



PRECEPT MINISTRIES OF REACH OUT, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021





REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Precept Ministries of Reach Out, Inc.
Chattanooga, Tennessee

Opinion

We have audited the accompanying financial statements of Precept Ministries of Reach Out, Inc. ("the Ministry"), which consist of the statement of financial position as of December 31, 2021, and the related statements of activities, cash flows, and functional expenses for the year 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 Ministries of Reach Out, Inc. as of December 31, 2021, 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. 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 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 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.

BATTIS MORRISON WALES & LEE, P.A. • CERTIFIED PUBLIC ACCOUNTANTS

OFFICES | ORLANDO • DALLAS
800.960.0803 • WWW.NONPROFITCPA.COM
KEEPING WATCH FOR NONPROFITS ACROSS THE UNITED STATES®

- 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
October 3, 2022

PRECEPT MINISTRIES OF REACH OUT, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

ASSETS

Cash and cash equivalents	\$ 7,861,664
Receivables, net	928,141
Other assets	487,585
Property and equipment, net	<u>1,709,750</u>

Total assets **\$ 10,987,140**

LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS

LIABILITIES

Accounts payable and accrued expenses	<u>\$ 514,258</u>
---------------------------------------	-------------------

Total liabilities **514,258**

NET ASSETS WITHOUT DONOR RESTRICTIONS **10,472,882**

Total liabilities and net assets without donor restrictions **\$ 10,987,140**

PRECEPT MINISTRIES OF REACH OUT, INC.

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2021

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Public support and revenue	
Sales	\$ 4,136,107
Cost of goods sold	<u>(1,074,417)</u>
Sales, net	<u>3,061,690</u>
Contributions	8,881,719
Grant revenue	3,066,491
Non-cash contributions	429,513
Auxiliary revenue	<u>329,823</u>
Total public support and revenue	<u>15,769,236</u>
Expenses	
Program expenses	<u>9,110,228</u>
Supporting expenses	
Management and general	2,004,622
Fundraising	<u>810,938</u>
Total supporting expenses	<u>2,815,560</u>
Total expenses	<u>11,925,788</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	3,843,448
NET ASSETS WITHOUT DONOR RESTRICTIONS - Beginning of year	<u>6,629,434</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - End of year	<u>\$ 10,472,882</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT MINISTRIES OF REACH OUT, INC.

STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2021

OPERATING CASH FLOWS

Cash received from donors and grantors	\$ 9,887,801
Cash received from sales	4,109,676
Cash received from auxiliary activities	329,823
Cash paid for operating activities and costs	<u>(12,605,876)</u>
Net operating cash flows	<u>1,721,424</u>

INVESTING CASH FLOWS

Net sales of investments	762,236
Net purchases of and improvements to property and equipment	<u>(108,024)</u>
Net investing cash flows	<u>654,212</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS **2,375,636**

CASH AND CASH EQUIVALENTS - Beginning of year **5,486,028**

CASH AND CASH EQUIVALENTS - End of year **\$ 7,861,664**

RECONCILIATION OF CHANGE IN NET ASSETS TO NET

OPERATING CASH FLOWS

Change in net assets	\$ 3,843,448
Adjustments to reconcile change in net assets to net operating cash flows	
Conversion of note payable to grant revenue (see Note F)	(1,165,000)
Depreciation	255,384
Noncash contributions	(429,513)
Change in receivables	(921,840)
Change in other assets	(68,684)
Change in accounts payable and accrued expenses	<u>207,629</u>
Net operating cash flows	<u>\$ 1,721,424</u>

SUPPLEMENTAL DISCLOSURE

During 2021, \$1,165,500 of principal reductions of a certain note payable are included in "grant revenue" in the accompanying statement of activities. See Note F.

PRECEPT MINISTRIES OF REACH OUT, INC.

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	\$ 9,110,228	\$ 2,004,622	\$ 810,938	\$ 2,815,560	\$ 11,925,788

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT MINISTRIES OF REACH OUT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – NATURE OF ACTIVITIES

Precept Ministries of Reach Out, Inc. (“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.

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 statement of functional expenses presents 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 MINISTRIES OF REACH OUT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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.

Economic uncertainties

In January 2020, the World Health Organization (“WHO”) announced a global health emergency related to the outbreak of a virus originating in China. In March 2020, WHO elevated the classification of the outbreak to a pandemic (“the pandemic”). Management is closely monitoring the potential impact of the pandemic on the Ministry’s financial condition and has taken actions to mitigate its impact. Such actions include availing the Ministry of relief measures available under federal law and reducing the overall scope and cost of operations. Because of the unknown impact on global commerce, management is not able to estimate the effects of the pandemic on the Ministry’s operating results, financial condition, or liquidity.

Subsequent events

The Ministry has evaluated for possible financial statement reporting and disclosure subsequent events through October 3, 2022, 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 statement of financial position are as follows:

Cash and cash equivalents	\$ 7,861,664
Receivables, net	<u>928,141</u>
Total financial assets available	<u>\$ 8,789,805</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.

PRECEPT MINISTRIES OF REACH OUT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<u>Category</u>	
Land and land improvements	\$ 544,200
Buildings and building improvements	6,665,076
Data processing equipment and software	932,216
Audio and video equipment	2,203,923
Furniture, fixtures, and equipment	<u>584,398</u>
Total property and equipment	10,929,813
Less: Accumulated depreciation	<u>(9,220,063)</u>
Net property and equipment	<u>\$ 1,709,750</u>

Depreciation expense amounted to \$255,384 during 2021.

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 statement of financial position (reducing the balance of the PPP loan to zero) and as “grant revenue” in the accompanying statement of activities.

NOTE G – EMPLOYEE RETENTION TAX CREDIT

The Ministry claimed approximately \$1,901,000 of employee retention tax credit with the Internal Revenue Service. This special employee retention tax credit created recently and temporarily by Congress effectively represents relief/stimulus payments from the federal government, with such payments being provided in the form of a refundable payroll tax credit. The employee retention tax credit is available to employers who meet one or more qualifying criteria established by law. Of the credit amount claimed by the Ministry, approximately \$1,006,000 was received during 2021, and the Ministry recorded a receivable (which is included in “receivables, net” in the accompanying statement of financial position) for the remaining \$895,000. As a result of claiming the credit, approximately \$1,901,000 was recognized as “grant revenue” in the accompanying statement of activities.

PRECEPT MINISTRIES OF REACH OUT, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 \$158,000 during 2021.

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.