

**BETHEL BIBLE VILLAGE**

FINANCIAL STATEMENTS

MARCH 31, 2018



**CERTIFIED PUBLIC ACCOUNTANTS**

# BETHEL BIBLE VILLAGE

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MARCH 31, 2018

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CERTIFIED PUBLIC ACCOUNTANTS  
CHATTANOOGA | MEMPHIS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Bethel Bible Village  
Chattanooga, Tennessee

We have audited the accompanying financial statements of Bethel Bible Village, which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, changes in net assets, 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 of 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethel Bible Village as of March 31, 2018, 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.

Chattanooga, Tennessee  
June 15, 2018

*Henderson Hutcherson  
& McCullough, PLLC*

# BETHEL BIBLE VILLAGE

## STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

### ASSETS

	Operating	Capital	Endowment	Future Gifts	Retirement	Total	(Memo Only) March 31, 2017
Cash and temporary cash investments	\$ 527,929	\$ -	\$ 25,219	\$ -	\$ 6,393	\$ 559,541	\$ 779,260
Accounts receivable	460	-	-	-	-	460	74
Unconditional promises to give from estates	27,000	-	-	258,000	-	285,000	285,000
Accrued interest receivable	-	-	1,213	-	-	1,213	1,213
Receivables from state for services rendered	-	-	-	-	-	-	3,017
Investments	2,500	-	2,179,118	-	514,856	2,696,474	2,533,409
Assets held for sale	6,350	-	-	-	-	6,350	-
Assets due from charitable trusts	-	-	-	221,000	-	221,000	217,000
Prepaid expenses	15,080	-	-	-	-	15,080	15,850
Due (to) from other funds	(85,945)	47,036	38,909	-	-	-	-
Property and equipment, net of accumulated depreciation	-	1,300,489	-	-	-	1,300,489	1,351,013
<b>TOTAL ASSETS</b>	<b><u>\$ 493,374</u></b>	<b><u>\$ 1,347,525</u></b>	<b><u>\$ 2,244,459</u></b>	<b><u>\$ 479,000</u></b>	<b><u>\$ 521,249</u></b>	<b><u>\$ 5,085,607</u></b>	<b><u>\$ 5,185,836</u></b>

The accompanying notes are an integral part of these financial statements.

# BETHEL BIBLE VILLAGE

## STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

<b>LIABILITIES AND NET ASSETS</b>							<b>(Memo Only)</b>
	<b>Operating</b>	<b>Capital</b>	<b>Endowment</b>	<b>Future Gifts</b>	<b>Retirement</b>	<b>Total</b>	<b>March 31, 2017</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 82,211	\$ -	\$ -	\$ -	\$ -	\$ 82,211	\$ 30,164
Refundable deposits on special events	205,035	-	-	-	-	205,035	169,270
Accrued expenses	3,391	-	-	-	-	3,391	2,112
Deferred compensation liability	-	-	-	-	207,069	207,069	211,950
Total liabilities	<u>290,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,069</u>	<u>497,706</u>	<u>413,496</u>
<b>NET ASSETS</b>							
Unrestricted –							
Available for current operations	105,672	-	-	-	-	105,672	408,421
Designated for discretionary endowment purposes	-	-	1,189,906	-	-	1,189,906	1,037,782
Designated for discretionary retirement	-	-	-	-	314,180	314,180	286,641
Invested in ministry property and equipment	-	1,300,489	-	-	-	1,300,489	1,351,013
	<u>105,672</u>	<u>1,300,489</u>	<u>1,189,906</u>	<u>-</u>	<u>314,180</u>	<u>2,910,247</u>	<u>3,083,857</u>
Temporarily restricted –							
Until trusts and estates make distributions	-	-	-	479,000	-	479,000	475,000
By donors for designated program purposes	97,065	-	-	-	-	97,065	147,821
For building projects restricted by donor	-	47,036	-	-	-	47,036	49,679
	<u>97,065</u>	<u>47,036</u>	<u>-</u>	<u>479,000</u>	<u>-</u>	<u>623,101</u>	<u>672,500</u>
Permanently restricted – endowment	-	-	1,054,553	-	-	1,054,553	1,015,983
Total net assets	<u>202,737</u>	<u>1,347,525</u>	<u>2,244,459</u>	<u>479,000</u>	<u>314,180</u>	<u>4,587,901</u>	<u>4,772,340</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 493,374</u>	<u>\$ 1,347,525</u>	<u>\$ 2,244,459</u>	<u>\$ 479,000</u>	<u>\$ 521,249</u>	<u>\$ 5,085,607</u>	<u>\$ 5,185,836</u>

The accompanying notes are an integral part of these financial statements.

