



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS

Precept

Financial Statements

For The Years Ended December 31, 2023 and 2022



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, 2023 and 2022, 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, 2023 and 2022, 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 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.

Batts 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
May 30, 2024

PRECEPT
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2023	2022
ASSETS		
Cash and cash equivalents	\$ 3,838,938	\$ 7,418,975
Receivables, net	36,164	838,363
Other assets	497,733	527,350
Software development costs, net	1,177,397	—
Property and equipment, net	1,614,065	1,708,397
Total assets	\$ 7,164,297	\$ 10,493,085
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 556,522	\$ 740,258
Total liabilities	556,522	740,258
NET ASSETS WITHOUT DONOR RESTRICTIONS	6,607,775	9,752,827
Total liabilities and net assets without donor restrictions	\$ 7,164,297	\$ 10,493,085

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT
STATEMENTS OF ACTIVITIES

	For The Years Ended December 31,	
	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Public support and revenue		
Sales	\$ 4,197,196	\$ 4,122,108
Cost of goods sold	<u>(1,165,164)</u>	<u>(1,122,091)</u>
Sales, net	<u>3,032,032</u>	<u>3,000,017</u>
Contributions	8,186,125	9,085,107
Auxiliary revenue	392,849	283,511
Non-cash contributions (stocks and securities)	<u>457,858</u>	<u>701,997</u>
Total public support and revenue	<u>12,068,864</u>	<u>13,070,632</u>
Expenses		
Program expenses	<u>11,676,365</u>	<u>10,770,074</u>
Supporting expenses		
Management and general	2,609,003	2,136,244
Fundraising	<u>928,548</u>	<u>884,369</u>
Total supporting expenses	<u>3,537,551</u>	<u>3,020,613</u>
Total expenses	<u>15,213,916</u>	<u>13,790,687</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(3,145,052)	(720,055)
NET ASSETS WITHOUT DONOR RESTRICTIONS - Beginning of year	<u>9,752,827</u>	<u>10,472,882</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - End of year	<u>\$ 6,607,775</u>	<u>\$ 9,752,827</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	December 31,	
	<u>2023</u>	<u>2022</u>
OPERATING CASH FLOWS		
Cash received from donors	\$ 8,186,125	\$ 9,085,107
Cash received from sales and auxiliary activities	5,392,244	4,495,397
Cash paid for operating activities and costs	<u>(16,022,770)</u>	<u>(14,472,135)</u>
Net operating cash flows	<u>(2,444,401)</u>	<u>(891,631)</u>
INVESTING CASH FLOWS		
Proceeds from net sales of investments	457,858	701,997
Cash paid for software development costs	(1,442,530)	—
Net purchases of and improvements to property and equipment	<u>(150,964)</u>	<u>(253,055)</u>
Net investing cash flows	<u>(1,135,636)</u>	<u>448,942</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,580,037)	(442,689)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>7,418,975</u>	<u>7,861,664</u>
CASH AND CASH EQUIVALENTS - End of year	<u><u>\$ 3,838,938</u></u>	<u><u>\$ 7,418,975</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET		
OPERATING CASH FLOWS		
Change in net assets without donor restrictions	\$ (3,145,052)	\$ (720,055)
Adjustments to reconcile change in net assets without donor restrictions to net operating cash flows		
Depreciation and amortization	510,429	254,408
Noncash contributions (stocks and securities)	(457,858)	(701,997)
Change in receivables	802,199	89,778
Change in other assets	29,617	(39,765)
Change in accounts payable and accrued expenses	<u>(183,736)</u>	<u>226,000</u>
Net operating cash flows	<u><u>\$ (2,444,401)</u></u>	<u><u>\$ (891,631)</u></u>

The Accompanying Notes are an Integral
Part of These Financial Statements

PRECEPT
STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2023

	Supporting expenses				Total expenses
	Program expenses	Management and general	Fundraising	Total supporting expenses	
Salaries and benefits	\$ 4,698,983	\$ 1,424,806	\$ 511,082	\$ 1,935,888	\$ 6,634,871
Grants and missions support	3,563,687	—	—	—	3,563,687
Professional fees	1,751,723	539,995	21,926	561,921	2,313,644
Software and systems	882,814	163,706	55,038	218,744	1,101,558
Depreciation and amortization	269,292	167,695	73,442	241,137	510,429
Postage and printing	71,776	13,099	187,893	200,992	272,768
Travel	126,682	17,206	47,156	64,362	191,044
Insurance	65,541	107,640	—	107,640	173,181
Utilities	136,921	33,983	—	33,983	170,904
Equipment and maintenance	78,580	37,184	39	37,223	115,803
Other	4,045	73,293	11,145	84,438	88,483
Supplies	21,166	15,668	6,145	21,813	42,979
Development and membership	3,788	11,376	14,682	26,058	29,846
Royalties	1,367	3,352	—	3,352	4,719
Total expenses	<u>\$ 11,676,365</u>	<u>\$ 2,609,003</u>	<u>\$ 928,548</u>	<u>\$ 3,537,551</u>	<u>\$ 15,213,916</u>

For The Year Ended December 31, 2022

	Supporting expenses				Total expenses
	Program expenses	Management and general	Fundraising	Total supporting expenses	
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
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.

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.

Software development costs, net

Software development costs are related to the Ministry’s Yarrow Bible study app and are stated at original cost. Amortization is calculated using the straight-line method over the expected useful life of the Yarrow Bible study app.

Property and equipment, net

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 software development costs and 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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ <u>3,838,938</u>	\$ <u>7,418,975</u>
Total financial assets available	\$ <u>3,838,938</u>	\$ <u>7,418,975</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:

Category	December 31,	
	2023	2022
Land and land improvements	\$ 471,483	\$ 569,095
Buildings and building improvements	6,602,410	6,845,952
Data processing equipment and software	214,569	977,720
Audio and video equipment	85,876	2,205,703
Furniture, fixtures, and equipment	243,924	584,398
Total property and equipment	7,618,262	11,182,868
Less: Accumulated depreciation	(6,004,197)	(9,474,471)
Net property and equipment	\$ 1,614,065	\$ 1,708,397

Depreciation expense amounted to approximately \$245,000 and \$254,000 during 2023 and 2022, respectively.

NOTE F – 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 \$164,000 and \$173,000 during 2023 and 2022, respectively.

NOTE G – 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.