

AGLOW INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2012

AGLOW INTERNATIONAL
Year Ended March 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6 - 10

INDEPENDENT AUDITORS' REPORT

Board of Directors
Aglow International

We have audited the accompanying statement of financial position of Aglow International as of March 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Aglow International. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Aglow International as of March 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finney, Neill & Company, P.S.

June 6, 2012

AGLOW INTERNATIONAL
Statement of Financial Position
March 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 181,937
Accounts receivable	644
Inventories	15,995
Prepaid expenses and other current assets	<u>20,484</u>
Total current assets	<u>219,060</u>

Property and equipment:

Furniture and equipment	435,751
Leasehold improvements	<u>33,034</u>
	468,785
Less accumulated depreciation and amortization	<u>(433,711)</u>
Property and equipment, net	<u>35,074</u>

Other assets:

Production costs, net of accumulated amortization of \$606,809	67,600
Investments	100,000
Other assets	<u>25,317</u>
Total other assets	<u>192,917</u>
Total assets	<u><u>\$ 447,051</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Line of credit	\$ 30,860
Accounts payable	94,876
Accrued expenses	<u>111,888</u>
Total current liabilities	<u>237,624</u>

Net assets:

Unrestricted	134,466
Temporarily restricted	<u>74,961</u>
Total net assets	<u>209,427</u>
Total liabilities and net assets	<u><u>\$ 447,051</u></u>

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

AGLOW INTERNATIONALStatement of Activities
Year ended March 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 2,169,964	356,350	2,526,314
Conference registration	446,293	-	446,293
Other income	106,354	-	106,354
Net assets released from restrictions	518,388	(518,388)	-
Total support and revenue	<u>3,240,999</u>	<u>(162,038)</u>	<u>3,078,961</u>
Expenses:			
Program services:			
International fellowships	300,952	-	300,952
United States fellowships	380,789	-	380,789
Ministry focus areas	678,941	-	678,941
Conferences	612,253	-	612,253
Communications	272,282	-	272,282
Total program services	<u>2,245,217</u>	<u>-</u>	<u>2,245,217</u>
Supporting services:			
Management and general	690,775	-	690,775
Fund raising	151,603	-	151,603
Total supporting services	<u>842,378</u>	<u>-</u>	<u>842,378</u>
Total expenses	<u>3,087,595</u>	<u>-</u>	<u>3,087,595</u>
Change in net assets	153,404	(162,038)	(8,634)
Net assets at beginning of year	<u>(18,938)</u>	<u>236,999</u>	<u>218,061</u>
Net assets at end of year	<u>\$ 134,466</u>	<u>74,961</u>	<u>209,427</u>

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

AGLOW INTERNATIONAL
Statement of Functional Expenses
Year ended March 31, 2012

	Program Services						Supporting Services			Total Expenses
	International Fellowships	U. S. Fellowships	Ministry Focus Area	Conferences	Creative Services	Total	Management & General	Fund Raising	Total	
Salaries and related benefits	\$ 80,426	132,548	357,673	159,028	210,991	940,666	373,093	85,853	458,946	1,399,612
Occupancy	13,642	23,575	58,629	26,882	36,153	158,881	72,656	13,869	86,525	245,406
Operational:										
Travel and transportation	162,630	1,321	29,575	1,070	-	194,596	16,457	5,963	22,420	217,016
Printing, postage, supplies	68	1,149	8,323	336	1,335	11,211	16,058	23,739	39,797	51,008
Telephone and utilities	-	-	-	-	-	-	9,112	-	9,112	9,112
Insurance	-	-	-	-	-	-	51,361	-	51,361	51,361
Contracted services	13,050	-	4,523	-	10,970	28,543	28,800	1,890	30,690	59,233
Amort. of production costs	-	-	42,358	-	-	42,358	-	-	-	42,358
State and property taxes	-	-	-	-	-	-	1,228	-	1,228	1,228
Interest	-	-	-	-	-	-	3,031	-	3,031	3,031
Promotion and marketing	-	-	-	3,134	2,589	5,723	11,163	-	11,163	16,886
Professional services	-	-	-	542	-	542	10,025	3,930	13,955	14,497
Miscellaneous	60	623	4,431	12,866	175	18,155	51,460	5,121	56,581	74,736
Total operational	175,808	3,093	89,210	17,948	15,069	301,128	198,695	40,643	239,338	540,466
Ministry:										
Conference costs	9,405	9,176	20,777	408,395	9,870	457,623	30,133	10,988	41,121	498,744
Translation	2,932	-	1,378	-	-	4,310	-	-	-	4,310
Donations to others	1,600	500	12,861	-	-	14,961	12,460	180	12,640	27,601
Working funds	11,752	211,875	138,238	-	-	361,865	-	-	-	361,865
Miscellaneous	5,387	22	175	-	199	5,783	3,738	70	3,808	9,591
Total ministry	31,076	221,573	173,429	408,395	10,069	844,542	46,331	11,238	57,569	902,111
	<u>\$ 300,952</u>	<u>380,789</u>	<u>678,941</u>	<u>612,253</u>	<u>272,282</u>	<u>2,245,217</u>	<u>690,775</u>	<u>151,603</u>	<u>842,378</u>	<u>3,087,595</u>

