

**LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL**

***FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**JUNE 30, 2010**

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

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# TAIT, WELLER & BAKER LLP

*Certified Public Accountants*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**The Board of Trustees  
Lancaster Bible College  
Lancaster, Pennsylvania**

We have audited the accompanying statement of financial position of Lancaster Bible College & Graduate School as of June 30, 2010, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College & Graduate School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Lancaster Bible College & Graduate School's 2009 financial statements and, in our report dated September 2, 2009, we expressed an unqualified opinion.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Bible College & Graduate School as of June 30, 2010, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
October 28, 2010**

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 419,105	\$ 66,657
Accounts receivable		
Students, net of allowance of \$90,000 for 2010 and 2009	152,948	237,352
Pledges ( <i>Note 4</i> )	548,513	589,725
Other	67,841	66,518
Notes receivable, current ( <i>Note 6</i> )	-	100,918
Prepaid and other	63,620	234,040
Inventories	46,978	41,837
Current assets of discontinued operation	-	269,141
<b>Total current assets</b>	<u>1,299,005</u>	<u>1,606,188</u>
Investments ( <i>Note 3</i> )	15,303,119	17,415,412
Pledges receivable, net of current portion ( <i>Note 4</i> )	617,821	674,923
Note receivable, net of current portion ( <i>Note 6</i> )	188,527	163,107
Loans receivable, net of allowance of \$7,879 for 2010 and 2009	118,092	124,450
Fixed assets, net ( <i>Note 5</i> )	<u>27,434,456</u>	<u>27,514,063</u>
<b>Total assets</b>	<u>\$44,961,020</u>	<u>\$47,498,143</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 543,003	\$ 182,611
Deferred revenue	362,947	410,066
Current portion of notes payable ( <i>Note 7</i> )	2,093,255	2,871,867
Current liabilities of discontinued operation	-	198,204
<b>Total current liabilities</b>	<u>2,999,205</u>	<u>3,662,748</u>
Unitrust and annuity obligations	2,655,283	3,991,126
Notes payable, net of current portion ( <i>Note 7</i> )	-	4,546,401
Funds held for others	62,492	55,593
U.S. Government advances	<u>163,795</u>	<u>163,795</u>
<b>Total liabilities</b>	<u>2,881,570</u>	<u>8,756,915</u>
<b>Total liabilities</b>	<u>5,880,775</u>	<u>12,419,663</u>
<b>NET ASSETS</b>		
Unrestricted	30,747,424	20,604,159
Temporarily restricted ( <i>Note 8</i> )	3,592,163	9,785,857
Permanently restricted ( <i>Note 8</i> )	<u>4,740,658</u>	<u>4,688,464</u>
<b>Total net assets</b>	<u>39,080,245</u>	<u>35,078,480</u>
<b>Total liabilities and net assets</b>	<u>\$44,961,020</u>	<u>\$47,498,143</u>

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2010 with Summarized Information for 2009