# BETHEL BIBLE VILLAGE

## STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2018

	Operating	Capital	Endowment	Future Gifts	Retirement	Total	(Memo Only) March 31, 2017
<b>UNRESTRICTED NET ASSETS</b>							
Support and revenue							
Contributions	\$ 764,222	\$ 23,632	\$ -	\$ -	\$ -	\$ 787,854	\$ 1,089,131
Bequests	142,522	-	-	-	-	142,522	180,859
State fees	12,866	-	-	-	-	12,866	25,270
Special events	391,952	-	-	-	-	391,952	432,857
Special events - direct expenses	(68,765)	-	-	-	-	(68,765)	(71,458)
Return on unrestricted investments	6,375	-	239,268	-	57,127	302,770	218,912
Net gain on sale of assets	502	-	-	-	-	502	(1,281)
Net assets released from restrictions	242,242	36,683	-	-	-	278,925	525,361
Net assets appropriated for expenditure	87,144	-	(87,144)	-	-	-	(15,531)
Net income thrift shop	148,431	-	-	-	-	148,431	150,153
Total unrestricted support and revenues	<u>1,727,491</u>	<u>60,315</u>	<u>152,124</u>	<u>-</u>	<u>57,127</u>	<u>1,997,057</u>	<u>2,534,273</u>
<b>EXPENSES</b>							
Program services	1,817,915	-	-	-	-	1,817,915	1,648,002
General and administrative	171,935	-	-	-	-	171,935	151,955
Fund raising	180,761	-	-	-	-	180,761	141,146
Total expenses	<u>2,170,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,170,611</u>	<u>1,941,103</u>
Change in unrestricted net assets	<u>(443,120)</u>	<u>60,315</u>	<u>152,124</u>	<u>-</u>	<u>57,127</u>	<u>(173,554)</u>	<u>593,170</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>							
Contributions	185,377	25,040	-	-	-	210,417	523,248
Interest earned that is temporarily restricted	-	-	15,154	-	-	15,154	15,531
Net assets released from restrictions	(242,242)	(36,683)	-	-	-	(278,925)	(525,361)
Net assets appropriated for expenditure	15,154	-	(15,154)	-	-	-	-
Change in value of split-interest agreements	-	-	-	4,000	-	4,000	10,000
Change in temporarily restricted net assets	<u>(41,711)</u>	<u>(11,643)</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>(49,354)</u>	<u>23,418</u>
<b>PERMANENTLY RESTRICTED ASSETS</b>							
Contributions	-	-	37,500	-	-	37,500	29,783
Interest earned / added to permanently restricted assets	-	-	969	-	-	969	957
Change in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>38,469</u>	<u>-</u>	<u>-</u>	<u>38,469</u>	<u>30,740</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (484,831)</u>	<u>\$ 48,672</u>	<u>\$ 190,593</u>	<u>\$ 4,000</u>	<u>\$ 57,127</u>	<u>\$ (184,439)</u>	<u>\$ 647,328</u>

The accompanying notes are an integral part of these financial statements.

## BETHEL BIBLE VILLAGE

### STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2018

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	Operating	Capital	Endowment	Future Gifts	Retirement	Total
<b>BALANCE – March 31, 2017</b>	<u>\$ 556,242</u>	<u>\$ 1,400,692</u>	<u>\$ 2,053,765</u>	<u>\$ 475,000</u>	<u>\$ 286,641</u>	<u>\$ 4,772,340</u>
Changes in net assets	<u>(484,831)</u>	<u>48,672</u>	<u>190,593</u>	<u>4,000</u>	<u>57,127</u>	<u>(184,439)</u>
Interfund transfers –						
Depreciation	180,539	(180,539)	-	-	-	-
Capital purchases	(69,700)	69,700	-	-	-	-
Transfer to/from capital	(9,000)	9,000	-	-	-	-
Transfer to/from retirement	29,588	-	-	-	(29,588)	-
Transfer to/from endowment	(101)	-	101	-	-	-
	<u>131,326</u>	<u>(101,839)</u>	<u>101</u>	<u>-</u>	<u>(29,588)</u>	<u>-</u>
<b>BALANCE – March 31, 2018</b>	<u>\$ 202,737</u>	<u>\$ 1,347,525</u>	<u>\$ 2,244,459</u>	<u>\$ 479,000</u>	<u>\$ 314,180</u>	<u>\$ 4,587,901</u>

The accompanying notes are an integral part of these financial statements.



