

The Bible Seminary
Katy, Texas

Financial Statements Together With
Independent Auditor's Report

May 31, 2020 and 2019

The Bible Seminary
Financial Statements
May 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors of
The Bible Seminary

We have audited the accompanying financial statements of The Bible Seminary (a Texas nonprofit organization), which comprise the statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bible Seminary as of May 31, 2020 and 2019, 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.

Ratloff & Associates, P.C.

September 21, 2020

The Bible Seminary
Statements of Financial Position
May 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 502,158	\$ 437,360
Tuition and fees receivable	15,315	805
Prepaid expenses	13,585	22,671
Total current assets	531,058	460,836
Noncurrent assets		
Net property and equipment	14,542	13,826
Lease security deposit	4,602	4,602
Total noncurrent assets	19,144	18,428
Total Assets	\$ 550,202	\$ 479,264
 Liabilities & net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 623	\$ 1,578
PPP loan	68,196	-
Total current liabilities	68,819	1,578
Net assets		
Without donor restrictions	481,383	477,686
With donor restrictions	-	-
Total net assets	481,383	477,686
Total Liabilities & Net Assets	\$ 550,202	\$ 479,264

The accompanying note disclosures are an integral part of these financial statements.

The Bible Seminary
Statements of Activities
For the Years Ended May 31, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions		
Revenues		
Revenues without donor restrictions		
Contributions	\$ 720,368	\$ 703,807
Tuition and fees	155,293	109,283
Investment income, net	369	206
Total revenues without donor restrictions	876,030	813,296
Net assets released from restrictions		
Satisfaction of program restrictions	-	4,021
	876,030	817,317
Expenses		
Programs		
Education	594,833	549,078
Support services		
Management and general	239,480	201,255
Fundraising	38,020	45,977
Total support services expenses	277,500	247,232
Total expenses	872,333	796,310
Change in net assets without donor restrictions	3,697	21,007
Changes in net assets with donor restrictions		
Net assets released from restriction	-	(4,021)
Change in net assets with donor restrictions	-	(4,021)
Change in total net assets	3,697	16,986
Net assets at beginning of year	477,686	460,700
Net assets at end of year	\$ 481,383	\$ 477,686

The accompanying note disclosures are an integral part of these financial statements.

The Bible Seminary
Statements of Cash Flows
For the Years Ended May 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Cash received from contributions	\$ 720,368	\$ 703,807
Cash received from tuition and fees	140,783	114,423
Interest received	369	206
Cash paid for programs and support services	(859,673)	(822,396)
Net cash provided (used) by operating activities	1,847	(3,960)
Cash flows from investing activities		
Purchases of property and equipment	(5,245)	(13,986)
Net cash provided (used) by investing activities	(5,245)	(13,986)
Cash flows from financing activities		
Receipt of PPP loan	68,196	-
Net cash provided (used) by financing activities	68,196	-
Net increase (decrease) in cash and cash equivalents	64,798	(17,946)
Cash and cash equivalents at beginning of year	437,360	455,306
Cash and cash equivalents at end of year	\$ 502,158	\$ 437,360
Reconciliation of change in total net assets to net cash provided (used) by operating activities		
Change in total net assets	\$ 3,697	\$ 16,986
Adjustments		
Depreciation	4,529	6,113
Change in receivables	(14,510)	5,140
Change in prepaid expenses	9,086	(12,799)
Change in accounts payable	(955)	(19,400)
Total adjustments	(1,850)	(20,946)
Net cash provided (used) by operating activities	\$ 1,847	\$ (3,960)

The accompanying note disclosures are an integral part of these financial statements.

The Bible Seminary
Statement of Functional Expenses
For the Year Ended May 31, 2020

	<u>Programs</u>	<u>Support services</u>		<u>Total expenses</u>
	<u>Education</u>	<u>Management and general</u>	<u>Fundraising</u>	
Awards and grants	\$ 16,223	\$ -	\$ -	\$ 16,223
Marketing	-	13,983	4,442	18,425
Facilities and equipment	40,598	32,394	1,228	74,220
Administrative costs	15,193	18,297	4,496	37,986
Accreditation	24,391	-	-	24,391
Salaries and wages	477,152	136,657	27,854	641,663
Contract faculty and other services	13,100	30,290	-	43,390
Travel and meetings	5,294	1,936	-	7,230
Special events	-	-	-	-
Other	2,882	5,923	-	8,805
Total expenses	\$ 594,833	\$ 239,480	\$ 38,020	\$ 872,333

