

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.
(A Nonprofit Organization)
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2018

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Seminario Evangélico de Puerto Rico, Inc.
San Juan, Puerto Rico

Report on the Financial Statements

I have audited the accompanying financial statements of Seminario Evangélico de Puerto Rico, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

DAVID FIGUEROA ARMAIZ
Certified Public Accountant
1501 Américo Miranda Ave.
Calle 7 - Suite C
Caparra Terrace
San Juan PR 00921

An audit involves performing procedures to 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seminario Evangélico de Puerto Rico, Inc. (a nonprofit organization) as of December 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.



April 25, 2019
San Juan, Puerto Rico

Stamp 2765112 was
affixed to the original



SEMINARIO EVANGELICO DE PUERTO RICO, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current Assets	
Cash (Note 4)	\$ 141,749
Certificates of deposit	100,000
Accounts receivable - net of allowance for doubtful accounts	
Tuition (Note 5)	122,473
Rent and other (Note 5)	74,938
Prepaid expenses and deferred charges	67,777
Total current assets	506,937
Investments (Note 6)	1,061,671
Property and equipment, net of accumulated depreciation (Note 7)	2,027,798
Other	51,041
TOTAL ASSETS	\$ 3,647,447

LIABILITIES AND NET ASSETS

Current Liabilities	
Line of credit (Note 9)	\$ 76,098
Long-term debt - current portion (Note 8)	4,495
Obligations under capital lease - current portion (Note 10)	4,838
Accounts Payable	61,582
Accrued expenses and payroll withholdings (Note 12)	18,457
Deferred revenues (Note 11)	338,643
Total Current Liabilities	504,113
Long-term debt (Note 8)	964,944
Obligations under capital lease (Note 10)	26,760
Rent deposits	7,095
TOTAL LIABILITIES	1,502,912
<u>NET ASSETS:</u>	
Without donor restrictions	1,074,906
With donor restrictions	1,069,629
TOTAL NET ASSETS	2,144,535
TOTAL LIABILITIES AND NET ASSETS	\$ 3,647,447

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

SEMINARIO EVANGELICO DE PUERTO RICO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT			
Tuition and fees	\$ 617,009	\$ -	\$ 617,009
Donations and private grants	329,489	26,567	356,056
Investments Income	11,053	25,250	36,303
Realized gain or redemption on investments		13,150	13,150
Unrealized loss on investments		(59,362)	(59,362)
Insurance claims	219,012		219,012
Dormitory, housing and office rent	124,661		124,661
Other income	28,326	-	28,326
Net assets released from restrictions	281,950	(281,950)	-
TOTAL REVENUE, GAIN AND OTHER SUPPORT	<u>1,611,500</u>	<u>(276,345)</u>	<u>1,335,155</u>
OPERATING EXPENSES			
Faculty and registry	368,402	-	368,402
Library	108,595	-	108,595
Management and general	297,446	-	297,446
Building maintenance	160,754	-	160,754
Utilities	49,376	-	49,376
Special projects	75,472	-	75,472
Presidency and development	113,040	-	113,040
TOTAL OPERATING EXPENSES	<u>1,173,085</u>	<u>-</u>	<u>1,173,085</u>
CHANGES IN NET ASSETS	438,415	(276,345)	162,070
NET ASSETS, AT BEGINNING OF YEAR	<u>636,491</u>	<u>1,345,974</u>	<u>1,982,465</u>
NET ASSETS, AT END OF YEAR	<u>\$ 1,074,906</u>	<u>\$ 1,069,629</u>	<u>\$ 2,144,535</u>

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

SEMINARIO EVANGELICO DE PUERTO RICO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Faculty and Registry	Library	Management and General	Building Maintenance	Utilities	Special Projects	Presidency & Development	Total
Salaries and wages	\$ 260,890	\$ 61,554	\$ 93,772	\$ 48,226			\$ 68,536	\$ 532,978
Payroll taxes	19,963	4,722	7,757	3,653			5,276	41,371
Employee benefits	24,417	16,095	23,015	20			14,619	78,166
Repairs and maintenance				39,879				39,879
Office expense	7,118	4,167	13,602				2,037	26,924
Telephone			16,378					16,378
Insurance			40,367					40,367
Professional fees	38,600	11,587	36,075				18,956	105,218
Bank Charges			18,274					18,274
Travel	3,006		3,778				1,297	8,081
Library book and magazines		6,883						6,883
Water					16,233			16,233
Electricity					32,726			32,726
Other	14,258		1,216	2,832	417			18,723
Interest			32,133					32,133
Exchange Seminarist Program						13,261		13,261
PCUSA Disaster Assistance						9,211		9,211
Overseas Ministries						2,988		2,988
National Ministries ABC						1,517		1,517
Dorcas D. Davis National Endowment for the Humanities						4,500		4,500
Presbyterian Foundation						26,967		26,967
Other Proposals						16,075		16,075
						953		953
Bad debt expense			10,510					10,510
Depreciation		3,520		65,018				68,538
Miscellaneous	150	67	569	1,126			2,319	4,231
	<u>\$ 368,402</u>	<u>\$ 108,595</u>	<u>\$ 297,446</u>	<u>\$ 160,754</u>	<u>\$ 49,376</u>	<u>\$ 75,472</u>	<u>\$ 113,040</u>	<u>\$ 1,173,085</u>