## BETHEL BIBLE VILLAGE

### STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2018

	Program Services	General and Administrative	Fund Raising	Total	(Memo Only) March 31, 2017
<b>EXPENSES</b>					
Salaries & wages	\$ 1,053,352	\$ 87,645	\$ 100,681	\$ 1,241,678	\$ 1,174,493
Other employee benefits	172,440	14,201	16,230	202,871	202,453
Depreciation	153,458	27,081	-	180,539	167,428
Payroll taxes	76,666	6,314	7,216	90,196	86,793
Utilities	67,758	1,783	1,783	71,324	71,492
Retirement	48,112	3,962	4,528	56,602	(78,696)
Facilities maintenance	49,980	1,315	1,315	52,610	40,759
Insurance	32,305	3,801	1,900	38,006	37,547
Food	34,025	-	-	34,025	27,749
Miscellaneous	23,980	2,996	2,998	29,974	27,242
Promotion & communication	6,000	2,603	21,264	29,867	28,186
Printing & publications	7,000	3,000	12,706	22,706	22,975
Education	20,596	-	-	20,596	16,236
Telephone	17,006	2,001	1,000	20,007	19,229
Vehicle maintenance	13,034	343	343	13,720	10,630
Accounting fees	-	12,448	-	12,448	12,348
Supplies	8,825	1,103	1,103	11,031	14,373
Recreation	9,493	-	-	9,493	14,097
Advertising	4,179	-	2,786	6,965	9,833
Training	5,401	675	675	6,751	7,868
Allowances	4,627	-	-	4,627	4,851
Memberships	3,136	392	392	3,920	3,650
Hiring costs	3,384	272	233	3,889	11,834
Special events	-	-	3,608	3,608	4,183
Psychological services	1,527	-	-	1,527	1,200
Clothing	897	-	-	897	1,220
Doctors & medicine	734	-	-	734	855
Planned giving	-	-	-	-	275
Total expenses	<u>\$ 1,817,915</u>	<u>\$ 171,935</u>	<u>\$ 180,761</u>	<u>\$ 2,170,611</u>	<u>\$ 1,941,103</u>

The accompanying notes are an integral part of these financial statements.

## BETHEL BIBLE VILLAGE

### STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

	Operating	Capital	Endowment	Future Gifts	Retirement	Total	(Memo Only) March 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Net change in net assets	\$ (484,831)	\$ 48,672	\$ 190,593	\$ 4,000	\$ 57,127	\$ (184,439)	\$ 647,328
Adjustments to reconcile change in net assets to net cash from operating activities –							
Depreciation	180,539	-	-	-	-	180,539	167,428
Net unrealized gains (losses) on investment transactions	-	-	11,475	-	8,298	19,773	(98,082)
Net (gain) from sale of property and equipment	-	-	-	-	-	-	(754)
Change in value of split interest agreements	-	-	-	(4,000)	-	(4,000)	(10,000)
Net change in operating assets –							
Accounts receivable	(386)	-	-	-	-	(386)	120
Unconditional promises to give from estates	-	-	-	-	-	-	(268,000)
Other accounts receivable	3,017	-	-	-	-	3,017	(532)
Assets held for sale	(6,350)	-	-	-	-	(6,350)	-
Prepaid expenses	770	-	-	-	-	770	145
Net change in operating liabilities –							
Accounts payable	52,047	-	-	-	-	52,047	(1,092)
Refundable deposits on special events	35,765	-	-	-	-	35,765	31,920
Accrued expenses	1,279	-	-	-	-	1,279	(3,324)
Deferred compensation liability	-	-	-	-	(4,881)	(4,881)	(154,536)
Net cash from operating activities	<u>(218,150)</u>	<u>48,672</u>	<u>202,068</u>	<u>-</u>	<u>60,544</u>	<u>93,134</u>	<u>310,621</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sale of property and equipment	-	-	-	-	-	-	1,490
Proceeds from sale or maturity of investments	10,150	-	1,668,820	-	500,841	2,179,811	2,187,210
Purchase of investments	-	-	(1,610,161)	-	(472,549)	(2,082,710)	(2,109,360)
Reinvested dividends and interest from investments	-	-	(220,432)	-	(59,507)	(279,939)	(75,250)
Purchase of property and equipment	-	(130,015)	-	-	-	(130,015)	(360,573)
Net cash from investing activities	<u>10,150</u>	<u>(130,015)</u>	<u>(161,773)</u>	<u>-</u>	<u>(31,215)</u>	<u>(312,853)</u>	<u>(356,483)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Net change in interfund transfers	(13,287)	81,343	(38,468)	-	(29,588)	-	-
Net cash from financing activities	<u>(13,287)</u>	<u>81,343</u>	<u>(38,468)</u>	<u>-</u>	<u>(29,588)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN CASH</b>	<u>(221,287)</u>	<u>-</u>	<u>1,827</u>	<u>-</u>	<u>(259)</u>	<u>(219,719)</u>	<u>(45,862)</u>
Cash and cash equivalents – beginning	749,216	-	23,392	-	6,652	779,260	825,122
Cash and cash equivalents – ending	<u>\$ 527,929</u>	<u>\$ -</u>	<u>\$ 25,219</u>	<u>\$ -</u>	<u>\$ 6,393</u>	<u>\$ 559,541</u>	<u>\$ 779,260</u>