	Unrestricted			Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
	Operations	Net Investment In Plant	Total				
<b>Revenues and other additions:</b>							
Tuition and fees	\$11,043,922	\$ -	\$11,043,922	\$ -	\$ -	\$11,043,922	\$10,027,575
Less: Scholarships	<u>(2,586,128)</u>	<u>-</u>	<u>(2,586,128)</u>	<u>-</u>	<u>-</u>	<u>(2,586,128)</u>	<u>(2,499,546)</u>
Net tuition and fees	8,457,794	-	8,457,794	-	-	8,457,794	7,528,029
Auxiliary enterprises	2,396,479	-	2,396,479	-	-	2,396,479	2,314,175
Gifts	3,053,737	-	3,053,737	508,659	47,868	3,610,264	4,055,362
Government grants	247,216	-	247,216	40,505	-	287,721	363,757
Investment return designated for current operations ( <i>Note 3</i> )	151,264	-	151,264	173,580	-	324,844	329,553
Other investment income	173,197	-	173,197	92,497	4,326	270,020	(495,955)
Other income	538,490	-	538,490	2,709	-	541,199	394,666
Net assets released from temporary restrictions ( <i>Note 8</i> )	<u>3,696,592</u>	<u>6,109,163</u>	<u>9,805,755</u>	<u>(9,805,755)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total revenue and other additions</b>	<u>18,714,769</u>	<u>6,109,163</u>	<u>24,823,932</u>	<u>(8,987,805)</u>	<u>52,194</u>	<u>15,888,321</u>	<u>14,489,587</u>
<b>Expenses and other reductions:</b>							
Instruction	4,705,585	-	4,705,585	-	-	4,705,585	4,292,274
Academic support	616,719	-	616,719	-	-	616,719	631,346
Student services	1,859,050	-	1,859,050	-	-	1,859,050	1,673,640
Institutional support	3,995,310	102,517	4,097,827	-	-	4,097,827	4,086,677
Operation and maintenance of plant	907,514	760,955	1,668,469	-	-	1,668,469	1,525,457
Auxiliary enterprises	1,574,911	-	1,574,911	-	-	1,574,911	1,480,809
Public support	<u>457,382</u>	<u>-</u>	<u>457,382</u>	<u>-</u>	<u>-</u>	<u>457,382</u>	<u>117,614</u>
<b>Total expenses and other reductions</b>	<u>14,116,471</u>	<u>863,472</u>	<u>14,979,943</u>	<u>-</u>	<u>-</u>	<u>14,979,943</u>	<u>13,807,817</u>
<b>Other changes in net assets:</b>							
Income from operations of the discontinued operation including gain on disposal of \$141,754 in 2010	307,091	-	307,091	-	-	307,091	38,256
Investment return in excess (deficit) of amount designated for current operations ( <i>Note 3</i> )	252,554	-	252,554	-	-	252,554	(1,794,514)
Actuarial (loss) gain on gift annuity and other trust obligations	<u>(260,369)</u>	<u>-</u>	<u>(260,369)</u>	<u>2,794,111</u>	<u>-</u>	<u>2,533,742</u>	<u>(3,311,810)</u>
<b>Total other changes</b>	<u>299,276</u>	<u>-</u>	<u>299,276</u>	<u>2,794,111</u>	<u>-</u>	<u>3,093,387</u>	<u>(5,068,068)</u>
<b>Increase in net assets</b>	4,897,574	5,245,691	10,143,265	(6,193,694)	52,194	4,001,765	(4,386,298)
<b>Net assets</b>							
Beginning of year	<u>453,394</u>	<u>20,150,765</u>	<u>20,604,159</u>	<u>9,785,857</u>	<u>4,688,464</u>	<u>35,078,480</u>	<u>39,464,778</u>
<b>End of year</b>	<u>\$ 5,350,968</u>	<u>\$25,396,456</u>	<u>\$30,747,424</u>	<u>\$ 3,592,163</u>	<u>\$4,740,658</u>	<u>\$39,080,245</u>	<u>\$35,078,480</u>

