

THE PROVERBS 31 MINISTRY, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

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THE PROVERBS 31 MINISTRY, INC.
YEARS ENDED DECEMBER 31, 2016 AND 2015

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Proverbs 31 Ministry, Inc.
Matthews, North Carolina

We have audited the accompanying financial statements of The Proverbs 31 Ministry, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expense, 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

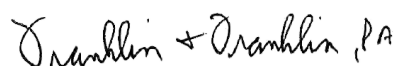
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 The Proverbs 31 Ministry, Inc. 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.



Franklin & Franklin, PA
Matthews, North Carolina

May 10, 2017

THE PROVERBS 31 MINISTRY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents - unrestricted	\$ 413,037	\$ 1,393,396
Accounts and other receivables	9,282	8,326
Pledges receivable	100,789	50,000
Investments	1,105,169	202,204
Inventories	59,287	29,380
Prepaid expenses	86,056	28,779
TOTAL CURRENT ASSETS	<u>1,773,620</u>	<u>1,712,085</u>
OTHER ASSETS:		
Cash and cash equivalents - temporarily restricted	810,511	185,131
Pledges receivable, net of discount (\$7,813 in 2016 and \$2,768 in 2015)	683,756	17,232
Property and equipment, net	324,375	426,592
Land held for sale	749,039	-
Building debt reduction	100,000	100,000
TOTAL OTHER ASSETS	<u>2,667,681</u>	<u>728,955</u>
TOTAL ASSETS	<u>\$4,441,301</u>	<u>\$2,441,040</u>
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ 152,396	\$ 57,911
Accrued PTO liability	51,776	31,946
401(k) liability	14,744	10,688
Line of credit	421,600	-
Deferred revenue	76,069	54,795
TOTAL CURRENT LIABILITIES	<u>716,585</u>	<u>155,340</u>
LONG-TERM DEBT	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>716,585</u>	<u>155,340</u>
NET ASSETS:		
Unrestricted net assets	2,914,205	2,100,569
Temporarily restricted net assets	810,511	185,131
TOTAL NET ASSETS	<u>3,724,716</u>	<u>2,285,700</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$4,441,301</u>	<u>\$2,441,040</u>

The accompanying independent auditor's report and notes are an integral part of these financial statements.

THE PROVERBS 31 MINISTRY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

CHANGES IN UNRESTRICTED NET ASSETS:	<u>2016</u>	<u>2015</u>
SUPPORT AND REVENUE:		
Contributions	\$ 2,379,179	\$ 1,535,756
Resource sales, net of cost of goods sold - \$1,517,599 for 2016 and \$1,060,849 for 2015.	1,096,553	786,997
Ministry training	896,691	649,111
Conference income	644,126	581,060
Speaking ministry income	81,626	105,643
Special projects	60,422	622
Gain/(loss) on investments	3,417	(3,077)
Miscellaneous income (expense)	(97,296)	(10,100)
Net assets released from restrictions	257,948	234,749
TOTAL SUPPORT AND REVENUE	<u>5,322,666</u>	<u>3,880,761</u>
EXPENSES:		
Program expense	3,452,660	2,587,483
Supporting services	754,296	564,608
Fundraising expense	302,074	296,498
TOTAL OPERATING EXPENSES	<u>4,509,030</u>	<u>3,448,589</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>813,636</u>	<u>432,172</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted contributions	883,328	350,148
Net assets released from restrictions	(257,948)	(234,749)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>625,380</u>	<u>115,399</u>
CHANGE IN NET ASSETS	1,439,016	547,571
NET ASSETS, BEGINNING OF YEAR	<u>2,285,700</u>	<u>1,738,129</u>
NET ASSETS, END OF YEAR	<u>\$ 3,724,716</u>	<u>\$ 2,285,700</u>

The accompanying independent auditor's report and notes are an integral part of these financial statements.

