

# **LANCASTER BIBLE COLLEGE**

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

**JUNE 30, 2011**

# LANCASTER BIBLE COLLEGE

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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 as of June 30, 2011, 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'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's 2010 financial statements and, in our report dated October 28, 2010, 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 as of June 30, 2011, 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 20, 2011**

# LANCASTER BIBLE COLLEGE

## STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 780,588	\$ 484,915
Accounts receivable		
Students, net of allowance of \$90,000 for 2011 and 2010	343,910	152,948
Pledges ( <i>Note 4</i> )	695,805	548,513
Other	59,861	67,841
Notes receivable, current ( <i>Note 6</i> )	79,732	25,796
Prepaid and other	182,129	63,620
Inventories	<u>178,694</u>	<u>46,978</u>
<b>Total current assets</b>	<u>2,320,719</u>	<u>1,390,611</u>
Investments ( <i>Note 3</i> )	17,246,393	15,237,309
Pledges receivable, net of current portion ( <i>Note 4</i> )	1,098,315	617,821
Note receivable, net of current portion ( <i>Note 6</i> )	82,999	162,731
Loans receivable, net of allowance of \$7,879 for 2011 and 2010	108,611	118,092
Fixed assets, net ( <i>Note 5</i> )	<u>30,975,132</u>	<u>27,434,456</u>
	<u>49,511,450</u>	<u>43,570,409</u>
<b>Total assets</b>	<u>\$ 51,832,169</u>	<u>\$ 44,961,020</u>
<b>LIABILITIES AND NET ASSETS</b>		
Lines of credit ( <i>Note 7</i> )	\$ 984,000	\$ 1,238,000
Accounts payable and accrued expenses	1,071,982	543,003
Deferred revenue	459,689	362,947
Current portion of notes payable ( <i>Note 8</i> )	<u>847,000</u>	<u>855,255</u>
<b>Total current liabilities</b>	<u>3,362,671</u>	<u>2,999,205</u>
Unitrust and annuity obligations	2,912,719	2,655,283
Notes payable, net of current portion ( <i>Note 8</i> )	2,857,691	-
Funds held for others	67,702	62,492
U.S. Government advances	<u>163,795</u>	<u>163,795</u>
	<u>6,001,907</u>	<u>2,881,570</u>
<b>Total liabilities</b>	<u>9,364,578</u>	<u>5,880,775</u>
<b>NET ASSETS</b>		
Unrestricted	33,088,601	30,747,424
Temporarily restricted ( <i>Note 9</i> )	4,603,622	3,592,163
Permanently restricted ( <i>Note 9</i> )	<u>4,775,368</u>	<u>4,740,658</u>
<b>Total net assets</b>	<u>42,467,591</u>	<u>39,080,245</u>
<b>Total liabilities and net assets</b>	<u>\$ 51,832,169</u>	<u>\$ 44,961,020</u>

# LANCASTER BIBLE COLLEGE

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2011 with Summarized Information for 2010

