



Institute of
Lutheran
Theology

**Institute of Lutheran
Theology**

Financial Statements
With Independent Auditor's Report

June 30, 2021

David C. Moja, CPA
P.O. Box 531
Reidsville, GA 30453

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Institute of Lutheran Theology

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expense	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplemental Schedule A - Composite Score	15

Independent Auditor's Report

The Board of Directors
Institute of Lutheran Theology
Brookings, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Institute of Lutheran Theology, which comprise the statement of financial position as of June 30, 2021 and 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.



David C. Moja, CPA
P.O. Box 531
Reidsville, GA 30453

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute of Lutheran Theology as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David C. Moja

Reidsville, GA
September 30, 2021



Institute of Lutheran Theology

Statement of Financial Position

	<u>June 30, 2021</u>
ASSETS	
Cash and cash equivalents	\$ 121,073
Promises to give	-
Accounts receivable - net	77,544
Inventories	6,010
Prepaid expenses and other assets	5,336
Total current assets	<u>209,963</u>
Property and equipment, net	2,088,122
Investments	1,678,450
	<u>\$ 3,976,535</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 61,311
Deferred tuition	25,591
Current portion - long-term debt	529,246
Notes payable - PPP	-
Other current liabilities	19,790
Total current liabilities	<u>635,938</u>
Long-term debt (net of current portion)	142,308
	<u>\$ 778,246</u>
NET ASSETS	
Without donor restrictions	
Operating	\$ 2,570,722
Board designated	500,000
With donor restrictions	
Restricted in perpetuity	<u>127,567</u>
	<u>\$ 3,198,289</u>
Total liabilities and net assets	<u>\$ 3,976,535</u>

See notes to financial statements

Institute of Lutheran Theology

Statement of Activities
Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities			
REVENUES AND OTHER SUPPORT			
Tuition and fees - net	\$ 377,116	-	\$ 377,116
Contributions	2,153,389	203,076	2,356,465
Government grants	115,000	-	115,000
Donated services and facilities	85,000	-	85,000
Investment income - net	113,882	-	113,882
Other income	17,120	-	17,120
Rental income - net	38,646	-	38,646
Net assets released from restrictions	120,703	(120,703)	-
	<u>\$ 3,020,856</u>	<u>\$ 82,373</u>	<u>\$ 3,103,229</u>
Total revenues and other support			
EXPENSES			
Program services	\$ 334,974	-	\$ 334,974
Management and general	687,251	-	687,251
Fundraising	189,204	-	189,204
	<u>\$ 1,211,429</u>	<u>-</u>	<u>\$ 1,211,429</u>
Total expenses			
Change in net assets	<u>\$ 1,809,427</u>	<u>82,373</u>	<u>\$ 1,891,800</u>
Net assets, beginning of year	<u>\$ 1,261,295</u>	<u>45,194</u>	<u>\$ 1,306,489</u>
Net assets, end of year	<u>\$ 3,070,722</u>	<u>\$ 127,567</u>	<u>\$ 3,198,289</u>

See notes to financial statements

Institute of Lutheran Theology

Statement of Functional Expenses

Year ended June 30, 2021

	Institutional Support			Total
	Program Services	General and Administrative	Fundraising	
Salaries	\$ 279,754	\$ 378,449	\$ 89,701	\$ 747,904
Benefits	14,414	31,555	-	\$ 45,969
Total salaries and benefits	\$ 294,168	\$ 410,004	\$ 89,701	\$ 793,873
Professional fees	14,302	49,628	-	\$ 63,930
Advertising	-	7,302	79,614	\$ 86,916
Office expenses	5,394	8,036	2,789	\$ 16,219
Information technology	18,688	27,842	9,663	\$ 56,193
Occupancy	-	75,271	-	\$ 75,271
Travel	1,181	610	603	\$ 2,394
Conferences, meetings	714	369	365	\$ 1,448
Interest	-	29,365	-	\$ 29,365
Depreciation	-	24,735	-	\$ 24,735
Insurance	-	18,543	-	\$ 18,543
Student services	527	-	-	\$ 527
Other expenses	-	35,546	6,469	\$ 42,015
TOTALS	\$ 334,974	\$ 687,251	\$ 189,204	\$ 1,211,429