THE PROVERBS 31 MINISTRY, INC.
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Management and General	Fundraising		
Compensation and benefits	1,998,979	455,458	207,641	\$ 663,099	\$2,662,078
Conferences	367,204	-	-	-	367,204
Ministry training	449,143	-	-	-	449,143
Consulting	54,274	-	-	-	54,274
Office expense	173,109	64,969	16,788	81,757	254,866
Other ministry expenses	157,499	-	-	-	157,499
Volunteer and staff expense	84,630	-	-	-	84,630
Travel expense	69,324	-	-	-	69,324
Radio expense	31,554	-	-	-	31,554
Online processing fees	-	80,998	-	80,998	80,998
Professional fees	-	41,761	-	41,761	41,761
Marketing expense	-	111,110	-	111,110	111,110
Mid-year and year-end letter	-	-	47,181	47,181	47,181
Fundraising - other	-	-	30,464	30,464	30,464
Depreciation	66,944	-	-	-	66,944
Total Functional Expenses	\$3,452,660	\$ 754,296	\$ 302,074	\$ 1,056,370	\$4,509,030

The accompanying independent auditor's report and notes are an integral part of these financial statements.

THE PROVERBS 31 MINISTRY, INC.
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Management and General	Fundraising		
Compensation and benefits	1,492,530	388,434	213,561	\$601,995	\$2,094,525
Conferences	356,410	-	-	-	356,410
Ministry training	257,170	-	-	-	257,170
Consulting	117,664	-	-	-	117,664
Office expense	114,403	28,098	16,098	44,196	158,599
Other ministry expenses	92,949	-	-	-	92,949
Volunteer and staff expense	41,329	-	-	-	41,329
Travel expense	28,947	32,627	-	32,627	61,574
Radio expense	25,590	-	-	-	25,590
Online processing fees	-	62,961	-	62,961	62,961
Professional fees	-	34,243	-	34,243	34,243
Marketing expense	-	18,245	-	18,245	18,245
Mid-year and year-end letter	-	-	56,256	56,256	56,256
Fundraising - other	-	-	10,583	10,583	10,583
Depreciation	60,491	-	-	-	60,491
Total Functional Expenses	\$2,587,483	\$ 564,608	\$ 296,498	\$861,106	\$3,448,589

The accompanying independent auditor's report and notes are an integral part of these financial statements.

THE PROVERBS 31 MINISTRY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,439,016	\$ 547,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,944	60,491
Previously capitalized land and building costs	37,655	-
Changes in operating assets and liabilities:		
accounts and other receivables	(956)	25,359
receivable due from prior employee	-	14,065
pledges receivable	(717,313)	-
investments	(902,965)	(202,204)
inventories	(29,907)	63,830
prepaid expenses	(57,277)	(23,142)
accounts payable	94,485	25,382
accrued PTO liability	19,830	31,946
401(k) liability	4,056	10,688
deferred revenue	21,274	(59,483)
	(25,158)	494,503
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(37,382)	(111,480)
Purchase of land held for sale	(714,039)	-
Net cash used for investing activities	(751,421)	(111,480)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	630,000	-
Principal payments on line of credit	(208,400)	-
	421,600	-
Net change in cash	(354,979)	383,023
Cash and cash equivalents at beginning of year	1,578,527	1,195,504
Cash and cash equivalents at end of year	\$ 1,223,548	\$ 1,578,527
Cash and cash equivalents-unrestricted	\$ 413,037	\$ 1,393,396
Cash and cash equivalents- temporarily restricted	810,511	185,131
	\$ 1,223,548	\$ 1,578,527

No taxes were paid for 2016 and 2015.

Cash paid for interest was \$14,970 and \$-0- for 2016 and 2015, respectively.

The accompanying independent auditor's report and notes are an integral part of these financial statements.

THE PROVERBS 31 MINISTRY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Proverbs 31 Ministry, Inc. (the “Ministry”) was incorporated as a charitable organization in North Carolina in 1996. The Ministry is a nonprofit organization dedicated to glorifying God. The Ministry uses daily devotions, radio programs, speaking events, conferences, resources, social media, online bible studies, web-based training, and a mobile app to share God’s Word and help women grow in Christ.

Basis of Financial Statement Preparation

The financial statements of the Ministry have been prepared using the accrual basis of accounting.

