

ZOE MINISTRY
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

ZOE MINISTRY

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Independent Auditor's Report

The Board of Directors of
ZOE Ministry
Garner, North Carolina

We have audited the accompanying financial statements of ZOE Ministry (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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.

Auditor's 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 of 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 ZOE Ministry as of December 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.

Crosslin, PLLC

Nashville, Tennessee
June 12, 2017

ZOE MINISTRY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|------------------|------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 1,645,090 | \$ 1,205,599 |
| Investments (Note B) | 308,319 | 299,289 |
| Contributions receivable, net of allowance for doubtful accounts of \$11,250 and \$42,320 in 2016 and 2015, respectively (Note C) | 2,810,504 | 2,448,375 |
| Prepaid expenses | 75 | 3,055 |
| Other accounts receivable | 93 | 200 |
| Fixed assets, net | 4,974 | 963 |
| Total assets | \$ 4,769,055 | \$ 3,957,481 |
| <u>LIABILITIES</u> | | |
| Accrued vacation | \$ 10,201 | \$ 11,571 |
| Deferred revenue | 1,000 | 4,250 |
| Total liabilities | 11,201 | 15,821 |
| <u>NET ASSETS</u> | | |
| Unrestricted | 497,937 | 253,217 |
| Temporarily restricted (Note E) | 4,184,917 | 3,613,443 |
| Permanently restricted (Note E) | 75,000 | 75,000 |
| Total net assets | 4,757,854 | 3,941,660 |
| Total liabilities and net assets | \$ 4,769,055 | \$ 3,957,481 |

See accompanying notes to financial statements.

ZOE MINISTRY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and revenue: | | | | |
| Contributions and donations | \$ 1,789,424 | \$ 2,647,143 | \$ - | \$ 4,436,567 |
| Interest and other income | - | 2,260 | - | 2,260 |
| Other | 5,034 | - | - | 5,034 |
| | <u>1,794,458</u> | <u>2,649,403</u> | <u>-</u> | <u>4,443,861</u> |
| Total support and revenue | | | | |
| Net assets released from restrictions | <u>2,077,929</u> | <u>(2,077,929)</u> | <u>-</u> | <u>-</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Rwanda | 760,681 | - | - | 760,681 |
| Kenya-Maua | - | - | - | - |
| Kenya-NGO | 690,734 | - | - | 690,734 |
| Malawi | 197,944 | - | - | 197,944 |
| Zimbabwe | 442,035 | - | - | 442,035 |
| Liberia | 183,856 | - | - | 183,856 |
| Guatemala | 177,205 | - | - | 177,205 |
| India-Chennai | 234,039 | - | - | 234,039 |
| General | 381,099 | - | - | 381,099 |
| | <u>3,067,593</u> | <u>-</u> | <u>-</u> | <u>3,067,593</u> |
| Total program expenses | | | | |
| Supporting services: | | | | |
| Administrative expenses | <u>566,844</u> | <u>-</u> | <u>-</u> | <u>566,844</u> |
| | | | | |
| Total expenses | <u>3,634,437</u> | <u>-</u> | <u>-</u> | <u>3,634,437</u> |
| | | | | |
| Increase in net assets from operating activities | <u>237,950</u> | <u>571,474</u> | <u>-</u> | <u>809,424</u> |
| Nonoperating: | | | | |
| Unrealized appreciation on investments | <u>6,770</u> | <u>-</u> | <u>-</u> | <u>6,770</u> |
| | | | | |
| Net increase in net assets | 244,720 | 571,474 | - | 816,194 |
| | | | | |
| Net assets at beginning of year | <u>253,217</u> | <u>3,613,443</u> | <u>75,000</u> | <u>3,941,660</u> |
| Net assets at end of year | <u>\$ 497,937</u> | <u>\$ 4,184,917</u> | <u>\$ 75,000</u> | <u>\$ 4,757,854</u> |

See accompanying notes to financial statements.