	Unrestricted		Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total	
	Operations	Net Investment In Plant					Total
<b>Revenues and other additions:</b>							
Tuition and fees	\$ 12,927,428	\$ -	\$ 12,927,428	\$ -	\$ -	\$ 12,927,428	\$ 11,131,312
Less: Scholarships	(2,747,047)	-	(2,747,047)	-	-	(2,747,047)	(2,586,128)
Net tuition and fees	10,180,381	-	10,180,381	-	-	10,180,381	8,545,184
Auxiliary enterprises	2,721,223	-	2,721,223	-	-	2,721,223	2,309,089
Gifts	4,097,406	-	4,097,406	968,500	29,805	5,095,711	3,610,264
Government grants	255,393	-	255,393	-	-	255,393	287,721
Investment return designated for current operations ( <i>Note 3</i> )	137,849	-	137,849	158,845	-	296,694	324,844
Other investment income	343,671	-	343,671	71,156	4,905	419,732	270,020
Other income	535,072	-	535,072	1,699	-	536,771	541,199
Net assets released from temporary restrictions ( <i>Note 9</i> )	207,452	39,011	246,463	(246,463)	-	-	-
<b>Total revenue and other additions</b>	<b>18,478,447</b>	<b>39,011</b>	<b>18,517,458</b>	<b>953,737</b>	<b>34,710</b>	<b>19,505,905</b>	<b>15,888,321</b>
<b>Expenses and other reductions:</b>							
Instruction	5,877,039	-	5,877,039	-	-	5,877,039	4,705,585
Academic support	605,504	-	605,504	-	-	605,504	616,719
Student services	2,146,147	-	2,146,147	-	-	2,146,147	1,859,050
Institutional support	3,947,337	477,303	4,424,640	-	-	4,424,640	4,366,561
Operation and maintenance of plant	1,422,571	670,822	2,093,393	-	-	2,093,393	1,668,469
Auxiliary enterprises	1,855,510	-	1,855,510	-	-	1,855,510	1,574,911
Public support	113,134	-	113,134	-	-	113,134	188,648
<b>Total expenses and other reductions</b>	<b>15,967,242</b>	<b>1,148,125</b>	<b>17,115,367</b>	<b>-</b>	<b>-</b>	<b>17,115,367</b>	<b>14,979,943</b>
<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
Investment return in excess (deficit) of amount designated for current operations ( <i>Note 3</i> )	1,010,924	-	1,010,924	-	-	1,010,924	252,554
Actuarial (loss) gain on gift annuity and other trust obligations	(71,838)	-	(71,838)	57,722	-	(14,116)	2,533,742
Transfer for fixed asset purchases and debt service	(2,046,099)	2,046,099	-	-	-	-	-
<b>Total other changes</b>	<b>(1,107,013)</b>	<b>2,046,099</b>	<b>939,086</b>	<b>57,722</b>	<b>-</b>	<b>996,808</b>	<b>3,093,387</b>
<b>Increase in net assets</b>	<b>1,404,192</b>	<b>936,985</b>	<b>2,341,177</b>	<b>1,011,459</b>	<b>34,710</b>	<b>3,387,346</b>	<b>4,001,765</b>
<b>Net assets</b>							
Beginning of year	5,350,968	25,396,456	30,747,424	3,592,163	4,740,658	39,080,245	35,078,480
<b>End of year</b>	<b>\$ 6,755,160</b>	<b>\$ 26,333,441</b>	<b>\$ 33,088,601</b>	<b>\$ 4,603,622</b>	<b>\$ 4,775,368</b>	<b>\$ 42,467,591</b>	<b>\$ 39,080,245</b>

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

# LANCASTER BIBLE COLLEGE

## STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ 3,387,346	\$ 4,001,765
<i>Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities</i>		
Depreciation and amortization	1,148,125	863,472
Realized (gain) loss on investments	(1,164,982)	135,033
Unrealized (gain) on investments	(307,300)	(766,291)
Actuarial (gain) loss on gift annuities and other trusts	14,116	(2,533,742)
Actuarial liability for annuities and trusts issued	376,598	960,024
Change in discontinued operation	-	70,937
(Increase) decrease in		
Accounts and pledges receivable	(810,768)	181,395
Inventories	(131,716)	(5,141)
Prepaid expenses	(120,889)	170,420
Increase (decrease) in		
Accounts payable and accrued expenses	528,979	360,392
Deferred revenue	96,742	(47,119)
Funds held for others	5,210	6,899
Contributions restricted for long-term investment	<u>(845,265)</u>	<u>(1,722,878)</u>
<b>Net cash provided by operating activities</b>	<u>2,176,196</u>	<u>1,675,166</u>
<i>Cash flows from investing activities</i>		
Proceeds from sales of investments	12,798,996	15,071,796
Purchase of investments	(12,389,716)	(12,296,861)
(Increase) decrease in money market funds and certificates of deposit	(817,679)	1,386,463
Purchase of property and equipment	(4,686,421)	(783,865)
Disbursements of loans to students	(5,250)	(7,500)
Repayments of loans to students	14,731	13,858
Payment on note receivable	<u>25,796</u>	<u>75,498</u>
<b>Net cash (used for) provided by investing activities</b>	<u>(5,059,543)</u>	<u>3,459,389</u>
<i>Cash flows from financing activities</i>		
Contributions restricted for endowment	29,805	47,868
Contributions restricted for unitrust and annuity obligations	815,460	1,675,010
Investment income net of payments on unitrust and annuity obligations	(261,681)	(1,114,162)
Net payments on lines of credit	(254,000)	(3,888,503)
Proceeds from issuance of notes payable	2,857,691	379,285
Payment on notes payable	<u>(8,255)</u>	<u>(1,815,795)</u>
<b>Net cash provided by (used in) financing activities</b>	<u>3,179,020</u>	<u>(4,716,297)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	295,673	418,258
<i>Cash and cash equivalents</i>		
Beginning of year	<u>484,915</u>	<u>66,657</u>
<b>End of year</b>	<u>\$ 780,588</u>	<u>\$ 484,915</u>