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

SEMINARIO EVANGELICO DE PUERTO RICO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 162,070
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	68,538
Net unrealized loss on investments	59,362
Net realized gain on investments	(13,150)
Bad debt expense	10,510
Increase in:	
Accounts receivable	(143,712)
Prepaid expenses and deferred charges	(22,009)
Increase (decrease) in:	
Accounts payable	(48,862)
Accrued expenses payroll withholdings	(14,202)
Deferred revenues	148,044
Rent deposits	1,080
Net cash provided by operating activities:	207,669

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(77,604)
Proceeds from investments	27,015
Net return on investments capitalized	(29,232)
Net cash used in investing activities	(79,821)

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal Payments on long-term debt and obligations under capital lease	(6,839)
Proceeds from line of credit	781,063
Payments on line of credit	(770,715)
Net cash provided by financing activities	3,509

Net Increase in Cash	131,357
Cash at Beginning of Year	10,392
Cash at End of Year	\$ 141,749

SUPPLEMENTARY DISCLOSURE OF CASH FLOWS INFORMATION

Interest paid during the year ended December 31, 2018 amounted to \$32,133.

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

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 1 – NATURE OF ORGANIZATION

The Seminario Evangélico de Puerto Rico, Inc. (the Seminary) is a nonprofit ecumenical theological institution, founded in September 1919 and incorporated on July 13, 1981 under the laws of the Commonwealth of Puerto Rico. The Seminary is accredited by the Association of Theological Schools in the U.S. and Canada (“ATS”) and the Middle States Commission of Higher Education (“MSCHE”), also it has the license of the Council of Education of Puerto Rico for the Master of Arts and Religion.

The Seminary has the support of the following Christian denominations, both of their United States mission boards, and its Puerto Rico churches: Puerto Rico Baptist Churches/The American Baptist Churches, Puerto Rico Christian Church (Disciples of Christ)/Christian Church (Disciples of Christ-USA), Boriquén Presbyterian Synod of Puerto Rico/Presbyterian Church (USA), Puerto Rico Methodist Church/The United Methodist Church, Puerto Rico United Evangelical Church/United Church of Christ in USA – Canada and the Caribbean Synod of Evangelical Lutheran Church/Evangelical Lutheran Church of America.

Among the academic offerings of the Seminary, it includes: Master of Divinity (M.Div.), Master of Arts and Religion (M.A.R.), Doctorate of Ministry (D.Min.) with specialization in Pastoral Care of Families and a certificate program in Christian Education and Missions.

The Seminary’s main purpose is the integral formation of pastors and lay leaders, both men and women, to serve the ministry and mission from God to the people of Puerto Rico, the Caribbean, Latin America and the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Financial Accounting Standards Board (“FASB”) has established the Accounting Standards Codification (“ASC”) as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

(Continues)

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Seminary's policy is to designate donor gifts without restriction at the discretion of the board of directors.

Net Assets with Donor Restrictions – Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Seminary and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The Seminary reports gifts of land, buildings, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The Seminary reports expirations of donor's restrictions when the donated or acquired long-lived assets are placed in service.

b. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, money market accounts and all highly liquid investments with original maturities of three months or less. Certain items, which meet the definition of cash equivalents but are part of a large pool of investments that are restricted or designated for long-term investment, are included in investments.

(Continues)

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Receivables are stated net of estimated allowances for uncollectible accounts. The Seminary maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable based on type of receivables and expectations of repayment. In establishing the required allowance, management considers the Seminary's experience with uncollectible accounts in prior years.

d. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. In 2017, the Seminary changed the practice of capitalizing, at cost, all expenditures for property and equipment from \$250 to \$1,000. Depreciation is computed using the straight-line method over the estimated useful time of the assets, which is between 5 and 50 years.

