



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS

Precept

Financial Statements

For The Years Ended December 31, 2022 and 2021



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Precept
Chattanooga, Tennessee

Opinion

We have audited the accompanying financial statements of Precept (“the Ministry”), which consist of the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Precept as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Ministry and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 the Ministry’s ability to continue as a going concern within 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 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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- Identify and assess the risk 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 the Ministry'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ministry'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.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
May 18, 2023

PRECEPT
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 7,418,975	\$ 7,861,664
Receivables, net	838,363	928,141
Other assets	527,350	487,585
Property and equipment, net	1,708,397	1,709,750
Total assets	\$ 10,493,085	\$ 10,987,140
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 740,258	\$ 514,258
Total liabilities	740,258	514,258
NET ASSETS WITHOUT DONOR RESTRICTIONS	9,752,827	10,472,882
Total liabilities and net assets without donor restrictions	\$ 10,493,085	\$ 10,987,140

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT
STATEMENTS OF ACTIVITIES

	For The Years Ended	
	December 31,	
	<u>2022</u>	<u>2021</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Public support and revenue		
Sales	\$ 4,122,108	\$ 4,136,107
Cost of goods sold	<u>(1,122,091)</u>	<u>(1,074,417)</u>
Sales, net	<u>3,000,017</u>	<u>3,061,690</u>
Contributions	9,085,107	8,881,719
Non-cash contributions (stocks and securities)	701,997	429,513
Auxiliary revenue	283,511	329,823
Grant revenue	<u>—</u>	<u>3,066,491</u>
Total public support and revenue	<u>13,070,632</u>	<u>15,769,236</u>
Expenses		
Program expenses	<u>10,770,074</u>	<u>9,110,228</u>
Supporting expenses		
Management and general	2,136,244	2,004,622
Fundraising	<u>884,369</u>	<u>810,938</u>
Total supporting expenses	<u>3,020,613</u>	<u>2,815,560</u>
Total expenses	<u>13,790,687</u>	<u>11,925,788</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(720,055)	3,843,448
NET ASSETS WITHOUT DONOR RESTRICTIONS - Beginning of year	<u>10,472,882</u>	<u>6,629,434</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - End of year	<u>\$ 9,752,827</u>	<u>\$ 10,472,882</u>

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PRECEPT
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	December 31,	
	<u>2022</u>	<u>2021</u>
OPERATING CASH FLOWS		
Cash received from donors and grantors	\$ 9,085,107	\$ 9,887,801
Cash received from sales	4,211,886	4,109,676
Cash received from auxiliary activities	283,511	329,823
Cash paid for operating activities and costs	<u>(14,472,135)</u>	<u>(12,605,876)</u>
Net operating cash flows	<u>(891,631)</u>	<u>1,721,424</u>
INVESTING CASH FLOWS		
Proceeds from net sales of investments	701,997	762,236
Net purchases of and improvements to property and equipment	<u>(253,055)</u>	<u>(108,024)</u>
Net investing cash flows	<u>448,942</u>	<u>654,212</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(442,689)	2,375,636
CASH AND CASH EQUIVALENTS - Beginning of year	<u>7,861,664</u>	<u>5,486,028</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 7,418,975</u>	<u>\$ 7,861,664</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET		
OPERATING CASH FLOWS		
Change in net assets without donor restrictions	\$ (720,055)	\$ 3,843,448
Adjustments to reconcile change in net assets without donor restrictions to net operating cash flows		
Conversion of note payable to grant revenue (see Note F)	—	(1,165,000)
Depreciation	254,408	255,384
Noncash contributions (stocks and securities)	(701,997)	(429,513)
Change in receivables	89,778	(921,840)
Change in other assets	(39,765)	(68,684)
Change in accounts payable and accrued expenses	<u>226,000</u>	<u>207,629</u>
Net operating cash flows	<u>\$ (891,631)</u>	<u>\$ 1,721,424</u>

SUPPLEMENTAL DISCLOSURE

During 2021, \$1,165,000 of principal reductions of a certain note payable are included in "grant revenue" in the accompanying statement of activities. See Note F.