NOTE: Cash paid for interest was \$62,529 and \$271,142 in 2011 and 2010, respectively.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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### (1) NATURE OF ACTIVITIES

Lancaster Bible College (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 were removed from the results of continuing operations for the periods presented. *See Note II* for additional information. Significant intercompany transactions and balances were 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 20, 2011, 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.

#### ***CONCENTRATION OF CREDIT RISK***

The College occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“*ASC*”) 825, “*Financial Instruments*” 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.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

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### ***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. Inventories consist primarily of stock items for the bookstore and supplies for the copy center and physical plant.

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

Property, plant and equipment totaling \$4,560,000 are 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.

### ***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.”*



# LANCASTER BIBLE COLLEGE

## *NOTES TO FINANCIAL STATEMENTS – (Continued)*

**June 30, 2011 and 2010**

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### ***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, 2011 and 2010, no provision for income taxes has been made.

Management has reviewed the tax positions for each of the open tax years (2008 – 2010) or expected to be taken in the College's 2011 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

### ***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 2.0% 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 2010 financial statements to conform to the 2011 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, 2010, from which the summarized information was derived.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

### (3) INVESTMENTS

Investments at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Certificates of deposit	\$ -	\$ -	\$ 100,000	\$ 100,000
Mutual Funds				
Money Markets	1,388,180	1,388,180	470,501	470,501
Equity	6,755,638	7,183,904	8,010,393	7,464,763
Bond	5,313,230	5,248,889	4,206,014	4,410,929
Corporate Bonds	63,929	62,928	78,929	67,769
Municipal Bonds	1,828,948	1,808,617	961,942	963,903
Common Stocks	980,543	1,009,160	863,634	1,205,335
Preferred Stocks	7,350	7,438	-	-
Annuity Contracts	452,071	452,071	472,886	472,886
Cash surrender value of life insurance	85,206	85,206	81,223	81,223
	<u>\$16,875,095</u>	<u>\$17,246,393</u>	<u>\$15,245,522</u>	<u>\$15,237,309</u>

	<u>2011</u>	<u>2010</u>
Unrestricted operations	\$ 162,400	\$ 704,243
Restricted operations	677,547	623,434
Endowments	<u>10,772,676</u>	<u>9,445,496</u>
Total	11,612,623	10,773,173
Gift annuity and trust agreements	<u>5,633,770</u>	<u>4,464,136</u>
	<u>\$17,246,393</u>	<u>\$15,237,309</u>

Income earned on investments (excluding trust agreements) during the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 69,405	\$ 76,072
Realized gains (losses)	187,010	(16,529)
Unrealized gains	158,412	206,179
Endowment income	<u>1,307,618</u>	<u>577,398</u>
	<u>\$1,722,445</u>	<u>\$843,120</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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Book value	\$11,894,547	\$11,755,524
Market value (cash and investments)	10,552,126	9,398,196
Unit value per share	30.89	27.93
Units owned by true endowments	153,994	152,656
Units owned by quasi-endowments	187,572	183,837