Cost of repairs and maintenance are charged directly to expenses and improvement costs are capitalized. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is credited or charged to income.

e. Donated property and improvements

Donated property and improvements representing contributions presented in the accompanying financial statements at their estimated fair values at the time they are received.

f. Tuitions and fees

The Seminary recognizes revenue from tuition and teaching in the period in which instruction is offered. Courses sessions collected on the last months of a fiscal year and related to the next fiscal year are reclassified as deferred revenues on the financial statements.

(Continues)

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Grants and contracts revenue

Revenue under grants, contracts and similar agreements is recognized as it is earned through expenditure in accordance with agreement. Funds received on agency transactions for student financial assistance (scholarships and loan) that are awarded directly to students are excluded from revenues and expenses. Similarly, expenses related to future activities are recorded as deferred charges until the fiscal year in which the corresponding activities are carried out.

h. Pension Plan

As part of the compensation plan for its employees, the Seminary makes payments to different pension plan systems of the Christian denominations. During 2018, payments amounted to approximately \$41,000.

i. Income tax

The Seminary, is exempt from the imposition and payment of income tax under Section 1101.01(a)(2)(A)(iv) of the Internal Revenue Code of Puerto Rico of 2011 (Code), as amended. Contributions to the Seminary are tax deductible within the limitation prescribed by the Code.

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on technical merits, that the position will be sustained upon examination. The most significant tax positions of the Seminary are its assertion that it is exempt from income taxes and its determination about whether amounts are subject to unrelated business tax (UBIT). All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

The Seminary's income tax return is subject to review and examination by the Puerto Rico Department of Treasury. The income tax return is subject to examination generally for four years after they are filed.

(Continues)

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the accompanying statements of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair market value of investments carried at fair value are reflected as investment gains or losses in the accompanying statements of activities.

k. Concentration of credit risk

The Seminary maintains its cash balances in financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. The balance at sometimes during the year may exceed the federally insurance limit. Amount in bank in excess of insured limit was \$2,419 as of December 31, 2018.

The Seminary maintains other deposits at the Cooperativa Metodista, which is also insured up to \$ 250,000 by the Puerto Rico Cooperatives Supervision and Insurance Corporation (COSSEC, as acronym Spanish). As of December 31, 2018, there was no excess in the Cooperative over the limits insured by COSSEC. Deposits in the Mission Investment Fund are not insured.

The deposits in the Mission Investment Fund are not insured. Investments in securities primarily represent mutual funds and securities of federal agencies, so that management considers that the concentration of risk is limited.

The Seminary has recorded an allowance for doubtful accounts for expected losses on its accounts receivable, based on historical trends and other information. As result, that statement of financial position has an insignificant risk of loss, after considering the allowance for doubtful accounts.

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SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Use of estimates

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

m. Impairment of long-lived assets

The current value of long-term fixed assets is evaluated periodically. At the time that the current value is deemed to undermine the market value assets, a loss is recognized in the books in the current period. The Seminary considered that there is no significant impairment of its long-lived assets at December 31, 2018.

n. Date of management of subsequent events review

Subsequent events were evaluated until April 25, 2019, which is the date the financial statements were available to be issued. No events were identified that required adjustment or disclosure in the financial statements.

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Seminary routinely monitors liquidity for grants appropriations and operations in accordance with its financial policy. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

Cash	\$ 1,207
Accounts receivable (net of allowance)	<u>176,174</u>
	<u>\$177,381</u>

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 4 – CASH

The balance of cash in the financial statements presented as of December 31, 2018 is as follows:

Operating account (overdraft)	\$ (8,694)
Checking account – Restricted funds	133,066
Saving account	832
Checking account – Endowment fund	8,283
Checking account – Student loans	7,887
Petty Cash	<u>375</u>
Total	<u>\$ 141,749</u>

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2018, include the following:

	<u>Tuition</u>	<u>Other</u>
Tuition, education and other	\$ 211,601	\$ 80,650
Provision for doubtful accounts	<u>(89,128)</u>	<u>(5,712)</u>
Accounts receivable, net	<u>\$ 122,473</u>	<u>\$ 74,938</u>

NOTE 6 – INVESTMENTS

Investments are presented at fair value in accordance with GAAP. Cash and short-term investments are recorded at cost, which approximates fair value, and include cash in bank accounts, institutional money market funds, and other temporary investments held for working capital purposes with maturities of three months or less. Cash and short-term investments do not include cash balances held as collateral by the Seminary. Cash and short-term investment balances designated for investment purposes are included in the “Investment portfolio, at fair value” in the Statement of Financial Position.