PRECEPT
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2022

	Supporting expenses			Total supporting expenses	Total expenses
	Program expenses	Management and general	Fundraising		
Salaries and benefits	\$ 4,208,561	\$ 976,445	\$ 505,846	\$ 1,482,291	\$ 5,690,852
Grants and missions support	3,618,634	—	—	—	3,618,634
Professional fees	976,243	614,237	12,869	627,106	1,603,349
Software and systems	1,051,794	89,491	29,798	119,289	1,171,083
Insurance	362,759	208,613	26,618	235,231	597,990
Depreciation	140,135	76,182	38,091	114,273	254,408
Postage and printing	47,071	13,447	186,833	200,280	247,351
Travel	132,335	31,551	57,274	88,825	221,160
Utilities	132,684	34,277	—	34,277	166,961
Equipment and maintenance	61,398	41,726	65	41,791	103,189
Supplies	20,013	27,356	4,848	32,204	52,217
Other	7,246	8,477	21,857	30,334	37,580
Development and membership	7,872	14,442	270	14,712	22,584
Royalties	3,329	—	—	—	3,329
Total expenses	<u>\$ 10,770,074</u>	<u>\$ 2,136,244</u>	<u>\$ 884,369</u>	<u>\$ 3,020,613</u>	<u>\$ 13,790,687</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2021

	Supporting expenses			Total supporting expenses	Total expenses
	Program expenses	Management and general	Fundraising		
Salaries and benefits	\$ 4,093,509	\$ 935,190	\$ 379,637	\$ 1,314,827	\$ 5,408,336
Grants and missions support	3,240,646	—	—	—	3,240,646
Professional fees	508,124	457,600	119,863	577,463	1,085,587
Insurance	460,737	229,867	68,378	298,245	758,982
Software and systems	309,907	214,695	—	214,695	524,602
Depreciation	181,795	36,983	36,606	73,589	255,384
Postage and printing	72,411	16,041	147,872	163,913	236,324
Utilities	127,882	46,551	—	46,551	174,433
Travel	35,460	17,173	30,303	47,476	82,936
Equipment and maintenance	38,858	28,296	—	28,296	67,154
Supplies	24,676	17,957	3,339	21,296	45,972
Other	4,587	206	20,585	20,791	25,378
Development and membership	4,571	4,063	4,355	8,418	12,989
Royalties	7,065	—	—	—	7,065
Total expenses	<u>\$ 9,110,228</u>	<u>\$ 2,004,622</u>	<u>\$ 810,938</u>	<u>\$ 2,815,560</u>	<u>\$ 11,925,788</u>

The Accompanying Notes are an Integral
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PRECEPT
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

Precept (“the Ministry”) is a Tennessee not-for-profit corporation. The Ministry conducts Bible study conferences, trains individuals to conduct Bible studies, and provides and sells Bible study materials. The Ministry is based in Chattanooga, Tennessee. During 2022 the Ministry changed its name from Precept Ministries of Reach Out, Inc. to Precept.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Ministry recognizes cash contributions as revenue when the contributions are received by the Ministry. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Sales revenue

Sales revenue is reported at the amount that reflects the consideration to which the Ministry expects to be entitled for sales of ministry media products. Such amounts are generally due from consumers of ministry media.

Performance obligations are determined based on the nature of the goods and services provided by the Ministry. The Ministry measures the transaction price of such revenues based on published rates for the goods, net of certain discounts.

Cash and cash equivalents

The Ministry considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Allowance for doubtful accounts

Receivables are stated net of an allowance for doubtful accounts, if any. The Ministry estimates the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and assessment of ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off upon management’s determination that the accounts are uncollectible.

Property and equipment

Property and equipment is stated at original cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is calculated using the straight-line method over the expected useful lives of the related assets.

Net assets

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes.

Functional allocation of expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the functional areas based primarily on employee time.

PRECEPT
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Ministry is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Ministry is further classified as a public charity and not a private foundation for federal tax purposes. The Ministry has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those related to the estimated useful lives of property and equipment. Actual results could differ from the estimates.

Subsequent events

The Ministry has evaluated for possible financial statement reporting and disclosure subsequent events through the date of the report of independent auditor, the date as of which the financial statements were available to be issued.

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of the date of the statements of financial position are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	<u>\$ 7,418,975</u>	<u>\$ 7,861,664</u>
Total financial assets available	<u>\$ 7,418,975</u>	<u>\$ 7,861,664</u>

The Ministry is primarily supported by sales and contributions. As part of the Ministry's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management of the Ministry believes the Ministry has sufficient assets available for general operations that may be drawn upon in the event of unanticipated financial distress or an immediate liquidity need.