The accompanying notes are an integral part of these financial statements.

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Organization**

Bethel Bible Village, a non-profit organization, is a nondenominational Christian home for children located in Chattanooga, Tennessee. Its purpose is to provide homes and services for children and youth of families in crisis.

Bethel Bible Village (the “Organization”) is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable state laws, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code.

The Organization receives its revenues from two basic sources: (1) donations from individuals, businesses, and churches, (2) investment income from its board-discretionary and donor-directed endowment funds. The ability of the Organization to sustain its current level of service is dependent upon the continued support of the general public and the return on its investment portfolio.

#### **Basis of Presentation**

The financial statements of Bethel Bible Village have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. Financial statement presentation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. The Organization is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Certain endowment funds stipulate that the income from the funds be used for specific purposes. The income from those funds is also reported as an increase in temporarily restricted net assets.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When temporarily restricted contributions are received and the restrictions are met in the same accounting period, they are reported as unrestricted support.

#### **Donated Assets**

Donated property, investments and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

(Continued)

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Valuation of Donated Services**

A significant number of volunteers have donated their time to the Organization's program services. However, those services are not professional in nature and do not meet the accounting pronouncement criteria which would require recognition of their value in the financial statements.

#### **Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

#### **Property and Equipment**

All purchased property and equipment that cost over \$500 are capitalized at cost. Property and equipment are recorded on the books at cost or fair market value at the date of donation and depreciated over their estimated useful lives on the straight line method. Estimated useful lives are as follows:

Buildings and improvements	5-30 years
All other property and equipment	3-8 years

#### **Promises to Give**

Unconditional promises to give are recognized as revenues or gains in the period the promise is made. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

#### **Cash and Cash Equivalents**

For the purposes of the cash flow statement, the Organization considers all unrestricted, highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

#### **Presentation of Sales Tax**

The State of Tennessee and counties within the State impose a sales tax on all of the Organization's thrift shop sales to non-exempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

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# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Investments**

The Organization follows FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FASB ASC 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of March 31. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

**Level 2** – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of March 31. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

**Level 3** – Securities that have little to no pricing observability as of March 31. These securities are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization’s perceived risk of that instrument.

(Continued)

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Allowance for Doubtful Pledges and Estate Receivables**

The Organization estimates losses on pledges and estate receivables based on prior bad debt experience and a review of existing receivables. Pledges and estates deemed uncollectible and bad debt recoveries are charged against the allowance account as realized. Based on management review of pledges and estate receivables, there is no allowance for doubtful pledges as of March 31, 2018.

#### **Advertising**

Advertising costs are expensed as incurred. Advertising expense was \$6,965 for the period ended March 31, 2018.