Statement of Functional Expenses
For the Year Ended May 31, 2019

	<u>Programs</u>	<u>Support services</u>		<u>Total expenses</u>
	<u>Education</u>	<u>Management and general</u>	<u>Fundraising</u>	
Awards and grants	\$ 15,048	\$ -	\$ -	\$ 15,048
Marketing	-	9,838	2,852	12,690
Facilities and equipment	40,851	32,888	1,657	75,396
Administrative costs	10,064	17,159	2,503	29,726
Accreditation	8,028	-	-	8,028
Salaries and wages	407,382	116,650	23,730	547,762
Contract faculty and other services	52,200	14,410	-	66,610
Travel and meetings	9,752	3,629	-	13,381
Special events	-	-	15,235	15,235
Other	5,753	6,681	-	12,434
Total expenses	\$ 549,078	\$ 201,255	\$ 45,977	\$ 796,310

The accompanying note disclosures are an integral part of these financial statements.

The Bible Seminary
Note Disclosures to the Financial Statements
May 31, 2020 and 2019

Note 1, Nature of the Organization

The Bible Seminary (“the Seminary”) was founded in 2010 in Katy, Texas as an independent religious educational institution with a foundational commitment to distinctively clear doctrinal and ethos statements, and seven core values – the Lordship of Christ, the Bible as the fully true Word of God, Prayer, Unreached Peoples, the Local Church, Community, and Compassion. The Seminary exists to glorify God by training Christian believers in a context of biblical community in all 66 books of the Bible so that they can serve the local church and fulfill the Great Commission by the power of God’s Spirit.

The Seminary is a 501(c)(3) nondenominational education institution offering a nine course Bible Certificate for laity, a nine course, twenty-seven hour Licensed Professional program, Dual Degree program, four Master of Arts programs, and an eighty-four hour Master of Divinity for professional vocational ministry training.

The Seminary is an affiliate institution of the Association for Biblical Higher Education (“ABHE”). As such, it participates in and contributes to collegial and professional development activities of the Association. Affiliate status does not, however, constitute, imply, or presume ABHE accredited status at present or in the future.

The Bible Seminary is a member of the Transnational Association of Christian Colleges and Schools (TRACS) having been awarded Candidate Status as a Category III institution by the TRACS Accreditation Commission on April 16, 2019. This status is effective for a period of up to five years. TRACS is recognized by the United States Department of Education (USDOE), the Council for Higher Education Accreditation (CHEA), and the International Network for Quality Assurance Agencies in Higher Education (INQAAHE).

Note 2, Summary of Significant Accounting Policies

The following is a summary of the Seminary’s significant accounting policies consistently applied in the preparation of the accompanying financial statements:

Basis of accounting: The financial statements of the Seminary have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) of the United States of America. Revenues are recognized when earned, and expenses are recorded when incurred.

Revenue recognition: Revenues of the Seminary are primarily derived from contributions from the Seminary’s supporters. Tuition and fees revenues are recognized in the period in which the services are provided. Amounts received for future periods are recognized as deferred revenue.

For the year ended May 31, 2020 and 2019, deferred revenues were not material to these financial statements.

A portion of the Seminary’s revenues is tied to the local economy. All contributions are considered available for the Seminary’s general programs unless specifically restricted by the donor.

The Bible Seminary
Note Disclosures to the Financial Statements
May 31, 2020 and 2019

Note 2, Summary of Significant Accounting Policies (continued)

Revenue recognition (continued): Amounts received that are donor restricted by time or purpose are reported as increases in net asset with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. However, contributions received with restrictions that are met in the same reporting period are reported as increases in net assets without restrictions.

Net assets without donor restrictions: The Seminary further disaggregates net assets without donor restriction into two subcategories:

- General unrestricted: Net assets that are neither subject to donor-imposed restrictions or self-imposed limits are general unrestricted.
- Internally designated: Net assets that are subject to the Seminary's self-imposed limits by action of the governing board or its delegates are internally designated. These voluntary limitations allow the Seminary to earmark net assets for a variety of needs that may arise. Such limits may also be lifted at any time in the future by resolution of the board or its delegates.