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

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## STATEMENTS OF CASH FLOWS

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ 4,001,765	\$ (4,386,298)
<i>Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	863,472	918,053
Realized loss on investments	135,033	843,275
Unrealized (gain) loss on investments	(766,291)	1,417,559
Actuarial (gain) loss on gift annuities and other trusts	(2,533,742)	3,311,810
Actuarial liability for annuities and trusts issued	960,024	490,103
Change in discontinued operation	70,937	101,744
(Increase) decrease in		
Accounts and pledges receivable	181,395	246,669
Inventories	(5,141)	-
Prepaid expenses	170,420	(109,646)
Increase (decrease) in		
Accounts payable and accrued expenses	360,392	(495,612)
Deferred revenue	(47,119)	(36,112)
Funds held for others	6,899	(24,722)
Contributions restricted for long-term investment	<u>(1,722,878)</u>	<u>(2,158,637)</u>
<b>Net cash provided by operating activities</b>	<u>1,675,166</u>	<u>70,665</u>
<i>Cash flows from investing activities</i>		
Proceeds from sales of investments	15,071,796	7,895,914
Purchase of investments	(12,296,861)	(7,434,298)
(Increase) decrease in money market funds and certificates of deposit	1,320,653	(1,345,713)
Purchase of property and equipment	(783,865)	(1,687,700)
Disbursements of loans to students	(7,500)	(4,000)
Repayments of loans to students	13,858	15,336
Payment on note receivable	<u>75,498</u>	<u>95,084</u>
<b>Net cash provided by (used for) investing activities</b>	<u>3,393,579</u>	<u>(2,465,804)</u>
<i>Cash flows from financing activities</i>		
Contributions restricted for endowment	47,868	158,637
Contributions restricted for unitrust and annuity obligations	1,675,010	2,000,000
Investment income net of payments on unitrust and annuity obligations	(1,114,162)	(1,424,635)
Proceeds from issuance of notes payable	379,285	1,359,268
Payment on notes payable	<u>(5,704,298)</u>	<u>(657,897)</u>
<b>Net cash (used in) provided by financing activities</b>	<u>(4,716,297)</u>	<u>1,489,373</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	352,448	(911,819)
<i>Cash and cash equivalents</i>		
Beginning of year	<u>66,657</u>	<u>978,475</u>
<b>End of year</b>	<u>\$ 419,105</u>	<u>\$ 66,657</u>

NOTE: Cash paid for interest was \$271,142 and \$392,818 in 2010 and 2009, respectively.

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

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### (1) NATURE OF ACTIVITIES

Lancaster Bible College & Graduate School (the “*College*”) is located in Lancaster, Pennsylvania. The College is supported primarily by tuition, contributions and earnings on investments.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Lancaster Bible College (“*College*”) are described below:

#### ***BASIS OF PRESENTATION***

On December 1, 2003, Ambassador Foundation (“*Foundation*”) was established as a public charity under Section 501(c)(3) to support the interest of the College and similar non-profit organizations. The College, as sole member of the Foundation, has the authority to appoint the Board of Directors (“*Board*”) of the Foundation with the limitation that no more than one-third of the Board may also be members of the Board of Trustees of the College. Since the College does not have both a majority voting interest and an economic interest in the Foundation consolidation is not permitted.

On September 30, 2003, the College also established Ambassador Advisors, LLC, a Pennsylvania limited liability company (“*LLC*”), to engage in the business of providing financial advice and related services. In May 2010, the College sold the LLC to the LLC’s management. The LLC was accounted for as a discontinued operation. The results of operations of the LLC have been removed from the results of continuing operations for the periods presented. The assets and liabilities of the discontinued operation have been reclassified and segregated in the June 30, 2009 statement of financial position. *See Note 11* for additional information. Significant intercompany transactions and balances have been eliminated in consolidation.

#### ***USE OF ESTIMATES***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

#### ***SUBSEQUENT EVENTS***

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, October 28, 2010, have been evaluated in the preparation of the financial statements.

#### ***CASH EQUIVALENTS***

Cash, certificates of deposits, money market accounts and other highly liquid investments purchased with maturities of three months or less are considered to be cash equivalents.

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

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### **CONCENTRATION OF CREDIT RISK**

The College occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*”, formerly known as Statement of Financial Accounting Standards No. 107 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which the deposits are made.

### **INVESTMENTS**

Investments are recorded at quoted market value or fair value. Realized gains and losses are computed on the average cost method. Unrealized gains and losses are charged or credited to the statement of activities.

### **INVENTORIES**

Inventories are stated at cost determined by the specific identification method. Inventories consist primarily of items used by the College copy center and plant operations.

### **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment totaling \$4,560,000 is stated at historical cost appraised values as determined by Associated Appraisers, Inc. in 1979. Subsequent additions are recorded at cost at the date of acquisition or fair value at date of donation in the case of gifts. Depreciation is recorded on the straight-line method over the estimated useful lives of plant and equipment which range from 5 to 100 years.