ZOE MINISTRY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and revenue: | | | | |
| Contributions and donations | \$ 1,585,122 | \$ 3,179,156 | \$ - | \$ 4,764,278 |
| Interest and other income | - | 2,115 | - | 2,115 |
| Other | 1,081 | - | - | 1,081 |
| | <u>1,586,203</u> | <u>3,181,271</u> | <u>-</u> | <u>4,767,474</u> |
| Total support and revenue | | | | |
| Net assets released from restrictions | <u>2,000,547</u> | <u>(2,000,547)</u> | <u>-</u> | <u>-</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Rwanda | 811,642 | - | - | 811,642 |
| Kenya-Maua | 241,696 | - | - | 241,696 |
| Kenya-NGO | 563,469 | - | - | 563,469 |
| Malawi | 201,515 | - | - | 201,515 |
| Zimbabwe | 419,631 | - | - | 419,631 |
| Liberia | 139,012 | - | - | 139,012 |
| Guatemala | 143,550 | - | - | 143,550 |
| India-Chennai | 194,465 | - | - | 194,465 |
| General | 316,294 | - | - | 316,294 |
| | <u>3,031,274</u> | <u>-</u> | <u>-</u> | <u>3,031,274</u> |
| Total program expenses | | | | |
| Supporting services: | | | | |
| Administrative expenses | <u>555,573</u> | <u>-</u> | <u>-</u> | <u>555,573</u> |
| | | | | |
| Total expenses | <u>3,586,847</u> | <u>-</u> | <u>-</u> | <u>3,586,847</u> |
| (Decrease) increase in net assets from operating activities | <u>(97)</u> | <u>1,180,724</u> | <u>-</u> | <u>1,180,627</u> |
| Nonoperating: | | | | |
| Unrealized depreciation on investments | <u>(5,092)</u> | <u>-</u> | <u>-</u> | <u>(5,092)</u> |
| | | | | |
| Net (decrease) increase in net assets | <u>(5,189)</u> | <u>1,180,724</u> | <u>-</u> | <u>1,175,535</u> |
| Net assets at beginning of year | <u>258,406</u> | <u>2,432,719</u> | <u>75,000</u> | <u>2,766,125</u> |
| Net assets at end of year | <u>\$ 253,217</u> | <u>\$ 3,613,443</u> | <u>\$ 75,000</u> | <u>\$ 3,941,660</u> |

See accompanying notes to financial statements.

ZOE MINISTRY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 816,194 | \$ 1,175,535 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 602 | 127 |
| Reinvested earnings on investments | (2,260) | (2,101) |
| Unrealized (appreciation) depreciation on investments | (6,770) | 5,092 |
| Increase in contributions receivable, net of allowance | (362,129) | (1,004,103) |
| Decrease in prepaid expenses | 2,980 | 5,255 |
| Decrease in other accounts receivable | 107 | 390 |
| (Decrease) increase in accrued vacation | (1,370) | 1,652 |
| (Decrease) increase in deferred revenue | (3,250) | 4,250 |
| | 444,104 | 186,097 |
| Cash flows from investing activities | | |
| Sales of investments, net | - | 202,116 |
| Purchases of fixed assets | (4,613) | (1,090) |
| | (4,613) | 201,026 |
| Net increase in cash | 439,491 | 387,123 |
| Cash, beginning of year | 1,205,599 | 818,476 |
| Cash, end of year | \$ 1,645,090 | \$ 1,205,599 |

See accompanying notes to financial statements.

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ZOE Ministry (“ZOE”) is a tax-exempt, not-for-profit organization, incorporated in the State of North Carolina. ZOE was established to provide a three-year empowerment program for orphan children in Africa and other poverty-stricken countries. This empowerment program teaches children essential life skills, how to grow their own food, start small businesses, and grow in their faith. ZOE is currently active in seven countries (Rwanda, Kenya, Zimbabwe, Malawi, Liberia, India, and Guatemala).

The transactions of ZOE are consolidated into the financial statements of the North Carolina Conference, Southeastern Jurisdiction, of the United Methodist Church, Inc. (the “Conference”).

Basis of Presentation

The financial statements of ZOE are prepared on the accrual basis of accounting.

Net Assets

ZOE classifies its support, revenue, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of ZOE and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ZOE and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations requiring that the assets be maintained permanently by ZOE. Generally, the donors of these assets permit ZOE to use all or part of the income earned on related investments for general or specific purposes.

Use of Estimates

In preparing its financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statement of financial position and the reported amounts of revenues and expenses in the statements of activities for the reporting period. Actual results could differ from those estimates.

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

ZOE reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year, if applicable. Contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the promise to give is received. ZOE has determined that all contributions received in 2016 and 2015 are unconditional promises to give.

Cash

ZOE deposits its cash in large commercial financial institutions. At times, such balances may exceed the Federal depository insurance limits but ZOE believes such amounts do not represent a significant credit risk.

Financial Instruments

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value, with fair value measured as described in Note G. Changes in fair value of investments, including both realized and unrealized gains and losses, are included in the accompanying statements of activities. In determining realized gains and losses, the cost of investments is determined using the specific-identification method.

Income Taxes

ZOE Ministry is exempt from income taxes under Internal Revenue Code Section 501(c)(3); accordingly, no provision for taxes has been made in the financial statements.

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - Continued

ZOE accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for ZOE include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, ZOE has determined that such tax positions do not result in an uncertainty requiring recognition.

ZOE Ministry Endowment Fund

ZOE established an endowment fund known as the ZOE Ministry Endowment Fund (the “Endowment”) with which funds will be held by the United Methodist Foundation, Inc. and affiliate. The Endowment includes donor-restricted funds which have been classified as permanently restricted with which earnings are unrestricted. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

B. INVESTMENTS

Investments at December 31, 2016 and 2015, represent pooled fund investments held by The United Methodist Foundation, Inc. (the “Foundation”) on behalf of ZOE.