#### **Split-interest Agreements**

Contributions received in the form of irrevocable split-interest agreements (charitable remainder trusts) are recognized as contribution revenue at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. Amounts payable under split-interest agreements represent the present value of the aggregate liability for the split-interest agreement payments to be made over the expected lives of the beneficiaries, which is estimated using Internal Revenue Service mortality tables and a discount rate of one to three percent. There was no liability under the split-interest agreements for the year ended March 31, 2018. Assets held in these trusts are included as a charitable remainder trust receivable. The charitable remainder trust receivable totaled \$221,000 at March 31, 2018. Any subsequent changes in the value of the split-interest agreements are recorded as change in value of split-interest agreements in the statement of activities.

#### **Endowment**

The organization accounts for its endowment funds in accordance with FASB ASC Topic 958-205-45-32, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organization's endowment funds.

#### **Income Taxes**

The Organization is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is reflected in the financial statements.

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of March 31, 2018, consist of bequests from estates. The promises within the operating fund are expected to be received within the next twelve months but those within the future gifts fund are not.

### NOTE 3 – RESTRICTIONS ON NET ASSETS

Permanently restricted assets represent donor-imposed restrictions requiring that the donated principal be maintained in permanent endowment funds. Only the income from such funds may be used to support program services.

Temporarily restricted net assets represent donor imposed time and purpose restrictions as to how and when the funds can be used.

### NOTE 4 – THRIFT STORE

The Organization operates a thrift store in which it sells donated items to provide funds for operations and also to promote the Organization in the community. The fair value of the items at the time of donation is not readily determinable. Therefore, the Organization does not record the contribution of donated items to be sold in the thrift store. Revenue from sale of donated merchandise is recognized only upon sale to customers due to significant uncertainties about its value prior to sale. Sales are not a part of the Organization's ongoing major or central operations and activities. A summary of the activity for the year ended March 31, 2018, follows:

Sales	\$ 416,957
Expenses	<u>(268,526)</u>
Net	<u>\$ 148,431</u>

Advertising expense for the thrift store totaling \$456 is included in total expense.

### NOTE 5 – FUNCTIONAL ALLOCATION EXPENSES

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

### NOTE 6 – INVESTMENTS

Investments are recorded at fair market value and consist of the following:

	<b>Cost</b>	<b>Market</b>
Mutual funds:		
Fixed Income Funds	\$ 63,330	\$ 62,816
Domestic Small-cap Securities	408,421	457,795
Domestic Mid-cap Securities	43,890	42,234
Domestic Large-growth Securities	1,454,306	1,558,879
Domestic Bond Funds	348,542	347,728
International Bond Funds	191,125	217,925
Other	<u>9,097</u>	<u>9,097</u>
	2,518,711	2,696,474
Cash and temporary investments	<u>559,541</u>	<u>559,541</u>
Total	<u>\$ 3,078,252</u>	<u>\$ 3,256,015</u>

The annual yield, exclusive of net capital gains, was 3.87% for the year ended March 31, 2018. Total return on investments for the year ended March 31, 2018, amounted to 9.35%.

Total return on investments for the year ended March 31, 2018, consists of:

Net realized capital gain	\$ 293,232
Net unrealized capital gain	<u>(90,622)</u>
Total net gain	202,610
Interest and dividends	132,034
Investment fees	<u>(15,752)</u>
Total return	<u>\$ 318,892</u>

As stated in Note 1, the Organization accounts for its investments in securities according to the provisions of FASB ASC 820. A summary of the inputs used to value the Organization's investments as of March 31, 2018, is as follows:

	<b>Fair Value Measurements at Reporting Date Using:</b>			
	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Mutual Funds:				
Fixed Income	\$ 62,816	\$ 62,816	\$ -	\$ -
Domestic Small-cap	457,795	457,795	-	-
Domestic Mid-cap	42,234	42,234	-	-
Domestic Large-growth	1,558,879	1,558,879	-	-
Domestic Bond Funds	347,728	347,728	-	-
International Bond Funds	217,925	217,925	-	-
Non-marketable investments	<u>9,097</u>	<u>-</u>	<u>-</u>	<u>9,097</u>
Total	<u>\$ 2,696,474</u>	<u>\$ 2,687,377</u>	<u>\$ -</u>	<u>\$ 9,097</u>

(Continued)



# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 6 – INVESTMENTS (Continued)

Real estate is classified within Level 3 of the fair value hierarchy due to their non-marketable fair market values. Real estate is valued and estimated at current year appraisals from outside third-parties. Estimations are then filtered through significant management judgment as to the reasonability of the appraisals and listing price.