### **DEFERRED REVENUE**

Deferred revenue results from the recognition of tuition and other fees in the period in which the related educational instruction is performed. Accordingly, tuition and fees for the next school term are deferred until the instruction commences.

### **NET ASSETS**

A description of the three net asset categories follows.

*Unrestricted net assets* include the revenues and expenses associated with the principal educational mission of the College.

*Temporarily restricted net assets* include gifts for which donor-imposed restrictions have not been met.

*Permanently restricted net assets* include gifts, trusts, and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

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### **CONTRIBUTIONS AND PROMISES TO GIVE**

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as *“net assets released from restrictions.”*

### **DONATED ASSETS AND SERVICES**

Donated marketable securities and other noncash donations are reflected as contributions in the financial statements at their estimated value at the date of donation. No amounts have been reflected in the statements for donated services since the volunteers' time does not meet the criteria necessary for recognition.

### **INCOME TAXES**

Under provisions of the Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations of Pennsylvania, the College is exempt from taxes on income other than unrelated business income. Since the College had no material unrelated business income during the years ended June 30, 2010 and 2009, no provision for income taxes has been made.

### **LIFE INCOME AGREEMENTS AND TRUST FUNDS**

The funds held subject to life income provisions include amounts held subject to the payment to life beneficiaries of stated amounts in the case of gift annuities and unitrusts. On maturity, the remainder interests revert to the College. In accordance with provisions of the U.S. Internal Revenue Code, the assets of the segregated gift annuity are segregated from other assets of the organization.

The actuarial valuations of the gift annuities and unitrusts are recorded as unitrust and annuity obligations. The present value of the annuities and unitrust agreements was determined using discount rates ranging from 2.8% to 10%.

The trust funds are considered temporarily restricted net assets and represent funds held irrevocably in trust by others, the earnings thereon to benefit the College. Substantially, all of the Trust Funds will be distributed 100% to the College.

### **RECLASSIFICATIONS**

Certain reclassifications were made to the 2009 financial statements to conform to the 2010 presentation.

### **PRIOR YEAR INFORMATION**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's audited financial statements for the year ended June 30, 2009, from which the summarized information was derived.

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

### (3) INVESTMENTS

Investments at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Certificates of deposit	\$ 110,000	\$ 110,000	\$ 155,000	\$ 155,000
Mutual Funds				
Money Markets	526,311	526,311	1,801,964	1,801,964
Equity	8,010,393	7,464,763	10,906,700	8,830,242
Bond	4,206,014	4,410,929	4,809,827	4,533,316
Corporate Bonds	961,942	963,903	972,408	933,161
Municipal Bonds	78,929	67,769	78,929	48,309
Common Stocks	863,634	1,205,335	739,215	1,011,669
Annuity Contracts	472,886	472,886	-	-
Cash surrender value of life insurance	81,223	81,223	101,751	101,751
	<u>\$15,311,332</u>	<u>\$15,303,119</u>	<u>\$19,565,794</u>	<u>\$17,415,412</u>
			<u>2010</u>	<u>2009</u>
Unrestricted operations			\$ 770,053	\$ 315,930
Restricted operations			623,434	540,696
Endowments			<u>9,445,496</u>	<u>5,304,165</u>
Total			10,838,983	6,160,791
Gift annuity and trust agreements			<u>4,464,136</u>	<u>11,254,621</u>
			<u>\$15,303,119</u>	<u>\$17,415,412</u>

Income earned on investments (excluding trust agreements) during the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 76,072	\$ 98,959
Realized losses	(16,529)	(479,277)
Unrealized gains (losses)	206,179	(120,629)
Endowment income/(loss)	<u>577,398</u>	<u>(1,464,961)</u>
	<u>\$843,120</u>	<u>\$ (1,965,908)</u>

Endowment investments are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the calendar month within which the transaction occurs. The following is a summary of the pooled endowment assets at June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Book value	\$11,755,524	\$7,916,171
Market value (cash and investments)	9,398,196	5,302,239
Unit value per share	27.93	24.53
Units owned by true endowments	152,656	150,450
Units owned by quasi-endowments	183,837	65,724

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2010 and 2009**

Total return on endowment fund assets was \$577,398 and \$(1,464,961) for the years ended June 30, 2010 and 2009, respectively. The College uses a fixed rate of return (“spending rate”) of 5% based on a trailing three year average market value of the endowment assets in utilizing investment income and net gains for operations.

