



Institute of
Lutheran
Theology

Institute of Lutheran Theology

Financial Statements
With Independent Auditor's Report

June 30, 2023

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Institute of Lutheran Theology

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Independent Auditor's Report

To the Board of Directors
Institute of Lutheran Theology
Brookings, South Dakota

Opinion

We have audited the financial statements of Institute of Lutheran Theology, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Institute of Lutheran Theology as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Institute of Lutheran Theology and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Institute of Lutheran Theology's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

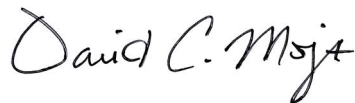
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Institute of Lutheran Theology's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Institute of Lutheran Theology's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Reidsville, GA
September 12, 2023

Institute of Lutheran Theology

Statement of Financial Position

	<u>June 30, 2023</u>
ASSETS	
Cash and cash equivalents	\$ 71,897
Promises to give	175,000
Accounts receivable - net	146,219
Inventories	6,010
Prepaid expenses and other assets	<u>8,013</u>
Total current assets	407,139
Property and equipment, net	1,225,681
Investments	1,524,289
Right of Use Asset	100,471
	<u><u>\$ 3,157,109</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 43,417
Deferred tuition	23,264
Current portion - long-term debt	-
Notes payable - PPP	-
Other current liabilities	<u>4,267</u>
Total current liabilities	70,948
Long-term debt (net of current portion)	147,319
Lease liability	100,471
	<u><u>\$ 218,267</u></u>
NET ASSETS	
Without donor restrictions	
Operating	\$ 2,438,842
Board designated	500,000
With donor restrictions	
Restricted in perpetuity	<u>-</u>
	<u><u>\$ 2,938,842</u></u>
Total liabilities and net assets	<u><u>\$ 3,157,109</u></u>

See notes to financial statements

Institute of Lutheran Theology

Statement of Activities
Year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
REVENUES AND OTHER SUPPORT			
Tuition and fees - net	\$ 245,207	-	\$ 245,207
Contributions	911,003	30,000	941,003
Government grants	-	-	-
Gifts in kind	215,000	-	215,000
Investment income - net	102,185	-	102,185
Other income	4,790	-	4,790
Rental income - net	4,750	-	4,750
Gain on sale of campus - net	-	-	-
Net assets released from restrictions	77,492	(77,492)	-
	\$ 1,560,427	\$ (47,492)	\$ 1,512,935
EXPENSES			
Program services	\$ 460,166	-	\$ 460,166
Management and general	724,096	-	724,096
Fundraising	260,732	-	260,732
	\$ 1,444,994	-	\$ 1,444,994
Change in net assets	\$ 115,433	(47,492)	\$ 67,941
Net assets, beginning of year	\$ 2,823,409	47,492	\$ 2,870,901
Net assets, end of year	\$ 2,938,842	\$ -	\$ 2,938,842

See notes to financial statements

Institute of Lutheran Theology

Statement of Functional Expenses

Year ended June 30, 2023

	Institutional Support			
	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 345,096	\$ 466,845	\$ 110,653	\$ 922,595
Benefits	44,633	60,379	14,311	\$ 119,324
Total salaries and benefits	\$ 389,729	\$ 527,224	\$ 124,964	\$ 1,041,919
Professional fees	6,286	21,814	-	28,100
Advertising	-	9,385	102,323	111,708
Office expenses	4,188	6,240	2,166	12,594
Information technology	16,400	24,434	8,481	49,315
Occupancy	-	60,225	-	60,225
Travel	20,831	10,777	10,654	42,262
Conferences, meetings	6,131	3,172	3,136	12,439
Interest	1,620	838	829	3,287
Depreciation	-	2,136	-	2,136
Insurance	-	12,904	-	12,904
Student services	14,981	-	-	14,981
Other expenses	-	44,947	8,179	53,126
TOTALS	\$ 460,166	\$ 724,096	\$ 260,732	\$ 1,444,996

See notes to financial statements

Institute of Lutheran Theology

Statement of Cash Flows

Year ended June 30, 2023

	<u>June 30, 2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 67,941
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	2,136
Changes in operation assets and liabilities:	
Accounts receivable	(50,671)
Promises to give	(175,000)
Inventories	(3,220)
Prepaid expenses and other assets	5,779
Accounts payable and accrued expenses	(51,374)
Deferred revenue	4,312
Notes payable	(2,681)
Notes payable - PPP	-
Other liabilities	(4,758)
	<u>(207,536)</u>
Net cash provided by (used in) operating activities	<u>(207,536)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales (Purchases) of fixed assets	8,225
Sales (Purchases) of investments	(146,447)
	<u>(138,222)</u>
Net cash used in investing activities	<u>(138,222)</u>
	(345,758)
Net increase (decrease) in cash and cash equivalents	(345,758)
Cash and cash equivalents, beginning of year	<u>417,655</u>
Cash and cash equivalents, end of year	<u><u>\$ 71,897</u></u>

See notes to financial statements

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 1 – Description of the Organization

The Institute of Lutheran Theology (ILT), as an institution of higher education, shall preserve, promote, and propagate the classical Christian tradition from a Lutheran perspective. ILT fulfills its mission by focusing its efforts in the following areas:

Graduate Programs (Christ School of Theology)

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.