The valuation methods described above may produce a fair value amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the entity believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies to determine fair value could result in a different fair value measurement at the reporting date and that difference may be material to the entity's financial statements. A reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value is as follows:

#### Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	<b>Beginning Balance</b>	<b>Total Realized/ Unrealized Gains (Losses)</b>	<b>Net Donations</b>	<b>Net Sales</b>	<b>Ending Balance</b>
Real estate	\$ 9,097	\$ -	\$ -	\$ -	\$ 9,097
Total	<u>\$ 9,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,097</u>

### NOTE 7 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at various financial institutions, whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization's balance on deposit at the banks may exceed \$250,000 from time to time throughout the year. At March 31, 2018, the Organization did not have on deposit an amount in excess of the FDIC limit.

Additionally, the Organization places its investment fund with various bank trust departments and brokerage firms. These funds, which approximate \$246,739 at March 31, 2018, are not federally insured and are subject to the market risk of the general U.S. economy.

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 8 – PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

Land and improvements	\$ 215,140
Buildings and improvements	4,870,267
Leasehold improvements	44,807
Furniture and fixtures	421,481
Equipment	1,316,999
Vehicles	<u>205,811</u>
	7,074,505
Less accumulated depreciation	<u>(5,774,016)</u>
	<u>\$ 1,300,489</u>

Depreciation expense was \$180,539 for the year ended March 31, 2018.

### NOTE 9 – ASSETS DUE FROM TRUSTS

The Organization is the beneficiary of three remainder trusts. The balance in assets due from trusts reflects the present value of expected benefits from these trusts.

### NOTE 10 – DEFINED CONTRIBUTION PLAN

On January 1, 2002, the Organization adopted a 403(b) Defined Contribution Pension Plan covering all employees who have met minimum service and age requirements. All eligible employees are allowed to make salary reduction contributions. The Organization matches a portion of participants' contribution to the plan. Total expense for the year ended March 31, 2018 was \$27,014.

### NOTE 11 – COMPENSATED ABSENCES

Bethel Bible Village provides annual leave and sick leave for its employees. Annual leave is accrued according to length of service beginning the first month of service. The maximum number of days that can be earned depends on length of service. Employees may begin to use annual leave after six months of employment. Any employee who voluntarily leaves Bethel will be paid for unused vacation time in that year if he works a two-week notice period. Employees will receive one day per month of sick leave, which may be accumulated to a maximum of forty-five working days. This accumulated sick leave is not paid out upon employee termination. The Organization has not accrued compensated absences because employees cannot carry forward vacation time and therefore the liability at year-end would be immaterial.

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 12 – SPECIAL EVENTS

The Organization had three events this year to promote public awareness of the ministry. The costs of these events are completely covered by the proceeds. A summary of the activity for the three events for the year ended March 31, 2018, is as follows:

Classic Weekend	
Unrestricted income	\$ 358,072
Temporarily restricted contributions	-
Direct expenses	(55,924)
Indirect expenses	<u>(2,464)</u>
Net	<u>\$ 299,684</u>
LoveStrong Concert	
Unrestricted income	\$ 21,675
Direct expenses	(9,729)
Indirect expenses	-
Net	<u>\$ 11,946</u>
Run by the Creek	
Unrestricted income	\$ 12,205
Direct expenses	(3,112)
Indirect expenses	<u>(1,144)</u>
Net	<u>\$ 7,949</u>
Total unrestricted income from special events	\$ 391,952
Total temporarily restricted income from special events	-
Total direct expenses from special events	(68,765)
Total indirect expenses from special events	<u>(3,608)</u>
Total net income	<u>\$ 319,579</u>

Additionally, in-kind contributions of \$91,557 were received during the special events.

