

AGLOW INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

AGLOW INTERNATIONAL
Years Ended March 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aglow International

We have audited the accompanying financial statements of Aglow International, which comprise the statements of financial position as of March 31, 2016 and 2015, 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 audit 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 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 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 Aglow International as of March 31, 2016 and 2015, 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.

Finney, Neill & Company, P.S.

Seattle, Washington
October 19, 2016

AGLOW INTERNATIONAL
Statements of Financial Position
March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 305,635	224,369
Short term investments	-	100,000
Accounts receivable	1,688	281
Inventories	49,742	28,288
Regional funds held for affiliates	21,871	34,214
Prepaid expenses and other current assets	<u>7,950</u>	<u>7,169</u>
Total current assets	<u>386,886</u>	<u>394,321</u>
Property and equipment:		
Furniture and equipment	343,215	343,215
Leasehold improvements	<u>35,500</u>	<u>35,500</u>
	378,715	378,715
Less accumulated depreciation and amortization	<u>(366,172)</u>	<u>(357,054)</u>
Property and equipment, net	<u>12,543</u>	<u>21,661</u>
Other assets:		
Production costs, net of accumulated amortization of \$716,767	-	-
Long-term investments	125,008	50,000
Other assets	<u>25,317</u>	<u>25,317</u>
Total other assets	<u>150,325</u>	<u>75,317</u>
Total assets	<u><u>\$ 549,754</u></u>	<u><u>491,299</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 26,589	21,947
Accrued expenses	94,256	113,021
Regional funds held for affiliates	<u>21,871</u>	<u>34,214</u>
Total current liabilities	<u>142,716</u>	<u>169,182</u>
Net assets:		
Unrestricted	379,529	276,538
Temporarily restricted	<u>27,509</u>	<u>45,579</u>
Total net assets	<u>407,038</u>	<u>322,117</u>
Total liabilities and net assets	<u><u>\$ 549,754</u></u>	<u><u>491,299</u></u>

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

AGLOW INTERNATIONALStatement of Activities
Year ended March 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 2,194,825	207,883	2,402,708
Conference registration	389,417	-	389,417
Other income	248,821	-	248,821
Net assets released from restrictions	<u>225,953</u>	<u>(225,953)</u>	<u>-</u>
Total support and revenue	<u>3,059,016</u>	<u>(18,070)</u>	<u>3,040,946</u>
Expenses:			
Program services:			
International fellowships	300,233	-	300,233
United States fellowships	372,473	-	372,473
Ministry focus areas	629,970	-	629,970
Conferences	602,540	-	602,540
Creative services	<u>269,938</u>	<u>-</u>	<u>269,938</u>
Total program services	<u>2,175,154</u>	<u>-</u>	<u>2,175,154</u>
Supporting services:			
Management and general	643,730	-	643,730
Fund raising	<u>137,141</u>	<u>-</u>	<u>137,141</u>
Total supporting services	<u>780,871</u>	<u>-</u>	<u>780,871</u>
Total expenses	<u>2,956,025</u>	<u>-</u>	<u>2,956,025</u>
Change in net assets	102,991	(18,070)	84,921
Net assets at beginning of year	<u>276,538</u>	<u>45,579</u>	<u>322,117</u>
Net assets at end of year	<u>\$ 379,529</u>	<u>27,509</u>	<u>407,038</u>