Undergraduate Programs (Christ College)

ILT offers courses for associate and baccolorate degrees in the following programs: Biblical Studies, Entrepreneurial Studies, History of Religion, Humanities, Ministry, and Theology. These degrees are intended for students looking to further their knowledge in ministry and theology and prepares students to use this knowledge in their various vocations or as a base knowledge for additional academic study.

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.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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, 2023.

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.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2023. 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.

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:

<u>Expense</u>	<u>Method of Allocation</u>
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

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.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Note 3 – Availability and Liquidity

Financial assets at year end:		<u>2023</u>	
Cash and cash equivalents	\$	71,897	
Accounts receivable		146,219	
Investments		<u>1,524,289</u>	
Total financial assets		<u>1,742,405</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>-</u>	
		<u>500,000</u>	
Financial assets available to meet general expenditures over the next twelve months	\$	<u>1,242,405</u>	

Note 4 – Investments

The following is a summary of investments at June 30, 2023:

<u>June 30, 2023</u>	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	\$ 1,449,289	\$ 1,449,289	\$ -
Small Business Stock	-	-	-
	<u>\$ 1,449,289</u>	<u>\$ 1,449,289</u>	<u>\$ -</u>

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 5 – Property and Equipment, Net

Property and equipment, net consisted of the following at June 30, 2023:

	<u>2023</u>
Land	\$ 4,000
Buildings	37,007
Equipment	11,549
Other	1,547,012
Less: accumulated depreciation	<u>(373,887)</u>
Property and equipment, net	<u>\$ 1,225,681</u>

For the year ended June 30, 2023, depreciation expense totaled \$ 2,136

Note 6 – Notes payable

Notes payable consist of the following at June 30, 2023:

	<u>2023</u>
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>147,319</u>
	<u>147,319</u>

Note 7 – 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, 2023.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 8 – Leases

ILT leases office equipment under a long-term non-cancelable operating lease agreement. The lease expires in 2028. They include in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. ILT's operating lease provides for increases in future minimum annual rental payments. The weighted-average discount rate is based on the discount rate - if any - implicit in the lease. They have elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. We have applied the risk-free rate option to the equipment class of assets.

Note 9 – Net Assets

Net assets with donor restrictions were as follows for the years ended June 30, 2023:

Net Assets without Donor restrictions	<u>2023</u>
Undesignated	\$ 2,438,842
Board designated	<u>500,000</u>
Total	<u>\$ 2,938,842</u>
 Net Assets with donor restrictions	
Restricted by time or purpose	\$ -
Restricted in perpetuity	<u>-</u>
Total	<u>\$ -</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, 2023 Tuition and fees were as follows:

	<u>2023</u>
Tuition	\$ 446,008
Fees	101,528
less: Scholarships and discounts	<u>(302,329)</u>
Tuition and fees - net	245,207

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

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.

Note 12 – Donated Services and Assets

ILT receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by ILT. ILT recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During the year ended June 30, 2023, ILT received donated services for professional auctioneering and other consulting services. ILT also received contributions of donated goods.

All donated services and assets were utilized by ILT's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Program	Donated Space	Donated Services	Donated Goods	Total
Education	-	20,000	-	20,000
Supporting services	-	20,000	-	20,000
Fundraising	-	-	-	-
TOTALS	-	40,000	-	40,000

Donated space is valued at the fair value of similar properties available in commercial real estate listings. Donated program services are valued using rates paid by comparable institutions. for those services. Donated goods are valued at the wholesale prices that would be received for selling similar products.

Institute of Lutheran Theology

Notes to Financial Statements

June 30, 2023

Note 13 – Related Party Transactions

There were no significant or unusual transactions with related parties in accordance with AU-C section 550 nor were there reportable transactions under SFAS 57 for the years ended June 30, 2023. Transactions with members of management, board members, or their family members included amounts paid for reasonable compensation and/or reimbursed expenses under an accountable reimbursement plan

ILT received various contributions from its directors to be used for future building, expansion, scholarships, and general expenses.

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 14 – Subsequent Events

ILT has evaluated subsequent events through September 12, 2023, which is the date the financial statements were available to be issued. ILT is not aware of any material subsequent events.

Institute of Lutheran Theology

June 30, 2023

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	0.600
SUM OF ALL RATIOS	<u>3.000</u>
COMPOSITE SCORE	3.0

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