### NOTE 13 – DEFERRED COMPENSATION PLAN

As discussed in Note 10, the Organization has adopted a 403(b) plan to provide retirement benefits for its employees. Simultaneously, Bethel froze their non-qualified deferred compensation plan which was setup to provide future retirement benefits for certain older, long-term employees who do not have many remaining working years to benefit from the 403(b) plan. This plan provides for a maximum of 55% of employee compensation, reduced by their social security benefits. Current year retirement expense consists of the following:

403(b) Contributions	\$ 27,014
Change in actuarial valuation of Deferred Comp plan	<u>29,588</u>
Retirement Expense	<u>\$ 56,602</u>

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 14 – RELATED PARTY TRANSACTIONS

Bethel Bible Village occasionally purchases goods and services from companies whose owners or officers are related to Bethel Trustees or to Bethel employees who serve in management positions. Transactions with companies meeting this criterion are as follows:

Nature of Transaction	Number of Companies	Amount
Purchase of promotional supplies	1	\$ 2,662
Repairs and maintenance	2	4,688

### NOTE 15 – LEASES

The Organization leases the premises for the thrift store under an operating lease which automatically extends every March through March 2021, with the monthly amounts increasing each year. The monthly payments for the fiscal year 2019 are \$5,133. Minimum obligations relative to this lease are as follows:

Year ending March 31,	
2019	\$ 61,596
2020	62,210
2021	<u>62,832</u>
Total	<u>\$ 186,638</u>

Rental expense relative to the above lease for the year ending March 31, 2018, was \$61,035.

### NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the independent auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

### NOTE 17 – INCOME TAXES

The Organization's federal tax returns for the years ended March 31, 2015 through March 31, 2018, are subject to examination by the IRS, generally for three years after they were filed.

### NOTE 18 – ENDOWMENT

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(Continued)

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 18 – ENDOWMENT (Continued)

#### **Return Objectives and Risk Parameters**

The primary financial objective of the endowment is to provide funds for the current and future support of the operation of the Organization. The funds' performance objective is to maximize total return consistent with a prudent level of risk to ensure long-term growth.

#### **Interpretation of Relevant Law**

The Board of Directors of the Organization has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

#### **Strategies Employed for Achieving Objectives**

The Board of Directors believes the most prudent way to minimize volatility of the total portfolio without foregoing significant investment return is through a program of broad diversification. Central to the achievement of this goal is the concept of investing in asset classes that demonstrate relatively low correlation to one another. These correlations and their total impact on the total portfolio will be reviewed on an annual basis by the Board's investment committee to determine the effectiveness of the diversification program.

(Continued)

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

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### NOTE 18 – ENDOWMENT (Continued)

#### Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Organization has a policy of appropriating for distribution up to 5% a year of its endowment fund's average fair value over the past 3 years at fiscal year-end preceding the fiscal year in which the distribution is planned, subject to approval of the Board of Trustees. Accordingly, over the long term, the Organization expects its endowment to grow at an average rate that is in excess of its appropriation. This is consistent with the Organization's objective of long-term growth of the endowment fund.

To satisfy its objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of March 31, 2018.

#### Endowment Net Asset Composition by Type of Fund as of March 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,054,553	\$ 1,054,553
Board-designated endowment funds	<u>1,189,906</u>	<u>-</u>	<u>-</u>	<u>1,189,906</u>
Total funds	<u>\$ 1,189,906</u>	<u>\$ -</u>	<u>\$ 1,054,553</u>	<u>\$ 2,244,459</u>

(Continued)

# BETHEL BIBLE VILLAGE

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018

**NOTE 18 – ENDOWMENT (Continued)**

**Changes in Endowment Net Assets for the Fiscal Year Ended March 31, 2018**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	<u>\$ 1,037,782</u>	<u>\$ -</u>	<u>\$ 1,015,983</u>	<u>\$ 2,053,765</u>
Investment return:				
Investment income	71,193	15,154	969	87,316
Net appreciation (realized and unrealized):				
Donor-restricted portion	98,981	-	-	98,981
Board-designated portion	<u>53,143</u>	<u>-</u>	<u>-</u>	<u>53,143</u>
Total investment return	<u>223,317</u>	<u>15,154</u>	<u>969</u>	<u>239,440</u>
Contributions	<u>-</u>	<u>-</u>	<u>37,601</u>	<u>37,601</u>
Appropriation of endowment assets for expenditure	<u>(71,193)</u>	<u>(15,154)</u>	<u>-</u>	<u>(86,347)</u>
Endowment net assets, end of year	<u>\$ 1,189,906</u>	<u>\$ -</u>	<u>\$ 1,054,553</u>	<u>\$ 2,244,459</u>

**Description of Amounts Classified as Permanently Restricted (Endowment Only)**

**Permanently Restricted Net Assets**

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 1,054,553</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 1,054,553</u>