Net assets with donor restriction: The Seminary further disaggregates net assets with donor restriction into two subcategories:

- Temporarily restricted: The Seminary reports gifts of cash and other assets as with temporary donor restriction if they are received with donor stipulations temporarily limiting the use of the contributions and if the restrictions are not met in the period of receipt.
- Permanently restricted: The Seminary reports gifts of cash and other assets as with permanent donor restriction if they are received with donor stipulations permanently restricting the contribution to investment but permitting the Seminary to use part or all of the income derived from the investment for general or restricted purposes.

Programs: The Seminary pursues its mission through the execution of the following major programs that are also the reported functional expenses of the Seminary:

- Education activities: providing programs that include Bible Certificate, Licensed Professional, Dual Degree Completion, Master of Arts, and Master of Divinity.
- Fundraising: encouraging additional contributions for educational programs.
- General and administrative: providing administrative support to the above functional areas.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation and the estimated allocation of certain payroll and facility expenses to the functional areas. Depreciation is computed using management's estimate of the useful lives of the asset. The allocation of payroll and facility expenses is, respectively, based on management's estimate of staff time and roles and facility space and usage.

The Bible Seminary
Note Disclosures to the Financial Statements
May 31, 2020 and 2019

Note 2, Summary of Significant Accounting Policies (continued)

Cash and cash equivalents: For purposes of the statement of cash flows, the Seminary considers highly liquid investments with an initial maturity of three months or less to be cash equivalents. Financial instruments that potentially subject the Seminary to credit risk include cash on deposit with a financial institution exceeding \$250,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to \$250,000.

Liquidity: The statement of financial position is classified to show subtotals for current assets and current liabilities as part of the Seminary's enhanced disclosure of liquidity. The Seminary anticipates using current assets and satisfying current liabilities within one year of the statement date. Current assets, excluding prepaids (as applicable), represent financial assets available for general expenditure within one year of the statement date. Disclosures are presented for both the quantitative and qualitative aspects of liquidity and the availability of financial assets.

Allocation of expenses by function and nature: The costs of providing the various programs and other activities have been allocated and summarized on a functional basis in the statement of activities and on both a functional and a natural bases in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services, as well as the natural categories, benefited.

Tuition and fees receivable: Students are billed for tuition and fees by semester. The Seminary considers an account to be past due when tuition and fees have not been paid by the due date. Past due student accounts are subject to internal collection efforts. Unpaid student accounts are written off as an expense in the period that collection efforts are exhausted and no future payments are expected.

For the year ended May 31, 2020 and 2019, write-offs were not material to these financial statements.

Property and equipment: Property and equipment are recorded at cost of \$1,000 or greater, or, if donated, at fair market value on the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from 2 to 7 years.

Impairment of long-lived assets: Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management believes that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Income tax status: The Seminary is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a public charity, except for net income derived from unrelated business activities. The Seminary has not conducted unrelated business activities that are material to the financial statements taken as a whole. Accordingly, no provision for income taxes is included in the financial statements. The Seminary believes that it has appropriate support for any tax positions taken. Tax returns of the Seminary are open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

The Bible Seminary
 Note Disclosures to the Financial Statements
 May 31, 2020 and 2019

Note 3, Retirement Plan

The Seminary established a 401(k) retirement savings plan for the benefit of all employees through a voluntary salary contribution. The Seminary matches 100% of employee contributions up to a limit of 3% of annual compensation and 50% of employee contributions above 4% up to a limit of 5% of annual compensation. Employer contributions for the years ended May 31, 2020 and 2019 are \$12,992 and \$10,665, respectively.

Note 4, Operating Lease

The Seminary rents office and classroom space under separate leases that expire in 2023. Total lease expense for the year ended May 31, 2020 and 2019 is \$63,638 and \$60,653, respectively. Future minimum lease payments are as follows:

2021	\$ 65,536
2022	65,856
2023	<u>67,496</u>
	<u>\$ 198,888</u>

Note 5, Concentration of Contributions

The Seminary received contributions from four sources that amounted to approximately 22% and 30%, respectively, of total revenues for the years ended May 31, 2020 and 2019.

