,000 and \$82,000 for years ended June 30, 2019 and 2018, respectively.

Subsequent to June 30, 2019, minimum future lease payments under such leases are as follows:

Fiscal Years <u>Ending June 30,</u>	
2020	\$ 86,844
2021	86,844
2022	86,844
2023	86,844
2024	14,160
Thereafter	<u>14,160</u>
	\$ <u>375,696</u>

Prepaid Tuition Program

The College participates in the Massachusetts Educational Financing Authority's U.Plan Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept as payment of tuition the amount determined by this Program without regard to standard tuition rates in effect at the time of the individual's enrollment at the College. The effect of the Program cannot be determined as it is contingent on future tuition increases and the number of Program participants who attend the College.

Federal Financial Aid

The U.S. Department of Education ("ED") was previously reviewing the federal financial aid program of the College and as part of the process the ED changed the College's method of payment to the Heightened Cash Management 2 ("HCM2") under which the College was required to fund all federal student financial aid awards prior to submission for reimbursement. In March 2018, the College was notified by the ED that the College is no longer under review and has been removed from the HCM2 payment method. As part of the finalizing the ED's review process, the College repaid approximately \$337,000 in federal financial aid.

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Commitments, Contingencies, and Uncertainties - Continued**

Composite Score

As a condition of eligibility to participate in federal student financial aid programs, the College is required to demonstrate financial responsibility, as defined by United States Department of Education regulations, by maintaining a Composite Score of at least 1.5. The regulations also establish a Composite Score zone between 1.0 and 1.4; institutions falling within this zone are allowed up to three consecutive years to improve their financial condition without requiring surety.

The College has calculated a Composite Score of 2.2 and 2.6 for the year ended June 30, 2019 and 2018, respectively.

Note 13 - **Availability and Liquidity**

The following represents the College's financial assets available to meet general expenditures within one year at June 30,:

	2019	2018
Financial assets at year-end:		
Cash and equivalents	\$ 891,799	\$ 4,669,909
Accounts receivable	893,534	539,406
Pledges receivable	123,171	88,407
Other receivable	456,232	346,703
Perkins loans receivable	577,435	777,522
Investments	27,676,822	28,709,724
	<u>30,618,993</u>	<u>35,131,671</u>
Less: amounts not available to be used within one year:		
Investments held in real estate	(22,937,855)	(24,437,261)
Net assets with donor restrictions (net real estate investments)	(5,333,862)	(3,830,221)
	<u>(28,271,717)</u>	<u>(28,267,482)</u>
Financial assets available to meet general expenditures within one year:	<u>\$ 2,347,276</u>	<u>\$ 6,864,189</u>

EASTERN NAZARENE COLLEGE

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Availability and Liquidity - Continued**

The College reviews its cash position on a regular basis to ensure that adequate funds are available to meet expenses. If funds are needed for expenses, management can liquidate investments, request the Board undesignated previously designated assets, or sell investment property. At June 30, 2019 and 2018, management believes that the College has no liquidity issues.

Note 14 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through October 21, 2019, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any other events subsequent to June 30, 2019, other than the events mentioned below, requiring additional disclosure in these financial statements.

Note 15 - **Subsequent Events**

In July of 2019, the College received and accepted an offer for \$460,000 for 126 Willow St. The closing occurred on September 24, 2019. The net proceeds are being used to fund student scholarships.

In September of 2019, the College received an offer to purchase 180 Old Colony for \$6.7 million from the City of Quincy. At the time of this report, the College and the City are working on the details for a Purchase and Sale agreement. The proceeds from the sale will be used to reduce debt and add to working capital.

Management believes the sale of these properties, will not affect operations of the College.

In September of 2019, the U.S. Department of Justice awarded the College a \$265,000 grant out of the Office of Violence Against Women (OVA). The proceeds from this grant will be disbursed over the next 3 years and facilitate awareness and educational opportunities for the students, establish procedures to mitigate and minimize the impact of violence against women on campus, and create strategic partnerships with civil authorities.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Eastern Nazarene College
Quincy, Massachusetts

We have audited, 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 of America, the financial statements of Eastern Nazarene College (the "College"), which comprise the statements of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 21, 2019