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2011 and 2010**

Total return on endowment fund assets was \$1,307,618 and \$577,398 for the years ended June 30, 2011 and 2010, 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, 2011 Total</u>	<u>June 30, 2010 Total</u>
Interest and dividends	\$ 105,679	\$ 79,983	\$ 185,662	\$ 140,117
Realized/unrealized gain on investments	1,074,124	52,737	1,126,861	441,607
Amount designated for reinvestment	<u>-</u>	<u>(4,905)</u>	<u>(4,905)</u>	<u>(4,326)</u>
Total endowment income	1,179,803	127,815	1,307,618	577,398
Investment income designated for current operations *	<u>168,879</u>	<u>127,815</u>	<u>296,694</u>	<u>324,844</u>
Investment income in excess (deficiency) of amount designated for current operations	<u>\$ 1,010,924</u>	<u>\$ -</u>	<u>\$ 1,010,924</u>	<u>\$ 252,554</u>

	<u>Unrestricted (Quasi- Endowment)</u>	<u>Temporarily Restricted (Permanent Endowment)</u>	<u>June 30, 2011 Total</u>
* Reconciliation to Statement of Activities			
Investment return designated for current operations per above	\$ 168,879	\$ 127,815	\$ 296,694
Investment return – permanent endowment income unrestricted as to use	<u>(31,030)</u>	<u>31,030</u>	<u>-</u>
Per Statement of Activities – investment return	<u>\$ 137,849</u>	<u>\$ 158,845</u>	<u>\$ 296,694</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 – Unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.)

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the College’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

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

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2011 and 2010**

The summary of inputs used to value the College's investments as of June 30, 2011 and 2010 are as follows:

	<b>2011</b>			
	<b><u>Total</u></b>	<b><u>Level 1 Quoted Prices</u></b>	<b><u>Level 2 Other Significant Observable Inputs</u></b>	<b><u>Level 3 Significant Unobservable Inputs</u></b>
Mutual Funds				
Money Market	\$ 1,388,180	\$ 1,388,180	\$ -	\$ -
Equity	7,183,904	7,183,904	-	-
Bond	5,248,889	5,248,889	-	-
Corporate Bonds	62,928	-	62,928	-
Municipal Bonds	1,808,617	-	1,808,617	-
Common Stocks	1,009,160	846,760	-	162,400
Preferred Stocks	7,438	7,438	-	-
Annuities	452,071	-	-	452,071
Cash surrender value of life insurance	85,206	85,206	-	-
	<u>\$17,246,393</u>	<u>\$14,760,377</u>	<u>\$ 1,871,545</u>	<u>\$ 614,471</u>

	<b>2010</b>			
	<b><u>Total</u></b>	<b><u>Level 1 Quoted Prices</u></b>	<b><u>Level 2 Other Significant Observable Inputs</u></b>	<b><u>Level 3 Significant Unobservable Inputs</u></b>
Certificates of deposit	\$ 100,000	\$ 100,000	\$ -	\$ -
Mutual Funds				
Money Market	470,501	470,501	-	-
Equity	7,464,763	7,464,763	-	-
Bond	4,410,929	4,410,929	-	-
Corporate Bonds	67,769	-	67,769	-
Municipal Bonds	963,903	-	963,903	-
Common Stocks	1,205,335	539,245	-	666,090
Annuities	472,886	-	-	472,886
Cash surrender value of life insurance	81,223	81,223	-	-
	<u>\$15,237,309</u>	<u>\$13,066,661</u>	<u>\$1,031,672</u>	<u>\$1,138,976</u>

The changes in investments measured at fair value for which the College used Level 3 inputs to determine fair value are as follows:

	<b><u>2011</u></b>	<b><u>2010</u></b>
Beginning Balance	\$ 1,138,976	\$ 813,204
Purchases/sales, net	(506,090)	369,050
Unrealized losses	(18,415)	(43,278)
Ending Balance	<u>\$ 614,471</u>	<u>\$ 1,138,976</u>

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

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### (4) PLEDGES

Pledges receivable amounted to \$1,794,120 and \$1,166,334, respectively for the years ended June 30, 2011 and 2010. The present value of the pledges receivable has been recorded in the financial statements.