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

AGLOW INTERNATIONAL

Statement of Activities

Year ended March 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 2,251,986	122,837	2,374,823
Conference registration	352,142	-	352,142
Other income	168,365	-	168,365
Net assets released from restrictions	<u>154,464</u>	<u>(154,464)</u>	<u>-</u>
Total support and revenue	<u>2,926,957</u>	<u>(31,627)</u>	<u>2,895,330</u>
Expenses:			
Program services:			
International fellowships	150,676	-	150,676
United States fellowships	379,058	-	379,058
Ministry focus areas	720,363	-	720,363
Conferences	487,979	-	487,979
Creative services	<u>202,193</u>	<u>-</u>	<u>202,193</u>
Total program services	<u>1,940,269</u>	<u>-</u>	<u>1,940,269</u>
Supporting services:			
Management and general	660,497	-	660,497
Fund raising	<u>103,733</u>	<u>-</u>	<u>103,733</u>
Total supporting services	<u>764,230</u>	<u>-</u>	<u>764,230</u>
Total expenses	<u>2,704,499</u>	<u>-</u>	<u>2,704,499</u>
Change in net assets	222,458	(31,627)	190,831
Net assets at beginning of year	<u>54,080</u>	<u>77,206</u>	<u>131,286</u>
Net assets at end of year	<u><u>\$ 276,538</u></u>	<u><u>45,579</u></u>	<u><u>322,117</u></u>

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

AGLOW INTERNATIONAL
Statement of Functional Expenses
Year ended March 31, 2016

	Program Services						Supporting Services			
	International Fellowships	U. S. Fellowships	Ministry Focus Area	Conferences	Creative Services	Total	Management & General	Fund Raising	Total	Total Expenses
Salaries and related benefits	\$ 109,087	159,387	326,641	118,679	172,607	886,401	449,930	70,759	520,689	1,407,090
Occupancy	27,722	27,722	46,202	18,481	27,721	147,848	65,872	9,241	75,113	222,961
Operational:										
Travel and transportation	130,927	89,090	70,960	710	-	291,687	-	2,908	2,908	294,595
Printing, postage, supplies	885	5,101	5,292	576	1,877	13,731	25,770	21,323	47,093	60,824
Telephone and utilities	70	4,640	3,603	-	-	8,313	8,243	-	8,243	16,556
Insurance	-	14,535	-	14,535	-	29,070	22,406	-	22,406	51,476
Contracted services	-	3,413	-	8,204	47,872	59,489	25,383	-	25,383	84,872
State and property taxes	-	-	-	-	-	-	1,281	-	1,281	1,281
Interest	-	-	-	-	-	-	324	-	324	324
Promotion and marketing	-	-	66,462	8,840	9,478	84,780	-	27,001	27,001	111,781
Professional services	-	-	100	1,277	-	1,377	16,501	-	16,501	17,878
Miscellaneous	1,963	4,809	11,999	595	228	19,594	24,912	5,336	30,248	49,842
Total operational	<u>133,845</u>	<u>121,588</u>	<u>158,416</u>	<u>34,737</u>	<u>59,455</u>	<u>508,041</u>	<u>124,820</u>	<u>56,568</u>	<u>181,388</u>	<u>689,429</u>
Ministry:										
Conference costs	12,794	5,699	44,324	430,643	9,725	503,185	-	-	-	503,185
Translation	7,691	-	1,252	-	430	9,373	-	-	-	9,373
Donations to others	219	53,077	45,230	-	-	98,526	3,108	573	3,681	102,207
Working funds	8,875	5,000	7,905	-	-	21,780	-	-	-	21,780
Total ministry	<u>29,579</u>	<u>63,776</u>	<u>98,711</u>	<u>430,643</u>	<u>10,155</u>	<u>632,864</u>	<u>3,108</u>	<u>573</u>	<u>3,681</u>	<u>636,545</u>
	<u>\$ 300,233</u>	<u>372,473</u>	<u>629,970</u>	<u>602,540</u>	<u>269,938</u>	<u>2,175,154</u>	<u>643,730</u>	<u>137,141</u>	<u>780,871</u>	<u>2,956,025</u>

