

GLOBAL OUTREACH INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Global Outreach International, Inc.
Pontotoc, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Global Outreach International, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Global Outreach International, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eaton, Bell & Smith

Ripley, Mississippi
July 10, 2013

AUDITED FINANCIAL STATEMENTS

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents (Note 5)	\$ 1,034,010	\$ 1,204,661
Accrued interest receivable	2,531	2,395
Investments (Notes 2 and 5)	3,412,692	3,298,418
Missionary contract receivable (Note 3)	20,000	40,442
Prepaid expenses	71,268	12,026
Total Current Assets	<u>4,540,501</u>	<u>4,557,942</u>
NONCURRENT ASSETS:		
Marketable equity securities (Notes 2 and 5)	7,842	8,390
Endowment fund (Notes 2 and 5)	2,717,045	2,561,722
Investment in land	51,300	51,300
Total Noncurrent Assets	<u>2,776,187</u>	<u>2,621,412</u>
PROPERTY AND EQUIPMENT, NET (Note 4)	<u>1,039,372</u>	<u>1,076,043</u>
	<u>\$ 8,356,060</u>	<u>\$ 8,255,397</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 5,402	\$ 15,171
Accrued liabilities	12,815	12,844
Deposit from relief organization	-	50,000
Total Current Liabilities	<u>18,217</u>	<u>78,015</u>
NET ASSETS:		
Unrestricted - undesignated	1,452,040	1,483,723
Unrestricted - designated (Note 5)	2,903,655	2,829,518
Temporarily restricted (Note 5)	3,982,148	3,864,141
Total Net Assets	<u>8,337,843</u>	<u>8,177,382</u>
	<u>\$ 8,356,060</u>	<u>\$ 8,255,397</u>

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2012			Year Ended December 31, 2011		
U.o.	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES:						
Donations	\$ 477,040	\$ 9,520,976	\$ 9,998,016	\$ 734,141	\$ 9,014,916	\$ 9,749,057
Merchandise sales	1,255	35,506	36,761	2,480	26,275	28,755
Interest and dividends	96,820	-	96,820	85,597	-	85,597
Other income	-	102,000	102,000	-	231,275	231,275
Net loss on sales of investments	(11,234)	-	(11,234)	(32,623)	-	(32,623)
Net unrealized gains (losses) on investments	204,268	-	204,268	(89,325)	-	(89,325)
Net assets released from restrictions:						
Satisfaction of purpose restriction	9,540,475	(9,540,475)	-	8,704,956	(8,704,956)	-
Total Support and Revenues	10,308,624	118,007	10,426,631	9,405,226	567,510	9,972,736
EXPENSES:						
Program Services	9,434,614	-	9,434,614	8,811,433	-	8,811,433
Supporting Services:						
Management and general	829,589	-	829,589	781,964	-	781,964
Fund-raising	1,967	-	1,967	40,567	-	40,567
Total Supporting Services	831,556	-	831,556	822,531	-	822,531
Total Expenses	10,266,170	-	10,266,170	9,633,964	-	9,633,964
CHANGE IN NET ASSETS	42,454	118,007	160,461	(228,738)	567,510	338,772
NET ASSETS, BEGINNING OF YEAR	4,313,241	3,864,141	8,177,382	4,541,979	3,296,631	7,838,610
NET ASSETS, END OF YEAR	\$ 4,355,695	\$ 3,982,148	\$ 8,337,843	\$ 4,313,241	\$ 3,864,141	\$ 8,177,382

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2012				Year Ended December 31, 2011			
	Supporting Services			Total	Supporting Services			Total
	Program Services	Management and General	Fund-Raising		Program Services	Management and General	Fund-Raising	
Salaries	\$ 2,859,745	\$ 416,717	\$ -	\$ 3,276,462	2,724,606	\$ 383,579	\$ 38,524	\$ 3,146,709
Payroll taxes and employee benefits	232,596	99,243	-	331,839	212,370	94,916	-	307,286
Missionary expense	6,237,863	-	-	6,237,863	5,780,800	-	-	5,780,800
Conferences	-	12,568	-	12,568	-	5,623	-	5,623
Depreciation	-	58,276	-	58,276	-	56,885	-	56,885
Insurance	-	25,225	-	25,225	-	25,791	-	25,791
Investment fees	-	31,766	-	31,766	-	34,671	-	34,671
Miscellaneous	-	4,133	-	4,133	-	7,135	-	7,135
Office expense (Note 6)	104,410	60,609	-	165,019	93,657	55,211	-	148,868
Professional services	-	19,415	-	19,415	-	18,425	-	18,425
Promotions	-	-	1,967	1,967	-	-	2,043	2,043
Repairs and maintenance	-	17,791	-	17,791	-	13,675	-	13,675
Special missions projects	-	37,181	-	37,181	-	32,540	-	32,540
Supplies	-	1,058	-	1,058	-	1,306	-	1,306
Telephone	-	12,684	-	12,684	-	12,315	-	12,315
Training	-	13,152	-	13,152	-	8,695	-	8,695
Travel	-	8,831	-	8,831	-	19,428	-	19,428
Utilities	-	10,940	-	10,940	-	11,769	-	11,769
	<u>\$ 9,434,614</u>	<u>\$ 829,589</u>	<u>\$ 1,967</u>	<u>\$ 10,266,170</u>	<u>\$ 8,811,433</u>	<u>\$ 781,964</u>	<u>\$ 40,567</u>	<u>\$ 9,633,964</u>