Pledges at June 30, 2011 and 2010 are expected to be realized in the following periods:

	<u>2011</u>	<u>2010</u>
In less than one year	\$ 695,805	\$ 548,513
Between one and five years	1,130,783	661,870
Between five and ten years	<u>482,200</u>	<u>513,540</u>
	2,308,788	1,723,923
Less: discount at 5%	(316,208)	(321,579)
Less: allowance for uncollectible pledges	<u>(198,460)</u>	<u>(236,010)</u>
	<u>\$1,794,120</u>	<u>\$1,166,334</u>

### (5) PROPERTY, BUILDINGS AND EQUIPMENT

As of June 30, 2011 and 2010, the components of the College's investment in physical plant were as follows:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 9,630,413	\$ 9,041,133
Buildings	24,767,489	21,802,923
Equipment, furniture and fixtures	<u>8,715,917</u>	<u>7,629,330</u>
	43,113,819	38,473,386
Less: accumulated depreciation	<u>12,138,687</u>	<u>11,038,930</u>
	<u>\$30,975,132</u>	<u>\$27,434,456</u>

As of June 30, 2011, 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.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

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### (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. In August 2010, the College granted the company's request to suspend payments on the note for one year. Details of the note receivable are as follows:

	<u>2011</u>	<u>2010</u>
Note receivable	\$ 162,731	\$ 188,527
Less: Current portion	<u>79,732</u>	<u>25,796</u>
Note receivable, net of current portion	<u>\$ 82,999</u>	<u>\$ 162,731</u>

### (7) LINES OF CREDIT

The College has a line of credit with a bank in the amount of \$2,000,000 bearing interest at the London Interbank Offered Rate (LIBOR) plus 2% with a floor of 4% with interest due monthly and principal payable on demand. The line is collateralized by a mortgage against the College's property. The balance outstanding on this line at June 30, 2011 and 2010 was \$984,000 and \$1,238,000, respectively.

The Colleges has an additional line of credit with the same bank in the amount of \$1,000,000 bearing interest at LIBOR plus 2.5% with a floor of 4% with interest due monthly and principal payable on demand. The line is collateralized by a mortgage against the College's property. There were no amounts outstanding on this line at June 30, 2011 and 2010.

### (8) LONG-TERM DEBT

A summary of the College's long-term debt at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
(A) Revenue Bond – 2010 Series A and B	\$ 2,857,691	\$ -
(B) Accumulating Loan Agreement	800,000	800,000
(C) Demand Loan Agreement	17,000	17,000
(D) Ministry Trust Agreements	<u>30,000</u>	<u>38,255</u>
	<u>\$ 3,704,691</u>	<u>\$ 855,255</u>

#### (A) Revenue Bond – 2010 Series A and B

During 2011, the College borrowed \$2,857,691 by issuing Revenue Bonds, Series 2010 through the General Municipal Authority of the Township of Manheim. The bonds which are to be used to support capital construction projects outlined in the terms of the bond indenture were issued in two series, A and B. The 2010A and 2010B Bonds allow for the College to borrow up to a maximum of \$12,500,000 and \$5,000,000, respectively.

For the Series 2010A Bonds, interest will accrue at a rate of 3.86% for the first 10 years and at a variable rate after that of sixty percent of the lending bank's prime rate with a floor of 2.36%.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

**June 30, 2011 and 2010**

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For the Series 2010B Bonds, interest accrues at a variable rate chosen by the College equal to either the London Interbank Rate (LIBOR) plus 2% or 60% of the lending bank's prime rate with a floor of 2.36%.

The 2010A and 2010B Bonds are dated December 21, 2011 and mature January 1, 2036. For both bond series, the College will begin making 264 monthly payments of principal and interest beginning on January 1, 2014 in an amount necessary to amortize the outstanding principal and accrued interest over a 25 year amortization period with one final payment of all remaining principal and accrued interest on January 1, 2036.

The bonds are secured by the gross annual revenue and receipts of the College, a first lien mortgage on a property owned by the College, assignment of all construction contracts and agreements affecting the premises and all pledges related to the construction projects.

Interest expense on the 2010A and 2010B Bonds was \$603 and \$4,010, respectively, for the year ended June 30, 2011.

Deferred loans costs in the amount of \$119,003 were incurred with the issuance on the 2010A and 2010B Bonds. These costs are being amortized on a straight-line basis over the life of the bonds.