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

AGLOW INTERNATIONAL
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Year ended March 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ (8,634)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation and amortization	62,867
Loss on write-down of fixed asset balances	5,773
(Increase) decrease in assets:	
Accounts receivable	(644)
Inventories	1,955
Prepaid expenses and other current assets	(12,137)
Increase (decrease) in liabilities:	
Accounts payable	26,141
Accrued expenses	<u>(23,924)</u>
Total adjustments	<u>60,031</u>
Net cash provided (used) by operating activities	<u>51,397</u>
Cash flows from investing activities:	
Sale of investments	1,689
Purchases of property and equipment	<u>(14,038)</u>
Net cash provided (used) by investing activities	<u>(12,349)</u>
Cash flows from financing activities:	
Principal (payments) draws on line of credit, net	<u>(36,640)</u>
Net cash provided (used) by financing activities	<u>(36,640)</u>
Net increase (decrease) in cash and cash equivalents	2,408
Cash and cash equivalents at beginning of year	<u>179,529</u>
Cash and cash equivalents at end of year	<u>\$ 181,937</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest	\$ 3,031
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The accompanying notes are an integral part of these financial statements.

AGLOW INTERNATIONAL

Notes To Financial Statements

Year ended March 31, 2012

1. MINISTRY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Aglow International (the Organization) is a Washington nonprofit corporation and the worldwide headquarters for approximately 3,870 fellowships (approximately 1,018 U.S. fellowships, and 2,852 international fellowships in 166 nations). The local fellowship groups are not controlled by the Organization. Instead, they are directed and overseen by 85 national boards and committees. The Organization provides leadership, training, and supporting services to area boards and local fellowships and publishes various books and other literature on the furtherance of Christian fellowship, prayer and evangelism.

The mission of the Organization is as follows:

- To help restore and mobilize women and men around the world.
- To promote gender reconciliation in the Body of Christ as God designed.
- To amplify awareness of global concerns from a Biblical perspective.

Basis of Accounting

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

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic No. 958, *Not-for-profit Entities*. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Accordingly, the net assets of the Organization have been reported as follows:

- *Unrestricted net assets* are those currently available at the discretion of the board for use in the activities of the organization
- *Temporarily restricted net assets* are those stipulated by donors for specific operating or ministry purposes.

Net assets of the temporarily restricted class are created only by donor-imposed restrictions on the use of funds. All other net assets, including Board-designated or appropriated amounts and are reported as part of the unrestricted class.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of publications held for resale and supplies. Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method.

These notes are an integral part of the financial statements.

AGLOW INTERNATIONAL

Notes To Financial Statements

Year ended March 31, 2012

1. MINISTRY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at its estimated fair market value at date of receipt. The Organization generally follows the practice of capitalizing expenditures for property and equipment in excess of \$500. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Depreciation expense for the year ended March 31, 2012 was \$20,509.

Restricted and Unrestricted Support and Revenue Recognition

Contributed support is recorded when cash is received or when ownership of donated assets is transferred. The Organization has adopted the FASB Accounting Standards Codification Topic No. 958, *Not-for-profit Entities*. In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Gifts for ministry which are received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At March 31, 2012, temporarily restricted net assets consisted of cash and cash equivalents and investments and are available for use in subsequent years' program services.

Donated Assets and Services

Donations of property and equipment are recorded at their estimated fair market values at the date of receipt. The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for donated services because no objective basis is available to measure the value of such services.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Investments

Certificates of deposit held for investment that are not debt securities are classified as long-term if they are intended to be held for a period that exceeds one year. Certificates of deposit are valued at original cost plus accrued interest at year end. Interest income from cash and cash equivalents and investment accounts included in other income was \$1,488 for the year ended March 31, 2012.