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

AGLOW INTERNATIONAL
Statement of Functional Expenses
Year ended March 31, 2015

	Program Services						Supporting Services			
	International Fellowships	U. S. Fellowships	Ministry Focus Area	Conferences	Creative Services	Total	Management & General	Fund Raising	Total	Total Expenses
Salaries and related benefits	\$ 109,812	163,411	329,389	117,257	134,657	854,526	461,991	70,834	532,825	1,387,351
Occupancy	22,835	27,402	45,741	22,835	18,268	137,081	69,997	9,134	79,131	216,212
Operational:										
Travel and transportation	9,712	30,228	171,598	1,673	2,000	215,211	-	111	111	215,322
Printing, postage, supplies	215	4,367	6,363	149	580	11,674	13,777	18,182	31,959	43,633
Telephone and utilities	30	4,572	3,238	-	-	7,840	8,948	-	8,948	16,788
Insurance	-	17,335	-	17,335	-	34,670	21,945	-	21,945	56,615
Contracted services	550	6,481	106	5,952	29,440	42,529	39,393	3,963	43,356	85,885
Amort. of production costs	-	-	5,201	-	-	5,201	-	-	-	5,201
State and property taxes	-	-	-	-	-	-	1,781	-	1,781	1,781
Interest	-	-	-	-	-	-	797	-	797	797
Promotion and marketing	-	-	26,461	10,653	7,531	44,645	-	-	-	44,645
Professional services	-	-	80	990	-	1,070	9,898	-	9,898	10,968
Miscellaneous	<u>767</u>	<u>7,192</u>	<u>17,496</u>	<u>10,802</u>	<u>43</u>	<u>36,300</u>	<u>28,276</u>	<u>934</u>	<u>29,210</u>	<u>65,510</u>
Total operational	<u>11,274</u>	<u>70,175</u>	<u>230,543</u>	<u>47,554</u>	<u>39,594</u>	<u>399,140</u>	<u>124,815</u>	<u>23,190</u>	<u>148,005</u>	<u>547,145</u>
Ministry:										
Conference costs	1,021	71,338	26,133	300,333	9,674	408,499	-	-	-	408,499
Translation	3,445	-	4,208	-	-	7,653	-	-	-	7,653
Donations to others	-	43,502	75,736	-	-	119,238	3,694	575	4,269	123,507
Working funds	<u>2,289</u>	<u>3,230</u>	<u>8,613</u>	<u>-</u>	<u>-</u>	<u>14,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,132</u>
Total ministry	<u>6,755</u>	<u>118,070</u>	<u>114,690</u>	<u>300,333</u>	<u>9,674</u>	<u>549,522</u>	<u>3,694</u>	<u>575</u>	<u>4,269</u>	<u>553,791</u>
	<u>\$ 150,676</u>	<u>379,058</u>	<u>720,363</u>	<u>487,979</u>	<u>202,193</u>	<u>1,940,269</u>	<u>660,497</u>	<u>103,733</u>	<u>764,230</u>	<u>2,704,499</u>

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

AGLOW INTERNATIONAL
Statements of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Years ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 84,921	190,831
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation and amortization	9,118	14,150
(Increase) decrease in assets:		
Accounts receivable	(1,407)	10,684
Inventories	(21,454)	(6,407)
Prepaid expenses and other current assets	(781)	19,564
Funds held for affiliates	12,343	(89)
Increase (decrease) in liabilities:		
Accounts payable	4,642	(57,368)
Accrued expenses and other liabilities	(31,108)	23,268
Total adjustments	<u>(28,647)</u>	<u>3,802</u>
Net cash provided (used) by operating activities	<u>56,274</u>	<u>194,633</u>
Cash flows from investing activities:		
Purchase of certificate of deposit	24,992	(50,000)
Purchases of property and equipment	<u>-</u>	<u>(12,640)</u>
Net cash provided (used) by investing activities	<u>24,992</u>	<u>(62,640)</u>
Cash flows from financing activities:		
Borrowing (repayment) on line of credit, net	<u>-</u>	<u>(20,000)</u>
Net cash provided (used) by financing activities	<u>-</u>	<u>(20,000)</u>
Net increase (decrease) in cash and cash equivalents	81,266	111,993
Cash and cash equivalents at beginning of year	<u>224,369</u>	<u>112,376</u>
Cash and cash equivalents at end of year	<u><u>\$ 305,635</u></u>	<u><u>224,369</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest	\$ 324	7,020
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The accompanying notes are an integral part of these financial statements.