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

CASH FLOWS FROM (USED FOR):	Years Ended December 31,	
	2012	2011
OPERATING ACTIVITIES:		
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by operating activities:	\$ 160,461	\$ 338,772
Depreciation	58,276	56,885
Net loss on sales of investments	11,235	32,623
Net unrealized (gains) losses on investments	(204,268)	89,325
Net loss on disposal of assets	3,263	-
Donated investments	(701)	(3,767)
(Increase) decrease in:		
Accrued interest receivable	(136)	(293)
Prepaid expenses	(59,242)	-
Increase (decrease) in:		
Accounts payable	(9,769)	12,067
Accrued liabilities	(29)	(787)
Deposit from relief organization	(50,000)	-
Net Cash From (Used for) Operating Activities	(90,910)	524,825
INVESTING ACTIVITIES:		
Proceeds from sales of investments	-	43,297
Short-term investments, net	(89,394)	(432,210)
Endowment fund, net	(45,061)	(38,242)
Endowment fund withdrawals	59,140	89,230
Collections of contract receivable	20,442	86,809
Capital expenditures	(24,868)	(15,270)
Net Cash Used for Investing Activities	(79,741)	(266,386)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(170,651)	258,439
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,204,661	946,222
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,034,010	\$ 1,204,661
SUPPLEMENTAL DISCLOSURES:		
Non-cash transactions:		
Donated inventory	\$ 19,478	\$ 28,116
Inventory items used in missions	\$ (19,478)	\$ (28,116)
Donated investments	\$ 701	\$ 3,767

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Global Outreach International, Inc. (the Organization) is a nonprofit corporation formed to provide opportunities to and support for Christian missionaries providing evangelism, discipleship, and compassion ministries to people in forty countries around the world.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Revenue Recognition

The Organization receives donations from individuals, churches, and groups across the United States to support its missionaries and to fund its administrative costs. Donations restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Investment income, including realized and unrealized gains and losses, are reported as increases or decreases in unrestricted net assets unless a donor places temporary or permanent restrictions on the income's use. Investment income with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Contributions of assets other than cash are recorded at their estimated fair value on the date of donation. Contributions of services are recognized only if they 1) create or enhance nonfinancial assets or 2) require specialized skills or are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. These services are recorded at their fair values in the period received.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and cash held in investment accounts.

Investments

Investments in mutual funds, equity securities, government securities, and certificates of deposit are stated at fair values based on quoted prices in active markets. The investment in land is recorded at its estimated fair value on the date it was donated to the Organization.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair values on the date of donation. The Organization capitalizes property and equipment with a cost, or value if donated, of \$1,000 or more. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets which range from three to twenty-eight years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates are used when accounting for noncash donations, realizability of receivables, and depreciation. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation with the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Concentration of Credit Risk

The Organization maintains cash balances with a bank and two security brokerage firms and invests in certificates of deposit with various banks. The balances, at times, may exceed federally insured limits. At December 31, 2012 and 2011, the balance in one demand deposit account was in excess of FDIC insurance limits by \$597,306 and \$892,347, respectively.

Date of Management Evaluation

Management has evaluated subsequent events through July 10, 2013, the date on which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities as of December 31, 2012 and 2011 are summarized as follows:

	December 31, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Short-term certificates of deposit	\$ 3,252,000	\$ 3,254,461	\$ 3,267,000	\$ 3,259,773
Mutual funds	146,865	157,530	38,484	38,645
Marketable equity securities	701	701	-	-
Current	3,399,566	3,412,692	3,305,484	3,298,418
Marketable equity securities	62,799	7,842	62,799	8,390
Endowment fund:				
Cash and cash equivalents	65,156	65,156	805,684	805,684
Mutual funds	1,701,217	1,777,137	1,249,699	1,228,502
Marketable equity securities	853,251	874,752	599,090	527,536
	2,619,624	2,717,045	2,654,473	2,561,722
Noncurrent	2,682,423	2,724,887	2,717,272	2,570,112
	\$ 6,081,989	\$ 6,137,579	\$ 6,022,756	\$ 5,868,530

NOTE 3 – MISSIONARY CONTRACT RECEIVABLE

Missionary contract receivable consists of a non-interest bearing, unsecured contract receivable due from a missionary in Ecuador, requiring monthly payments of \$4,000, beginning February 2009 through June 2013. The original principal balance of \$212,000 was discounted to an estimated present value of \$202,745, assuming a 2% interest rate. The discounted amounts due at December 31, 2012 and 2011 were \$20,000 and \$40,442, respectively.