The following table summarizes the endowment investment return and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>June 30, 2010 Total</u>	<u>June 30, 2009 Total</u>
Interest and dividends	\$ 79,387	\$ 60,730	\$ 140,117	\$ 200,958
Realized/unrealized loss on investments	357,217	84,390	441,607	(1,660,928)
Amount designated for reinvestment	<u>-</u>	<u>(4,326)</u>	<u>(4,326)</u>	<u>(4,991)</u>
Total endowment income	436,604	140,794	577,398	(1,464,961)
Investment income designated for current operations *	<u>184,050</u>	<u>140,794</u>	<u>324,844</u>	<u>329,553</u>
Investment income in excess (deficiency) of amount designated for current operations	<u>\$252,554</u>	<u>\$ -</u>	<u>\$252,554</u>	<u>\$ (1,794,514)</u>

	<u>Unrestricted (Quasi- Endowment)</u>	<u>Temporarily Restricted (Permanent Endowment)</u>	<u>June 30, 2010 Total</u>
* Reconciliation to Statement of Activities			
Investment return designated for current operations per above	\$ 184,050	\$ 140,794	\$ 324,844
Investment return – permanent endowment income unrestricted as to use	<u>(32,786)</u>	<u>32,786</u>	<u>-</u>
Per Statement of Activities – investment return	<u>\$ 151,264</u>	<u>\$ 173,580</u>	<u>\$ 324,844</u>

The College utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles established a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the College’s own assumptions in determining the fair value of investments)

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.



# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

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### (4) PLEDGES

Pledges receivable amounted to \$1,166,334 and \$1,264,648, respectively for the years ended June 30, 2010 and 2009. The present value of the pledges receivable has been recorded in the financial statements.

Pledges at June 30, 2010 and 2009 are expected to be realized in the following periods:

	<u>2010</u>	<u>2009</u>
In less than one year	\$ 548,513	\$ 589,725
Between one and five years	661,870	753,254
Between five and ten years	<u>513,540</u>	<u>601,720</u>
	1,723,923	1,944,699
Less: discount at 6%	(321,579)	(384,547)
Less: allowance for uncollectible pledges	<u>(236,010)</u>	<u>(295,504)</u>
	<u>\$1,166,334</u>	<u>\$1,264,648</u>

### (5) PROPERTY, BUILDINGS AND EQUIPMENT

As of June 30, 2010 and 2009, the components of the College's investment in physical plant were as follows:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 9,041,133	\$ 9,032,099
Buildings	21,802,923	21,627,466
Equipment, furniture and fixtures	<u>7,629,330</u>	<u>7,072,087</u>
	38,473,386	37,731,652
Less: accumulated depreciation	<u>11,038,930</u>	<u>10,217,589</u>
	<u>\$27,434,456</u>	<u>\$27,514,063</u>

As of June 30, 2010, the College was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement obligations ("AROs"). These conditional AROs are primarily related to the asbestos that the College would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the College could not develop a reasonable estimate of their fair values. The College will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

### (6) NOTE RECEIVABLE

During the year ended June 30, 2002, the College sold a portion of its stock in a privately-held company back to the company in exchange for a \$856,472 promissory note. The note bears interest at 6% and is payable in 40 quarterly installments of \$28,627. Subsequent to year end, the College granted the company's request to suspend payments on the note for one year, therefore no portion of the note is current. Details of the note receivable are as follows:

	<u>2010</u>	<u>2009</u>
Note receivable	\$ 188,527	\$ 264,025
Less: Current portion	<u>-</u>	<u>100,918</u>
Note receivable, net of current portion	<u>\$ 188,527</u>	<u>\$ 163,107</u>