AGLOW INTERNATIONAL
Notes To Financial Statements
Years ended March 31, 2016 and 2015

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 3,484 fellowships (approximately 954 U.S. fellowships, and 2,530 international fellowships in 172 nations). The local fellowship groups are not controlled by the Organization. Instead, they are directed and overseen by 114 national boards and appointed leaders. 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 vision of the Organization is to carry the truth of the Kingdom that restores people to a radiant place of relationship with God and one another, breaks the tyranny of oppression, and brings freedom and empowerment.

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.

Investments

Investments are comprised of certificates of deposit valued at original cost plus accrued interest at year end. Certificates of deposit held for investment that are not debt securities are reported as “short-term investments” if they have a remaining maturity of less than one year. Certificates of deposit with remaining maturities greater than one year are classified as “long-term investments.” Interest income from cash and cash equivalents and investment accounts included in other income was \$1,032 and \$889 for the years ended March 31, 2016 and 2015.

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

AGLOW INTERNATIONAL
Notes To Financial Statements, continued
Years ended March 31, 2016 and 2015

1. MINISTRY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

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

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 \$1,000. 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 years ended March 31, 2016 and 2015 was \$9,118 and \$8,949, respectively.

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, 2016 and 2015, 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.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These notes are an integral part of the financial statements.

AGLOW INTERNATIONAL
Notes To Financial Statements, continued
Years ended March 31, 2016 and 2015

1. MINISTRY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain amounts in the financial statements may have been reclassified to conform to the current financial statement presentation.

Income Tax Status

Pursuant to a letter of determination from the Internal Revenue Service (IRS), 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 (IRC). 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, 2016 and 2015.

The Organization recognizes income tax related interest and penalties in operational expenses. During the years ended March 31, 2016 and 2015, the Organization recognized no income tax interest or penalties.

Date of Management's Review

Subsequent events have been evaluated through October 19, 2016, which is the date the financial statements were available to be issued.

2. 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 years ended March 31, 2016 and 2015, the Organization received contributions totaling \$420,000 and \$520,000 (14% and 19% of total support and revenue) from one unrelated not-for-profit organization, respectively. Any reduction in funding from this donor could have a significant effect upon the future operations of the Organization. In addition, during the year ended March 31, 2016, the Organization received contributions totaling \$315,000 from one unrelated donor's estate (10% of total support and revenue).

3. OPERATING LEASES

The Organization entered into a four year lease for office space on June 1, 2012 which expires on May 31, 2016. Rent expense was \$199,212 and \$194,353 for the years ended March 31, 2016 and 2015, respectively.

In December 2015, the Organization entered into a five year lease for office space which begins June 1, 2016 and expires on May 31, 2021. Under the terms of this lease, annual increases to monthly rent rates of three percent are effective beginning January 1, 2018.

These notes are an integral part of the financial statements.

AGLOW INTERNATIONAL
Notes To Financial Statements, continued
Years ended March 31, 2016 and 2015

3. OPERATING LEASES, continued

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

2017	\$ 201,444
2018	203,241
2019	209,338
2020	215,618
2021	222,087
Thereafter	<u>37,841</u>
	<u>\$ 1,089,569</u>

4. 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. All production costs were fully amortized as of March 31, 2015. Amortization expense for the years ended March 31, 2016 and 2015 was \$0 and \$5,201, respectively.

5. LINE OF CREDIT

The Organization has a \$100,000 line of credit with a bank secured by a certificate of deposit. The line of credit matures on March 20, 2017. Interest is payable monthly at an interest rate of 3.5% per year. As of March 31, 2016 and 2015, there was \$0 and \$0 outstanding on the line of credit. Interest expense on the line of credit for the years ended March 31, 2016 and 2015 was \$324 and \$797, respectively.

6. 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.

7. 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 \$21,871 and \$34,214 as an asset and as a corresponding liability as of March 31, 2016 and 2015, respectively.

8. 403(b) RETIREMENT PLAN

The Organization sponsors a 403(b) retirement plan. The Organization contributed \$11,817 and \$10,586 to the plan during the years ended March 31, 2016 and 2015, respectively.

9. 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.