Market Risk

Market risk arises primarily from changes in the market value of financial instruments. Theoretically, ZOE’s exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease ZOE’s overall exposure to market risk. The Foundation attempts to control exposure to market risk through various analytical monitoring techniques.

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

B. INVESTMENTS - Continued

Concentrations of Credit Risk

ZOE's investment portfolio is impacted by various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, ZOE may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument.

In the normal course of business, the Foundation enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, the investor. The maximum exposure under these agreements is unknown, as this may involve future claims that could be made against the investor and have not yet occurred. ZOE expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the financial statements for these indemnifications related to its investments held with the Foundation.

C. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2016 and 2015 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Hope Companion pledges, net of allowance for doubtful accounts of \$11,250 and \$42,320, respectively | \$ 2,982,752 | \$ 2,580,561 |
| Less: Discount for present value | <u>(172,248)</u> | <u>(132,186)</u> |
| Present value of contributions receivable | <u>\$ 2,810,504</u> | <u>\$ 2,448,375</u> |

Maturities of contributions receivable at December 31, 2016 and 2015 are expected to be as follows:

| <u>Year ended December 31,</u> | <u>Amount</u> |
|--------------------------------|--------------------|
| 2017 | \$1,669,465 |
| 2018 | 1,096,488 |
| 2019 | <u>216,799</u> |
| Total expected contributions | <u>\$2,982,752</u> |

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

D. RELATED PARTY TRANSACTIONS

The Conference determined the cost of all accounting and payroll services provided to ZOE during the years ended December 31, 2016 and 2015, which totaled \$122,073 and \$114,735, respectively, and ZOE recorded the cost of these services as in-kind revenue and expense in the accompanying financial statements. In addition, ZOE paid the Conference \$8,148 and \$7,760 in 2016 and 2015, respectively, for office space.

E. RESTRICTED NET ASSETS

Temporarily restricted net assets totaling \$4,184,917 and \$3,613,443 at December 31, 2016 and 2015, respectively, are available for use in Rwanda, Kenya, Zimbabwe, Malawi, Liberia, India, and Guatemala and have either use or time restrictions.

Permanently restricted net assets totaling \$75,000 at both December 31, 2016 and 2015 related to the ZOE Ministry Endowment Fund.

F. NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes:

| | <u>2016</u> | <u>2015</u> |
|-----------|--------------------|--------------------|
| Kenya | \$ 529,587 | \$ 599,816 |
| Rwanda | 574,248 | 578,009 |
| Zimbabwe | 348,548 | 313,520 |
| Malawi | 155,813 | 150,365 |
| Liberia | 144,734 | 106,246 |
| Guatemala | 140,758 | 107,486 |
| India | <u>184,241</u> | <u>145,105</u> |
| | <u>\$2,077,929</u> | <u>\$2,000,547</u> |

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

G. FAIR VALUE MEASUREMENTS

Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ZOE utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities would be an example of the type of investments included in Level 1. As required by the guidance provided by the FASB, ZOE does not adjust the quoted price for these investments, even in situations where the ZOE holds a large position and a sale could reasonably impact the quoted price. ZOE does not have any Level 1 financial investments as of December 31, 2016 or 2015.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments within this category would generally include corporate bonds and loans, less liquid and restricted equity securities, investments in pooled funds, and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments within this category would generally include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt. ZOE does not have any Level 3 financial instruments as of December 31, 2016 or 2015.

ZOE MINISTRY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

G. FAIR VALUE MEASUREMENTS - Continued

The tables below present the balances of financial assets measured at fair value on a recurring basis by level at December 31, 2016 and 2015.

| | <u>Total</u> | Quoted Prices in Active Markets for Identical Assets (<u>Level 1</u>) | Significant Other Observable Inputs (<u>Level 2</u>) | Significant Unobservable Inputs (<u>Level 3</u>) |
|--------------------------------------|------------------|--|--|---|
| 2016: | | | | |
| Financial assets | | | | |
| Investments in pooled funds: | | | | |
| United Methodist Foundation, Inc. | <u>\$308,319</u> | \$ - | <u>\$308,319</u> | \$ - |
| Total financial assets | <u>\$308,319</u> | <u>\$ -</u> | <u>\$308,319</u> | <u>\$ -</u> |
| 2015: | | | | |
| Financial assets | | | | |
| Investments in pooled funds: | | | | |
| United Methodist Foundation, Inc. | <u>\$299,289</u> | \$ - | <u>\$299,289</u> | \$ - |
| Total financial assets | <u>\$299,289</u> | <u>\$ -</u> | <u>\$299,289</u> | <u>\$ -</u> |

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 12, 2017, which is the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.