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SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 6 – INVESTMENTS (CONTINUED)

The majority of the Seminary's investments are managed by Presbyterian Foundation, a pooled fund that consists primarily of Presbyterian Endowment Fund and other securities. Certain other investments are managed separately. These other investments consist primarily of cash, short-term investments, and asset backed securities (Federal Home Loan Mortgage Corporation).

The Seminary's investment holdings as of December 31, 2018 are summarized in the following table:

	<u>Cost</u>	<u>Market</u>
Money Market	\$ 87,255	\$ 87,255
Presbyterian Endowment Fund	572,761	559,040
Bonds Funds	9,955	10,023
US Equity Funds	7,872	7,787
Asset Backed Securities	187,869	192,572
Mission Investment Fund E.L.C.A	204,669	204,669
American Electricity P.A.	325	325
	<u>\$1,070,706</u>	<u>\$1,061,671</u>

The investments are allocated to net assets, as follows:

Unrestricted	\$ 325
Seminary's Endowment	51,863
Permanently restricted	<u>1,009,483</u>
	<u>\$ 1,061,671</u>

FAIR VALUE MEASUREMENT:

When available, the Seminary measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used when active markets for the investments are not available. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

(Continues)

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 6 – INVESTMENTS (CONTINUED)

Fair value of assets measured on a recurring basis at December 31, 2018 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs Reflecting the Reporting Assumptions (Level 3)</u>
Money Market	\$ 87,255	\$ 87,255		
Presbyterian Endowment Fund	559,040	559,040		
Bonds Funds	10,023	10,023		
US Equity Funds	7,787	7,787		
Asset Backed Securities	192,572	192,572		
Mission Investment Fund E.L.C.A	204,669		204,669	
American Electricity P.A.	325	-	-	325
	<u>\$ 1,061,671</u>	<u>\$ 856,677</u>	<u>\$ 204,669</u>	<u>\$ 325</u>

NOTE 7 – PROPERTY AND EQUIPMENT

The following is a summary of the classifications of property and equipment and the total accumulated depreciation as of December 31, 2018:

Land, buildings and improvements	\$3,164,406
Road and parking	24,000
Equipment	349,606
Library books	601,137
	<u>4,139,149</u>
Accumulated depreciation	<u>(2,131,969)</u>
	2,007,180
Land lots at Florida, USA (donated)	<u>20,618</u>
Total	<u>\$2,027,798</u>

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 8 – LONG – TERM DEBT

In August 2012, the Seminary entered in a mortgage loan with Mission Investment Fund (MIF) (a financial ministry of the Evangelical Lutheran Church in American). The loan is secured with real property of the Seminary with an original principal promissory note of \$1,120,000. The term of the loan is for 25 years (through June 2037) at an initial interest rate of 4.625%. The interest rate will be adjusted every five years to the current interest rate of the MIF. The initial monthly payment was for \$6,305, principal and interests. In 2017 (the first adjustment date) the interest rate was modified to 3.875% per annum. Due to Hurricane Maria, the Seminary was granted with a moratorium on monthly loan payments from December 2017 to March 2018. In addition, monthly payments were reduced to \$3,500 through November 2018, and to \$4,000 from December 2018 through April 2019. After April 2019, the monthly payments are restored to the original agreement.

The loan agreement established obligations on the Seminary to comply with certain affirmative and negative covenants. The Seminary believes it has complied with these covenants.

Principal maturities of long-term debt for the next five years and thereafter are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2019	\$ 4,495
2020	4,567
2021	4,852
2022	5,044
2023	5,243
2024-2028	35,867
2029-2033	29,024
2034-2037	<u>880,347</u>
Total	969,439
Less: Current portion	<u>4,495</u>
Long-term debt	<u>\$ 964,944</u>

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 9 - LINE OF CREDIT

As of December 31, 2018, the Seminary has a secured revolving line of credit of \$100,000 with a financial institution. Interest is payable monthly at the fluctuating prime rate plus 1.50%. The line of credit is secured by the certificated of deposit in the same financial institution and securities at the Popular Security. As of December 31, 2018, the outstanding balance under the line of credit amounted to \$76,098.

NOTE 10 - OBLIGATIONS UNDER CAPITAL LEASE

The Seminary is the lessee of three office equipment under capital leases. The leases expire in various years between 2023 and 2024.

