

GLOBAL OUTREACH INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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, Bahk & Smith

Tupelo, Mississippi
June 20, 2014

AUDITED FINANCIAL STATEMENTS

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	\$ 1,456,568	\$ 1,034,010
Accrued interest receivable	1,599	2,531
Investments (Notes 2 and 4)	3,456,815	3,412,692
Missionary contract receivable	7,000	20,000
Prepaid expenses	31,451	71,268
Total Current Assets	4,953,433	4,540,501
NONCURRENT ASSETS:		
Marketable equity securities (Notes 2 and 4)	11,574	7,842
Endowment fund (Notes 2 and 4)	3,168,793	2,717,045
Investments in land	53,400	51,300
Total Noncurrent Assets	3,233,767	2,776,187
PROPERTY AND EQUIPMENT, NET (Note 3)	989,064	1,039,372
	\$ 9,176,264	\$ 8,356,060

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 7,452	\$ 5,402
Accrued liabilities	12,769	12,815
Total Current Liabilities	20,221	18,217
NET ASSETS:		
Unrestricted - undesignated	1,438,293	1,452,040
Unrestricted - designated (Note 4)	3,317,808	2,903,655
Temporarily restricted (Note 4)	4,399,942	3,982,148
Total Net Assets	9,156,043	8,337,843
	\$ 9,176,264	\$ 8,356,060

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2013			Year Ended December 31, 2012			
	Program Services	Supporting Services		Program Services	Supporting Services		
		Management and General	Fund-Raising		Management and General	Fund-Raising	Total
Salaries	\$ 3,292,322	\$ 481,821	\$ -	\$ 3,774,143	2,859,745	\$ 416,717	\$ 3,276,462
Payroll taxes and employee benefits	266,863	117,855	-	384,718	232,596	99,243	331,839
Missionary expense	6,987,946	-	-	6,987,946	6,237,863	-	6,237,863
Conferences	-	9,722	-	9,722	-	12,568	12,568
Depreciation	-	60,659	-	60,659	-	58,276	58,276
Insurance	-	27,122	-	27,122	-	25,225	25,225
Investment fees	-	10,159	-	10,159	-	31,766	31,766
Miscellaneous	-	6,330	-	6,330	-	4,133	4,133
Office expense (Note 5)	103,804	51,490	-	155,294	104,410	60,609	165,019
Professional services	-	29,180	-	29,180	-	19,415	19,415
Promotions	-	-	2,952	2,952	-	-	1,967
Repairs and maintenance	-	20,256	-	20,256	-	17,791	17,791
Special missions projects	-	24,344	-	24,344	-	37,181	37,181
Supplies	-	2,083	-	2,083	-	1,058	1,058
Telephone	-	12,100	-	12,100	-	12,684	12,684
Training	-	9,149	-	9,149	-	13,152	13,152
Travel	-	42,759	-	42,759	-	8,831	8,831
Utilities	-	10,705	-	10,705	-	10,940	10,940
	\$ 10,650,935	\$ 915,734	\$ 2,952	\$ 11,569,621	\$ 9,434,614	\$ 829,589	\$ 1,967
							\$ 10,266,170

See accompanying Notes to Financial Statements.

GLOBAL OUTREACH INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

CASH FLOWS FROM (USED FOR):	Years Ended December 31,	
OPERATING ACTIVITIES:	2013	2012
Change in net assets	\$ 818,200	\$ 160,461
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	60,659	58,276
Net loss on sales of investments	12,248	11,234
Net unrealized gains on investments	(250,610)	(204,268)
Net (gain) loss on disposal of assets	(271)	3,264
Donated investments	(60,661)	(701)
Donated equipment	(4,000)	-
Reinvested net investment income:		
Short-term investments	(27,980)	(89,394)
Endowment fund	(258,661)	(45,061)
(Increase) decrease in:		
Accrued interest receivable	932	(136)
Prepaid expenses	39,817	(59,242)
Increase (decrease) in:		
Accounts payable	2,050	(9,769)
Accrued liabilities	(46)	(29)
Deposit from relief organization	-	(50,000)
 Net Cash From (Used for) Operating Activities	331,677	(225,365)
 INVESTING ACTIVITIES:		
Proceeds from sale of investments	39,052	-
Proceeds from sale of equipment	2,500	-
Endowment fund withdrawals	44,909	59,140
Collections of contract receivable	13,000	20,442
Capital expenditures	(8,580)	(24,868)
 Net Cash From Investing Activities	90,881	54,714
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	422,558	(170,651)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,034,010	1,204,661
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,456,568	\$ 1,034,010
 SUPPLEMENTAL DISCLOSURES:		
Non-cash transactions:		
Donated inventory and mission costs	\$ 8,832	\$ 19,478
Inventory items used and mission costs	\$ (8,832)	\$ (19,478)
Donated investments	\$ 60,661	\$ 701
Donated equipment	\$ 4,000	\$ -

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-two 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, is reported as an increase or decrease in unrestricted net assets unless a donor places temporary or permanent restrictions on the income's use. Investment income with donor restrictions is 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. No such services were received by the Organization in 2013 or 2012.