See notes to financial statements

Institute of Lutheran Theology

Statement of Cash Flows
Year ended June 30, 2021

	<u>June 30, 2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,891,800
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	24,735
Changes in operation assets and liabilities:	
Accounts receivable	(49,129)
Promises to give	14,125
Inventories	-
Prepaid expenses and other assets	2
Accounts payable and accrued expenses	(20,864)
Deferred revenue	(31,214)
Notes payable	(39,391)
Notes payable - PPP	(115,000)
Other liabilities	17,740
	<u>1,692,804</u>
Net cash provided by (used in) operating activities	
	<u>1,692,804</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(70,181)
Purchase of investments	(1,678,450)
Net cash used in investing activities	<u>(1,748,631)</u>
Net increase (decrease) in cash and cash equivalents	(55,827)
Cash and cash equivalents, beginning of year	<u>176,900</u>
Cash and cash equivalents, end of year	<u><u>\$ 121,073</u></u>

See notes to financial statements

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 1 – Description of the Organization

The Institute of Lutheran Theology (ILT) is a Christian faith community, seminary and graduate school that rigorously equips faithful pastors, teachers and lay people to effectively proclaim the gospel and serve Christ's church throughout the world. ILT has fully-credentialed faculty members and a complete staff to serve students and faculty. ILT fulfills its mission by focusing its efforts in the following areas:

Graduate Programs

ILT began offering graduate classes in 2009. ILT offers graduate programs to prepare students to effectively share the truth of Jesus Christ to the world through preaching, teaching, and pastoral ministry. ILT offers seven graduate degree programs: Master of Arts in Religion, Master of Ministry, Master of Divinity, Master of Military Chaplaincy, Master of Sacred Theology, Doctor of Ministry, and Doctor of Philosophy.

Certificate Programs

ILT offers certificates for those preparing to fulfill their calling to ministry within their vocation or entering directly into congregational service. Courses are offered online and occasionally in person at various sites. There are four certificate programs and one bible study training series: Faith & Life Certificate, Youth & Family Certificate, Pastoral Ministry Certificate, Life and Christ Certificate, and Teacher training for the Bethel Bible Series.

Student Services

ILT provides student services in the form of academic counseling, vocational discernment, communities of faith, and pastoral counseling.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation –The financial statements of ILT have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require ILT to report information regarding its financial position and activities according to the following net asset classifications:

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

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

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

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 2 – Summary of Significant Accounting Policies (continued)

Measure of operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to ILT's ongoing educational services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and cash equivalents – ILT's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Concentrations of credit risk – Financial instruments that potentially subject ILT to concentrations of credit risk consist principally of cash and cash equivalents and investments. ILT maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. ILT's cash and cash equivalent accounts have been placed with high-credit quality financial institutions. ILT has not experienced, nor does it anticipate, any losses with respect to such accounts.

Contributions 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. Conditional promises to give are not included as support until the conditions are met.

Property and equipment, net – 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 forty years. ILT's policy is to capitalize renewals and betterments acquired for greater than \$2,500 and expense normal repairs and maintenance as incurred. ILT's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, 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.

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 in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). ILT groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1

Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2

Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3

Unobservable inputs that cannot be corroborated by observable market data.

All investments were Level 1 at June 30, 2021.

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

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

In-kind donations – ILT received donated services of \$40,000 for the year ended June 30, 2021. Such amounts are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statements of activities and statements of functional expenses.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 2 – Summary of Significant Accounting Policies (continued)

Several volunteers have made significant contributions of their time in furtherance of ILT's mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among educational services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Professional services	Time and effort
Advertising	Full Time Equivalent
Office expenses	Square Footage
Information technology	Full Time Equivalent
Occupancy	Square Footage
Travel	Time and effort
Conferences, meetings	Full Time Equivalent
Depreciation	Square Footage
Insurance	Square Footage
Student services	Full Time Equivalent
Other	Time and effort

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income taxes – ILT is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. ILT has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. ILT has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 3 – Availability and Liquidity

Financial assets at year end:	2021
Cash and cash equivalents	\$ 121,073
Accounts receivable	77,544
Investments	<u>1,678,450</u>
Total financial assets	<u>1,877,067</u>
Less amounts not available to be used within one year:	
Certificates of deposits due in more than one year	-
Net assets without donor restrictions - board designated	500,000
Net assets with donor restrictions	<u>127,567</u>
	<u>627,567</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,249,500</u>

Note 4 – Investments

The following is a summary of investments at June 30, 2021:

	Fair Value Measurements Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 1,678,450	\$ 1,678,450	\$ -	\$ -
Small Business Stock	-	-	-	-
	<u>\$ 1,678,450</u>	<u>\$ 1,678,450</u>	<u>\$ -</u>	<u>\$ -</u>