This receivable is the result of a sale of property used in missions in Ecuador.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	December 31,	
	2012	2011
Land	\$ 140,075	\$ 140,075
Building and improvements	840,522	828,842
Duplexes	161,724	161,724
Furniture and fixtures - duplexes	44,976	41,952
Office furniture and equipment	148,562	150,605
Automobile	7,000	-
	<u>1,342,859</u>	<u>1,323,198</u>
Less accumulated depreciation	<u>303,487</u>	<u>247,155</u>
	<u>\$ 1,039,372</u>	<u>\$ 1,076,043</u>

NOTE 5 – NET ASSETS

Unrestricted net assets designated by the Board of Directors of the Organization consist of cash and investments to be used for the following purposes:

	December 31,	
	2012	2011
Missions/Home office projects	\$ 31,733	\$ 78,110
Special mission projects	134,877	149,244
Ecuador missions	20,000	40,442
Endowment fund	<u>2,717,045</u>	<u>2,561,722</u>
	<u>\$ 2,903,655</u>	<u>\$ 2,829,518</u>

A perpetual endowment fund was established by the Board of Directors after the merger of the Organization with Global Outreach Foundation (GOF), a nonprofit corporation which was originally created to hold endowment funds for the Organization. Since the endowment fund resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The endowment fund is managed by investment account advisors under the direction of the Organization. The Organization's investment objectives are to maximize capital appreciation with a conservative risk profile. Up to eighty-five percent of the net income of the endowment may be used for the operating, administrative, and capital expenses of the Organization, and the remaining earnings will be added to the corpus of the fund.

NOTE 5 – NET ASSETS (Continued)

The endowment fund transactions for 2012 and 2011 are summarized below.

	Years Ended December 31,	
	2012	2011
Endowment fund, beginning of year	\$ 2,561,722	\$ 2,735,881
Interest and dividends	77,027	72,914
Net loss on sales of investments	(14,979)	(41,244)
Net unrealized gain (loss) on investments	184,181	(81,927)
Investment fees	(31,766)	(34,672)
Appropriated for expenditure	<u>(59,140)</u>	<u>(89,230)</u>
Endowment fund, end of year	\$ <u>2,717,045</u>	\$ <u>2,561,722</u>

Temporarily restricted net assets consist of cash and investments to be used for the following purposes:

	December 31,	
	2012	2011
Missions	\$ 3,982,148	\$ 3,795,122
Tennessee property taxes and expenses	-	58,336
General building projects	-	3,087
Special missions projects	<u>-</u>	<u>7,596</u>
	\$ <u>3,982,148</u>	\$ <u>3,864,141</u>

NOTE 6 – OPERATING LEASES

The Organization leases office equipment under non-cancelable operating leases which require monthly lease payments totaling \$1,446. The leases expire in 2013 and 2016. Future minimum lease payments are:

2013	\$ 14,556
2014	6,180
2015	6,180
2016	<u>3,090</u>
	\$ <u>30,006</u>

Total lease expense of \$17,349 for 2012 and \$17,251 for 2011 is included in office expense.

NOTE 7 – RETIREMENT PLAN

In 2010, the Organization established a Section 401(k) plan whereby the Organization matches employee contributions up to 5% of compensation. Employer retirement contributions were \$58,111 in 2012 and \$55,705 in 2011.

NOTE 8 – RELATED PARTY TRANSACTIONS

Certain members of the board of directors of the Organization also served as missionaries. Donations and missionary expense for these directors are included in the Statements of Activities as follows:

	Years Ended December 31,	
	2012	2011
Temporarily restricted donations and other income	\$ 801,789	\$ 1,086,078
Program services	\$ 952,332	\$ 920,132

NOTE 9 – FAIR VALUE MEASUREMENTS

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	December 31, 2012		December 31, 2011	
	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	<u>Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)
Short-term investments	\$3,412,692	\$3,412,692	\$3,298,418	\$3,298,418
Marketable equity securities	\$7,842	\$7,842	\$8,390	\$8,390
Endowment fund securities	\$2,717,045	\$2,717,045	\$2,561,722	\$2,561,722