AGLOW INTERNATIONAL

Notes To Financial Statements

Year ended March 31, 2012

1. MINISTRY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Tax Status

Pursuant to a letter of determination from the Internal Revenue Service, the Organization is a not-for-profit ministry exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation under section 509(a)(1) of the Internal Revenue Code. Accordingly, the Organization qualifies for the charitable contribution deduction under section 170(b)(1)(A) of the Internal Revenue Code.

The Organization accounts for tax positions in accordance with the FASB Accounting Standards Codification Topic No. 740, *Income Taxes*. With few exceptions, the Organization is subject to U.S. federal and state income tax examinations by tax authorities for the prior three years. Management has reviewed the Organization's tax positions and determined there were no uncertain tax positions as of March 31, 2012.

The Organization recognizes income tax related interest and penalties in operational expenses. During the year ended March 31, 2012, the Organization recognized no income tax interest or penalties.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 6, 2012, which is the date the financial statements were available to be issued.

3. CONCENTRATIONS

The Organization places cash and cash equivalents with financial institutions. Accounts at each institution are insured up to \$250,000. The Organization has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

During the year, the Organization received contributions totaling \$445,500 (14% of total support and revenue) from one unrelated not-for-profit organization.

4. OPERATING LEASES

The Organization entered into a three year lease for office space on May 1, 2009 which expires on April 30, 2012. Rent expense was \$197,560 for the year ended March 31, 2012. A new lease agreement was negotiated on June 1, 2012, which expires May 31, 2016.

AGLOW INTERNATIONAL

Notes To Financial Statements

Year ended March 31, 2012

4. OPERATING LEASES, continued

Future minimum lease payments for the years ending March 31st are as follows:

2013	\$ 187,296
2014	189,613
2015	194,353
2016	199,212
2017	<u>33,338</u>
	<u>\$ 803,812</u>

5. MEDIA PRODUCTION COSTS

The Organization has completed the development of several television series. In total for all television series, production costs of \$716,767 were capitalized. The capitalized costs are amortized over a five-year period beginning with the initial broadcast of each series. Amortization expense for the year ended March 31, 2012 was \$42,358.

6. LINE OF CREDIT

The Organization has a \$75,000 line of credit with a bank secured by a certificate of deposit. The line of credit matures on December 15, 2012. Interest is payable monthly at an interest rate of 5% per year. As of March 31, 2012, there was \$30,860 outstanding on the line of credit. Interest expense for the year ended March 31, 2012 was \$3,031.

7. RELATED PARTY ACTIVITY

The Organization receives substantially all of its contributions and conference fees from affiliated individuals and fellowships. Furthermore, a substantial portion of its publications are purchased by affiliated individuals and fellowships.

8. REGIONAL FUNDS HELD FOR AFFILIATES

The Organization currently holds funds for certain affiliates located in European and African nations who operate under the Aglow name. The Organization has no ownership in these monies and dispenses the funds held at the request of the respective affiliates' management. As such, the Organization reported cash held on behalf of these entities of \$38,493 as an asset and as a corresponding liability as of March 31, 2012.

9. 403(b) RETIREMENT PLAN

The Organization sponsors a 403(b) retirement plan. The Organization contributed \$8,510 to the plan during the year ended March 31, 2012.

10. COMMITMENTS AND CONTINGENCIES

As part of its ongoing ministry, the Organization organizes conferences on an annual basis. The Organization periodically executes contracts and commitments with hotels, convention facilities and event-coordination organizations for events scheduled to be held in subsequent years. The Organization cannot reasonably estimate the loss which it may experience if attendance at these events fails to reach projections.

These notes are an integral part of the financial statements.

AGLOW INTERNATIONAL

Notes To Financial Statements

Year ended March 31, 2012

10. COMMITMENTS AND CONTINGENCIES, continued

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. Aglow International has reported net losses for both of the fiscal years ended March 31, 2012 and 2011 of \$8,634 and \$229,804, respectively and while this trend suggests that Aglow International may be unable to continue as a going concern, management believes that the actions taken during the fiscal year ended March 31, 2012 have already significantly improved the financial outlook of the Organization. These actions include reducing expenses, working maintaining careful stewardship of restricted funds by contacting some donors about removing or adjusting their restrictions in order to utilize those funds, and sustaining positive cash flows. Management believes these changes and other initiatives, including efforts to increase cash reserves, continued reduction of operating expenses, and reviewing all options that increase Organizational control and reduce Organizational liability, will revise the Organization's operating and financial effectiveness and provide the opportunity for the Organization to continue as a going concern.