Note 5 – Property and Equipment, Net

Property and equipment, net consisted of the following at June 30, 2021:

	2021
Land	\$ 204,000
Buildings	814,458
Equipment	11,549
Other	1,547,012
Less: accumulated depreciation	<u>(488,897)</u>
Property and equipment, net	<u>\$ 2,088,122</u>

For the year ended June 30, 2021, depreciation expense totaled \$24,735.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 6 – Paycheck Protection Program Loan

In the year ended June 30, 2021, ILT applied for and received forgiveness on a \$105,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. In addition, an EIDL Emergency Grant in the amount \$10,000 was released from encumbrance in accordance with the PPP Flexibility Act. These amounts are shown as revenue under Government grants in the Statement of Activities.

Note 7 – Notes payable

Notes payable consist of the following at June 30, 2021:

	<u>2021</u>
Note payable to a bank, with an interest rate of 4.75% and due in monthly installments of \$5,278, including interest. The note is due in February 2022 and is secured by property.	\$ 521,554
Note payable to Small Business Administration, with an interest rate of 2.75% and due in monthly installments of \$641 including interest, due in April 2050, secured by all assets	<u>150,000</u>
	<u>671,554</u>
Less current maturities:	<u>(529,246)</u>
	<u>\$ 142,308</u>
<u>Years Ending June 30,</u>	<u>Notes Payable</u>
	2022 \$ 529,246
	2023 7,692
	2024 7,692
	2025 7,692
	2026 7,692
	Thereafter <u>111,540</u>
	<u>\$ 671,554</u>

Note 8 – Line of Credit

ILT has a \$75,000 revolving line of credit with a bank, secured by a commercial security agreement and the personal guarantee of the President of the Institute. Borrowings under the line bear interest at a rate of 4.25%. ILT did not have a balance outstanding on this line of credit at June 30, 2021.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 9 – Net Assets

Net assets with donor restrictions were as follows for the years ended June 30, 2021:

Net Assets without Donor restrictions	
Undesignated	\$2,570,722
Board designated	<u>500,000</u>
Total	<u>\$3,070,722</u>
Net Assets with donor restrictions	
Restricted by time or purpose	\$ -
Restricted in perpetuity	<u>127,567</u>
Total	<u>\$ 127,567</u>

Note 10 – Tuition and Fees

Tuition and fees are considered earned by ILT evenly throughout each semester. The amounts are shown net of scholarships and discounts in the Statement of Activities. For the years ended June 30, 2021 and 2020 Tuition and fees were as follows:

	<u>2021</u>	<u>2020</u>
Tuition	\$ 482,216	\$ 289,668
Fees	40,597	-
less: Scholarships and discounts	<u>(145,697)</u>	<u>(69,659)</u>
Tuition and fees - net	377,116	220,009

Note 11 – Revenue Recognition

ILT recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Payment for tuition and fees is generally invoiced at the beginning of each term and payment is required no later than the specified add/drop date. All amounts received prior to the commencement of the academic year, including enrollment deposits, are deferred to the applicable period. Scholarships provided to students are recorded as a reduction from the posted tuition rates at the time revenue is recognized.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2021

Note 12 – Related Party Transactions

ILT received various contributions from its directors to be used for future building, expansion, scholarships, and general expenses. Total contributions from board members for the year ended June 30, 2021 were \$345,491.

A director of ILT is a stockholder in Den-Wil, Inc. with which ILT does business and receives donated goods and services. The director is CEO of Den-Wil, Inc.

Note 13 – Subsequent Events

ILT has evaluated subsequent events through September 30, 2021, which is the date the financial statements were available to be issued. ILT is not aware of any material subsequent events.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. There has been no immediate impact to ILT's operations. Future potential impacts may include continued disruptions or restrictions on our employees' ability to work and impairment of our ability to obtain contributions and volunteers. The future effects of these issues are unknown.

Institute of Lutheran Theology
June 30, 2021

Supplemental Schedule A

COMPOSITE SCORE

In order to participate in the Student Financial Assistance (SFA) Program, an institution must demonstrate that it is financially responsible. One of the general standards for nonprofit institutions is the composite score standard in 34 CFR 668.172. The composite score combines different measures of fundamental elements of financial health to yield a single measure of an institution's overall financial health.

ILT's composite score is calculated as follows:

Primary reserve ratio	1.200
Equity ratio	1.200
Net income ratio	<u>0.600</u>
SUM OF ALL RATIOS	3.000
COMPOSITE SCORE	3.0

As the composite score is between 1.5 and 3.0, the College is considered financially responsible under this standard.