NOTE D – CONCENTRATIONS

The Ministry maintains its cash and cash equivalents in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Ministry has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

PRECEPT
NOTES TO FINANCIAL STATEMENTS

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<u>Category</u>	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 569,095	\$ 544,200
Buildings and building improvements	6,845,952	6,665,076
Data processing equipment and software	977,720	932,216
Audio and video equipment	2,205,703	2,203,923
Furniture, fixtures, and equipment	<u>584,398</u>	<u>584,398</u>
Total property and equipment	11,182,868	10,929,813
Less: Accumulated depreciation	<u>(9,474,471)</u>	<u>(9,220,063)</u>
Net property and equipment	<u>\$ 1,708,397</u>	<u>\$ 1,709,750</u>

Depreciation expense amounted to \$254,408 and \$255,384 during 2022 and 2021, respectively.

NOTE F – PAYCHECK PROTECTION PROGRAM

Prior to January 1, 2021, the Ministry obtained a Paycheck Protection Program Loan (“the PPP loan”) in the amount of \$1,165,000. The PPP loan was granted full forgiveness by the Small Business Administration in June 2021 based on the nature of the Ministry’s expenditures during a certain applicable period. The forgiveness of the PPP loan has been recognized as a reduction to “note payable” in the accompanying 2021 statement of financial position (reducing the balance of the PPP loan to zero) and as “grant revenue” in the accompanying 2021 statement of activities.

NOTE G – EMPLOYEE RETENTION TAX CREDIT

During 2021, the Ministry filed amended payroll tax returns requesting the Employee Retention Credit (“the Credit”) available under the Coronavirus Aid, Relief, and Economic Security Act, as modified by the Consolidated Appropriations Act and the American Rescue Plan Act. The Credit, which represents federal stimulus/relief funds, provides funding in the form of a refundable payroll tax credit for eligible employers applicable to activity during certain portions of calendar years 2020 and 2021. The amount of the Credit is based on certain criteria related to a reduction of gross receipts and/or a full or partial suspension of operations due to government orders during the applicable periods. The Ministry claimed a credit of approximately \$1,901,000.

Official, authoritative guidance regarding criteria for eligibility and determination of the amount of the Credit is limited and in some respects, not abundantly clear. Accordingly, it is at least possible that the Internal Revenue Service could challenge Credit amounts claimed by the Ministry. The statute of limitations with respect to the 2020 claims is expected to run in September 2025. The statute of limitations with respect to the first, second and third quarter 2021 claims are expected to run in August 2024, October 2024, and October 2026, respectively. The accompanying financial statements do not reflect any adjustment or allowance for Credit amounts claimed, as management has concluded that it is more likely than not that the Ministry’s positions with respect to the Credit will be sustained in the event of an IRS challenge.

“Grant revenue” in the accompanying 2021 statement of activities include approximately \$1,901,000 in connection with the Credit described in the preceding paragraphs. The Ministry recorded a receivable of approximately \$829,000 and \$895,000 in 2022 and 2021, respectively, which is included in “receivables, net” in the accompanying statements of financial position.

PRECEPT
NOTES TO FINANCIAL STATEMENTS

NOTE H – RETIREMENT PLAN

The Ministry maintains a defined contribution retirement plan (“the Retirement Plan”) in which employees of the Ministry are eligible to participate upon meeting the eligibility requirements as described in the Retirement Plan document. Eligible employees may make tax-deferred contributions to the Retirement Plan. The Ministry matches certain contributions to the Retirement Plan. The Ministry made contributions to the Retirement Plan of approximately \$173,000 and \$158,000 during 2022 and 2021, respectively.

NOTE I – SELF-FUNDED HEALTH PLAN

The Ministry maintains a self-funded medical and health benefit plan for eligible employees and their eligible dependents. The Ministry has contracted with a third party administrator to process claims. The Ministry provides coverage for each covered individual up to the first \$45,000 of claims incurred in a calendar year. The Ministry has stop-loss insurance coverage for claims incurred which exceed \$1,000,000 per individual per event, with an unlimited individual lifetime stop loss payment amount.