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 investments in land are recorded at the estimated fair values on the dates of donation 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 within 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, 2013 and 2012, the balance in one demand deposit account and one brokerage cash account were in excess of FDIC insurance limits by \$944,188 and \$597,306, respectively.

Reclassifications

Certain reclassifications were made to the 2012 financial statements in order to conform to the 2013 method of presentation.

Date of Management Evaluation

Management has evaluated subsequent events through June 20, 2014, 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, 2013 and 2012 are summarized as follows:

	December 31, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Short-term certificates of deposit	\$ 3,282,024	\$ 3,281,067	\$ 3,252,000	\$ 3,254,461
Mutual funds	152,045	175,748	146,865	157,530
Marketable equity securities	-	-	701	701
Current	<u>3,434,069</u>	<u>3,456,815</u>	<u>3,399,566</u>	<u>3,412,692</u>
Marketable equity securities	<u>62,799</u>	<u>11,574</u>	<u>62,799</u>	<u>7,842</u>
Endowment fund:				
Cash and cash equivalents	50,368	50,368	65,156	65,156
Mutual funds	1,284,632	1,296,440	1,701,217	1,777,137
Marketable equity securities	<u>1,592,109</u>	<u>1,821,985</u>	<u>853,251</u>	<u>874,752</u>
	<u>2,927,109</u>	<u>3,168,793</u>	<u>2,619,624</u>	<u>2,717,045</u>
Noncurrent	<u>2,989,908</u>	<u>3,180,367</u>	<u>2,682,423</u>	<u>2,724,887</u>
	<u>\$ 6,423,977</u>	<u>\$ 6,637,182</u>	<u>\$ 6,081,989</u>	<u>\$ 6,137,579</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	December 31,	
	2013	2012
Land	\$ 140,075	\$ 140,075
Building and improvements	840,522	840,522
Duplexes	161,724	161,724
Furniture and fixtures - duplexes	44,976	44,976
Office furniture and equipment	151,790	148,562
Equipment	<u>11,000</u>	<u>7,000</u>
	<u>1,350,087</u>	<u>1,342,859</u>
Less accumulated depreciation	<u>361,023</u>	<u>303,487</u>
	<u>\$ 989,064</u>	<u>\$ 1,039,372</u>

NOTE 4 – NET ASSETS

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

	December 31,	
	2013	2012
Missions/Home office projects	\$ 24,681	\$ 31,733
Special mission projects	117,334	134,877
Ecuador missions	7,000	20,000
Endowment fund	3,168,793	2,717,045
	<u>\$ 3,317,808</u>	<u>\$ 2,903,655</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.

The endowment fund transactions for 2013 and 2012 are summarized below.

	Years Ended December 31,	
	2013	2012
Endowment fund, beginning of year	\$ 2,717,045	\$ 2,561,722
Interest and dividends	55,019	77,027
Net gain (loss) on sales of investments	213,801	(14,979)
Net unrealized gain on investments	237,996	184,181
Investment fees	(10,159)	(31,766)
Appropriated for expenditure	(44,909)	(59,140)
Endowment fund, end of year	<u>\$ 3,168,793</u>	<u>\$ 2,717,045</u>

NOTE 4 – NET ASSETS (Continued)

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Missions	\$ 4,399,942	\$ 3,982,148

NOTE 5 – OPERATING LEASES

The Organization leases office equipment under non-cancelable operating leases which require monthly lease payments totaling \$1,608. The leases expire in 2016 and 2017. Future minimum payments required under such leases are as follows:

2014	\$ 19,299
2015	19,299
2016	16,209
2017	<u>8,356</u>
	<u>\$ 63,163</u>

Total lease expense of \$18,517 for 2013 and \$17,349 for 2012 is included in office expense.

NOTE 6 – 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 \$65,998 in 2013 and \$58,111 in 2012.

NOTE 7 – 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:

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Temporarily restricted donations and other income	\$ 791,881	\$ 801,789
Program services	\$ 931,157	\$ 952,332

NOTE 8 – 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, 2013		December 31, 2012	
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)
Short-term investments	\$ 3,456,815	\$ 3,456,815	\$ 3,412,692	\$ 3,412,692
Marketable equity securities	\$ 11,574	\$ 11,574	\$ 7,842	\$ 7,842
Endowment fund securities	\$ 3,168,793	\$ 3,168,793	\$ 2,717,045	\$ 2,717,045