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# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

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### (7) DEBT

Debt consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Demand loan agreements with individuals with interest ranging from 6.50% to 8%.	\$ 17,000	\$ 17,000
Ministries trust agreements with individuals, right to cancel agreement or withdraw principal upon demand; with interest ranging from 0% to 8%.	<u>38,255</u>	<u>37,970</u>
Total notes payable	55,255	54,970
Accumulating loan agreement related to a College renovation project at a rate of 5% with interest due quarterly. The principal is due March 17, 2017, however, the loan is callable by the lender after March 19, 2009.	800,000	800,000
Line of credit with a bank of \$1,000,000 bearing interest at the London Inter Bank Offering Rate (LIBOR) with a floor of 4% with interest due monthly and principal payable on demand; collateralized by a mortgage against the College's property.	-	500,000
Line of credit with a bank of \$2,000,000 bearing interest at LIBOR plus 2% with a floor of 4% with interest due monthly and principal payable upon demand; collateralized by a mortgage against the College's property.	1,238,000	859,000
Line of credit with a bank up to \$5,000,000 with interest due semi-annually on January 1 <sup>st</sup> and July 1 <sup>st</sup> at a rate of 5.50%; unpaid principal and interest is due on January 1, 2011; collateralized by a mortgage against the College's property.	-	3,888,503
Promissory note of \$3,000,000 at a rate of 4% with interest and principal due annually on anniversary date of note (December 17 <sup>th</sup> ). On October 26, 2007, the promissory note was amended. Effective December 17, 2007, the interest rate on the note increased to 6%. Principal and interest are due annually beginning December 17, 2008 through the maturity date of December 17, 2010.	<u>-</u>	<u>1,315,795</u>
Total debt	2,093,255	7,418,268
Less: current portion of debt	<u>2,093,255</u>	<u>2,871,867</u>
Long-term debt	<u>\$ -</u>	<u>\$4,546,401</u>

Total interest expense on all debt for the years ending June 30, 2010 and 2009, respectively, was \$228,748 and \$371,622.

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

### (8) TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 were restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Trusts	\$1,368,305	\$ 7,423,249
Instruction	13,400	(8,574)
Academic support	5,150	4,750
Student services	(30,604)	(21,605)
Institutional support	5,191	1,686
Advancing the Vision Building Campaign *	1,754,089	1,295,088
Public support	(96,130)	(57,326)
Scholarships	52,557	(28,692)
Operation and maintenance of plant	<u>520,205</u>	<u>1,177,281</u>
	<u>\$3,592,163</u>	<u>\$ 9,785,857</u>

\* Excludes charitable remainder trusts and other receivables designated for campaign.

During 2010 and 2009 net assets released from restrictions were comprised of the following:

	<u>2010</u>	<u>2009</u>
Instruction	\$ 25,861	\$ 17,284
Academic support	25	125
Student services	76,535	82,670
Institutional support	13,399	14,013
Public support	189,668	110,914
Scholarships	208,271	208,973
Operation and maintenance of plant	410,947	1,469,580
Capital campaign – Building	31,994	646,975
Time restrictions expired – trust agreements	<u>8,849,055</u>	<u>-</u>
	<u>\$9,805,755</u>	<u>\$ 2,550,534</u>

Permanently restricted net assets were \$4,740,658 and \$4,688,464 at June 30, 2010 and 2009, respectively. The Board has also designated \$4,657,538 and \$613,778 at June 30, 2010 and 2009 of the unrestricted net assets as quasi-endowment funds. Investment income from the permanently restricted net assets is expendable to support specific and general programs of the College. As of June 30, 2010 and 2009, the permanently restricted net assets were restricted as follows:

	<u>2010</u>	<u>2009</u>
Scholarships	\$4,259,208	\$4,219,092
Distinguished faculty	342,077	330,799
Buildings and grounds	44,607	44,607
Academic Support	93,904	93,104
Employee benefits	<u>862</u>	<u>862</u>
Permanently restricted net assets	4,740,658	4,688,464
Quasi-endowments	<u>4,657,538</u>	<u>613,778</u>
Total endowments	<u>\$9,398,196</u>	<u>\$ 5,302,242</u>