Principal payments due under the terms of the 2010A and 2010B Bond indenture are as follows:

**Year Ending**

June 31, 2014	\$ 94,740
June 31, 2015	120,000
June 31, 2016	122,500
Thereafter	<u>2,520,451</u>
	<u>\$2,857,691</u>

**(B) Accumulating Loan Agreement**

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. Interest expense for the years ended June 30, 2011 and 2010 was \$40,000.

**(C) Demand Loan Agreements**

Demand loan agreements are agreements with individuals with interest ranging from 6.50% to 8%. The agreements are unsecured and are withdrawable upon demand.

**(D) Ministry Trust Agreements**

Ministries trust agreements are agreements with individuals with interest ranging from 0% to 8%. The individual has the right to cancel the agreement or withdraw principal upon demand.

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

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

Temporarily restricted net assets at June 30, 2011 and 2010 were restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Trusts	\$2,241,487	\$ 1,368,305
Instruction	22,500	13,400
Academic support	5,495	5,150
Student services	(37,037)	(30,604)
Institutional support	836	5,191
Advancing the Vision Building Campaign *	1,792,644	1,754,089
Public support	(2,100)	(96,130)
Scholarships	129,644	52,557
Operation and maintenance of plant	<u>450,153</u>	<u>520,205</u>
	<u>\$4,603,622</u>	<u>\$3,592,163</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>2011</u>	<u>2010</u>
Instruction	\$ (2,100)	\$ 25,861
Academic support	-	25
Student services	15,922	76,535
Institutional support	2,489	13,399
Public support	28,102	189,668
Scholarships	163,039	208,271
Operation and maintenance of plant	95,024	410,947
Capital campaign – Building	(56,013)	31,994
Time restrictions expired – trust agreements	<u>-</u>	<u>8,849,055</u>
	<u>\$246,463</u>	<u>\$9,805,755</u>

Permanently restricted net assets were \$4,775,368 and \$4,740,658 at June 30, 2011 and 2010, respectively. The Board has also designated \$5,776,758 and \$4,657,538 at June 30, 2011 and 2010 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, 2011 and 2010, the permanently restricted net assets were restricted as follows:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 4,283,073	\$4,259,208
Distinguished faculty	352,122	342,077
Buildings and grounds	44,607	44,607
Academic Support	94,704	93,904
Employee benefits	<u>862</u>	<u>862</u>
Permanently restricted net assets	4,775,368	4,740,658
Quasi-endowments	<u>5,776,758</u>	<u>4,657,538</u>
Total endowments	<u>\$10,552,126</u>	<u>\$9,398,196</u>



# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### June 30, 2011 and 2010

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 \$229,549 and \$667,274 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations.

Endowment net asset composition by type of fund as of June 30, 2011 and 2010:

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ (229,549)	\$ -	\$4,775,368	\$ 4,545,819
Board-designated endowment funds	<u>6,006,307</u>	<u>-</u>	<u>-</u>	<u>6,006,307</u>
Total funds	<u>\$5,776,758</u>	<u>\$ -</u>	<u>\$4,775,368</u>	<u>\$10,552,126</u>

  

	<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>

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, 2011 and 2010:

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$4,657,538	\$ -	\$4,740,658	\$ 9,398,196
Investment return	1,179,803	127,815	-	1,307,618
Contributions	104,313	-	29,805	134,118
Reinvested income	3,983	-	4,905	8,888
Endowment income designated for current operations	<u>(168,879)</u>	<u>(127,815)</u>	<u>-</u>	<u>(296,694)</u>
Endowment net assets, end of year	<u>\$5,776,758</u>	<u>\$ -</u>	<u>\$4,775,368</u>	<u>\$10,552,126</u>

# LANCASTER BIBLE COLLEGE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2011 and 2010

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	2010			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
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>

### (10) 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, 2011 and 2010 were approximately \$256,300 and \$235,100, respectively.

### (11) STEWARDSHIP EXPENSES

The College incurred expenses amounting to approximately \$1,019,900 and \$1,260,100 for the years ended June 30, 2011 and 2010, 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.

### (12) 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 of revenue and \$1,754,499 of expense for the ten-month period ended April 30, 2010. Assets and liabilities sold in the transaction were primarily accounts receivable and accrued expenses.

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