The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets will begin to be depreciated in 2019, over the lower of their related leased terms or their estimated productive lives. The cost of these equipment under capital lease amounted to \$32,486.

The future minimum lease payments of obligations under capital leases and the net present value of the future minimum lease payments as of December 31, 2018 for each of the next five years and thereafter are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Amount</u>
2018	\$ 8,962
2019	8,962
2020	8,962
2021	8,962
2022	8,962
2023-2024	<u>7,736</u>
Total minimum lease payment	52,546
Less amount representing interest and other	<u>20,948</u>
Present value of minimum lease payment	31,598
Less current portion	<u>4,838</u>
Long term capital lease obligation	<u>\$ 26,760</u>

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 11 – ACCRUED EXPENSES AND PAYROLL WITHHOLDINGS

As of December 31, 2018, accrued expenses and payroll withholdings consist of the following:

Accrued vacations	\$ 16,942
Withholding income tax and other	<u>1,515</u>
	<u>\$ 18,457</u>

NOTE 12 – DEFERRED REVENUES

As of December 31, 2018, deferred revenue consists of the following:

Tuition	\$ 114,698
Other programs	<u>223,945</u>
	<u>\$ 338,643</u>

NOTE 13 SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION

Non-cash investing and financing activities

During 2018, the Seminary acquired office equipment for \$32,486 through capital lease.

NOTE 14 – INSURANCE CLAIM

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the Island. Due to the damages suffered in the facilities of the Seminary after the passage of Hurricane Maria, the administration presented an insurance claim for business interruption and property damages.

The estimates of damages to the property identified by management to the date of issuance of these financial statements are approximately \$300,000. Also, the Seminary claimed the insurance company for the business interruption. The total received from the insurance company in 2018, and is included in the statement of activities, is detailed as follows:

Damage to the property	\$169,558
Business interruption	<u>49,454</u>
	<u>\$219,012</u>

SEMINARIO EVANGÉLICO DE PUERTO RICO, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 15 – NET ASSETS

The net assets without donor restrictions is detail as follows:

Invested in property and equipment	\$ 2,027,798
Undesignated	<u>(952,892)</u>
	<u>\$ 1,074,906</u>

The net assets with donor restrictions is detail as follows:

Restricted for specified purposes in	
Presbyterian Foundation	\$ 642,394
Restricted for otherspecified purposes	601,351
Restricted - Seminary's endowment	60,146
Underwater endowments	<u>(234,262)</u>
	<u>\$ 1,069,629</u>

NOTE 16 – CONTIGENCIES

The Seminary may be party to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation, if any, will not have a material adverse effect on the Seminary's financial position.

In addition, the Seminary participates in several financial assistance programs (federal, state and others). These programs are subject to audit and/or monitoring to compliance by grantor agencies and/or entities. As part of the federal financial program, the Federal Department of Education (USDE) conducted a program review at Seminary from April 13, 2015 to April 17, 2015. On July 31, 2017, the Department issued a Program Review Report containing fourteen findings. The Seminary submitted a response to this Program Review Report which the USDE received on May 15, 2018. On September 27, 2018, the Department issued a Final Program Review Determination that closed eight findings and asserted a liability of \$50,557.50 for the remaining six findings. On November 8, 2018, the Seminary filed an appeal with respect to one of the remaining findings. As result, all but \$2,190.50 of the total liability is stayed.

(Continues)

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 16 – CONTIGENCIAS (CONTINUED)

At this time, the Seminary and the USDE have engaged in discussions to resolve the appealed liability without resort to litigation. Therefore, the legal advisor, cannot predict whether these discussions will lead to such a resolution. If the parties are not able to settle the appealed liability, the case will be heard by a USDE Administrative Judge who will issue a written decision. This decision can be appealed by either party to the Secretary of USDE. Only if the Administrative Judge and, upon further appeal, the Secretary of USDE sustain the appealed liability in the Final Program Review Determination will the USDE take steps to collect the debt at issued or otherwise effect the determination that is at issue in Seminary's appeal.

The Seminar will continue in all administrative processes and understands that the final result will not be significant in the financial statements, accordingly no provision of loss has been recorded in the accompanying financial statements.

The Seminary agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. The Seminary will be operating on limited Title IV eligibility and will be placed on the Heightened Cash Monitoring-1 (HCM) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM method payment, the Seminary must first make disbursements to eligible students and pay any remaining credit balances before it requests or receives funds for the amount of those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students included in the funding request.