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2010 and 2009**

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported as unrestricted net assets were \$667,274 and \$1,016,482 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

Endowment net asset composition by type of fund as of June 30, 2010 and 2009:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ (667,274)	\$ -	\$4,740,658	\$4,073,384
Board-designated endowment funds	<u>5,324,812</u>	<u>-</u>	<u>-</u>	<u>5,324,812</u>
Total funds	<u>\$4,657,538</u>	<u>\$ -</u>	<u>\$4,740,658</u>	<u>\$9,398,196</u>

  

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ (1,016,482)	\$ -	\$4,688,464	\$3,671,982
Board-designated endowment funds	<u>1,630,260</u>	<u>-</u>	<u>-</u>	<u>1,630,260</u>
Total funds	<u>\$ 613,778</u>	<u>\$ -</u>	<u>\$4,688,464</u>	<u>\$5,302,242</u>

The College classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Income earned on such gifts is classified as temporarily restricted until it is expended in accordance with state law and/or the donor restriction. The College's board may also designate certain unrestricted gifts to function as endowment funds; such gifts are classified within unrestricted net assets as board designated endowment funds.

Changes in endowment net assets for the years ended June 30, 2010 and 2009:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 613,778	\$ -	\$4,688,464	\$5,302,242
Investment return	436,604	140,794	-	577,398
Contributions	66,147	-	47,868	114,015
Reinvested income	4,048	-	4,326	8,374
Transfer in	3,721,011	-	-	3,721,011
Endowment income designated for current operations	<u>(184,050)</u>	<u>(140,794)</u>	<u>-</u>	<u>(324,844)</u>
Endowment net assets, end of year	<u>\$4,657,538</u>	<u>\$ -</u>	<u>\$4,740,658</u>	<u>\$9,398,196</u>

# LANCASTER BIBLE COLLEGE & GRADUATE SCHOOL

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2010 and 2009

	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,179,950	\$ 214,188	\$4,524,800	\$ 6,918,938
Investment return	(453,882)	(1,011,079)	-	(1,464,961)
Contributions	14,154	-	158,673	172,827
Reinvested income	-	-	4,991	4,991
Reclassification of restricted endowment losses	(1,025,118)	1,025,118	-	-
Endowment income designated for current operations	<u>(101,326)</u>	<u>(228,227)</u>	<u>-</u>	<u>(329,553)</u>
Endowment net assets, end of year	<u>\$ 613,778</u>	<u>\$ -</u>	<u>\$4,688,464</u>	<u>\$ 5,302,242</u>

### (9) RETIREMENT BENEFITS

The College has an employer sponsored tax sheltered 403(b)7 Retirement Plan. Under the plan, the College makes contributions to the plan based on 2% of the employee's earnings. Additionally, the College will match each 1% the employee contributes, up to a maximum of 3% or a total employer contribution of 5%. Total contributions made by the College for the years ended June 30, 2010 and 2009 were approximately \$234,400 and \$227,900, respectively.

### (10) STEWARDSHIP EXPENSES

The College incurred expenses amounting to approximately \$1,260,100 and \$713,800 for the years ended June 30, 2010 and 2009, respectively, related to development and fund-raising activities. These amounts are included in Institutional Support in the accompanying Statement of Activities and Changes in Net Assets.

### (11) DISCONTINUED OPERATION

During 2010, the College sold the LLC at a gain of \$141,754. The operating results which have been classified as discontinued operations under other changes on the Statement of Activities and Changes in Net Assets were \$1,489,376 and \$1,792,755 of revenue and \$1,324,039 and \$1,754,499 of expense for the ten-month period ended April 30, 2010 and for year ended June 30, 2009, respectively. Assets and liabilities sold in the transaction were primarily accounts receivable and accrued expenses.

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