Note 6, Property and Equipment

At May 31, property and equipment consist of the following:

	2019	2018
Technology and other equipment	\$ 48,713	\$ 43,468
Furniture and fixtures	18,783	18,783
Leasehold improvements	<u>6,309</u>	<u>6,309</u>
	73,805	68,560
Accumulated depreciation	<u>(59,263)</u>	<u>(54,734)</u>
Total property and equipment	<u>\$ 14,542</u>	<u>\$ 13,826</u>

The Bible Seminary
 Note Disclosures to the Financial Statements
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Note 7, PPP Loan

In May 2020, the Seminary received a Paycheck Protection Program loan for \$120,100. This two-year term loan with an interest rate of 1% is administered by the U.S. Small Business Administration. When the funds are used for payroll, rent, or other qualifying expenditures, the loan will be forgiven. Because the Paycheck Protection Program explicitly states an intent to forgive the loan, and because the Seminary intends to seek forgiveness, the funds are recognized as a conditional grant. Over time as conditions are substantially met, the funds are recognized as contributions revenue on the statement of activities. If conditions are unmet, the remaining balance of funds are recognized as a refundable advance (PPP loan liability) on the statement of financial position. The following table summarizes this activity and the PPP loan liability at May 31, 2020.

May 2020 receipt of conditional government grant	\$ 120,100
Qualify expenditures and corresponding revenue:	
May 2020 payroll and benefits	(46,292)
May 2020 lease and utilities expenses	<u>(5,612)</u>
Contributions revenue for fiscal 2020	<u>51,904</u>
PPP loan liability at May 31, 2020	<u>\$ 68,196</u>

Note 8, Net Assets

Net assets that are without donor restriction but internally designated by the board consist of reserve funds totaling \$92,650 and \$82,024 at May 31, 2020 and 2019, respectively. See the Liquidity disclosure.

There are no net assets with donor restrictions at May 31, 2020 or 2019.

Note 9, Subsequent Events

The Seminary has evaluated subsequent events through the date of the Independent Auditor's Report on page one, which is the date the financial statements were available to be issued.

In 2020, the coronavirus pandemic has severely impacted the global economy. The Seminary is analyzing the effect that the pandemic may have on operations and upcoming Seminary activities. As of the date of this report, the financial impact is unknown. However, if conditions remain unchanged, the Seminary may reschedule or reformat certain activities and adjust the operational budget. See also the Liquidity disclosure.

The Bible Seminary
 Note Disclosures to the Financial Statements
 May 31, 2020 and 2019

Note 10, Liquidity and Availability of Financial Assets

The Seminary's financial assets are current assets available for general expenditure within one year of the statement date. Financial assets are calculated as follows: current assets less donor-restricted, board-designated and/or contractually obligated cash and investments, prepaid expenses, and other similar current assets, as applicable.

As part of the Seminary's liquidity management, it has a strategy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. The significant qualities of this strategy are as follows:

- The Seminary maintains a bank balance providing a designated reserve as required by TRACS, which totaled \$92,650 and \$82,024 at May 31, 2020 and 2019, respectively. The CFO shall designate balances in one or more bank or investment accounts in order to maintain a minimum cash reserve. This reserve shall be in the amount of 10% of the currently approved budget. In the event that the reserve should be expended for continuing operations, the President and CFO would immediately implement a plan of curtailment of discretionary expenses, protecting available cash for use in satisfying requirements for salary and benefits, rent, utilities, and basic educational operations. When fundraising contributions and other income become adequate for resumption of normal expenditures, the President and CFO would implement a plan to restore the minimum financial reserve to the specified minimum balance, while protecting ongoing operations.
- The Seminary maintains other general reserves in its unrestricted general net assets which consists of prior years' net excess revenues (net operating surplus).
- The Seminary is dependent on recurring contributions from donors which have remained relatively consistent year-to-year. The Seminary's supporters have historically been responsive to appeals for contributions for special needs or projects. Occasionally, Seminary leadership may request a special offering from its supports to meet short-term needs.

At May 31, the Seminary's financial assets are quantified as follows:

	2019	2018
Current assets	\$ 531,058	\$ 460,836
Less: non-liquid assets: prepaid expenses	(13,585)	(22,671)
Less: those unavailable for general expenditures within one year		
Internally designated:		
Board-designated reserve	(92,650)	(82,024)
Donor-imposed restrictions		
Donor restrictions	-	-
Available financial assets	\$ 424,823	\$ 356,141