Financial Statement Presentation

In accordance with Financial Accounting Standards Board ASC Topic 958, *Financial Statements for Not-For-Profit Entities*, and the Ministry is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that have not been restricted by donors and are available for any purpose at the Ministry's discretion.

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Ministry. The Ministry did not hold any permanently restricted net assets as of December 31, 2016 and 2015.

Cash and Cash Equivalents

The Ministry considers all highly-liquid investments, purchased with a maturity of three months or less, to be cash equivalents.

Accounts and Other Receivables

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts if necessary.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Property and equipment acquisitions are capitalized if they are in excess of \$500. Depreciation, including depreciation of assets under capital leases, is provided over the estimated useful lives of the respective assets on a straight-line basis. The cost of property and equipment sold or retired and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in revenue or expense.

THE PROVERBS 31 MINISTRY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Resource Sales

Resource sales are recorded at the time the order is received and reflects the sales of ministry resources. For the year ended December 31, 2016, gross sales were \$2,614,152 less cost of goods sold of \$1,517,599, resulting in net sales of \$1,096,553. For the year ended December 31, 2015, gross sales were \$1,847,846 less cost of goods sold of \$1,060,849, resulting in net sales of \$786,997.

Inventories

Inventories consist primarily of books, audio and video resources, and jewelry and are stated at the lower of cost or market determined by the first-in, first-out method.

Accrued PTO Liability

Effective January 1, 2015, employees may carry forward a limited amount of Personal Time Off (PTO) from one calendar year to another.

Restricted and Unrestricted Revenue

Under ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donated Services

Donated services are provided by volunteers but not reflected herein inasmuch as the amount of the services is indeterminable.

Deferred Revenue

Deferred revenue consists of amounts received as speaker deposits and conference deposits for events to be held in the following year, and deposits received at year end for resources shipped after year end.

Income Taxes

The Ministry has received a determination letter from the Internal Revenue Service stating that the Ministry is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Freight

Freight expense is expensed as incurred.

Advertising

Advertising costs are expensed as incurred.

THE PROVERBS 31 MINISTRY, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2016 AND 2015

Functional Allocation of Expenses

The cost of providing various programs and activities has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited on estimates made by the Ministry's management.

Reclassification

Some 2015 amounts were reclassified to conform to the 2016 presentation. Net assets and the change in net assets were not affected by these reclassifications.

2. PLEDGES RECEIVABLE

Unconditional promises to give are recorded as receivables and revenue when received. The Ministry distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Pledges are expected to be realized in the following periods:

	2016	2015
In one year or less	\$ 100,789	\$ 50,000
Between one year and five years	691,569	20,000
	792,358	70,000
Less:		
Allowance for uncollectible pledges	-	-
Discount	(7,813)	(2,768)
	\$ 784,545	\$ 67,232

3. INVESTMENTS

As of December 31, 2016 and 2015, the Ministry held mutual funds in the amount of \$1,105,169 and \$202,204, respectively. These indexed mutual funds are carried at fair value based on quoted prices in active markets (Level 1 investments). The net income/(loss) on this investment account, \$3,417 and (\$3,077), is reflected in the statement of activities and changes in net assets for the years ended December 31, 2016 and 2015.

4. PROPERTY AND EQUIPMENT

The organization records property at cost (fair value, if donated) and provides for depreciation using the straight-line method over the estimated useful life of the asset (furniture and fixtures and office equipment; five—ten years). Maintenance and repairs are expensed as paid; major renewals or betterments are capitalized. A summary of property at December 31, 2016 and 2015 is as follows:

THE PROVERBS 31 MINISTRY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Furnishings and equipment	\$ 231,713	\$ 202,272
Leasehold improvements	319,746	319,746
Building CIP	7,941	72,655
	559,400	594,673
Less accumulated depreciation	(235,025)	(168,081)
Property, net	\$ 324,375	\$ 426,592

5. DEFINED CONTRIBUTION PENSION PLAN

Effective January 1, 2015, the Ministry maintains a defined contribution pension plan as defined under Section 401(k) of the U.S. Internal Revenue Code. Employees are eligible to participate after six months (1,000 hours) of service. The Ministry will match plan contributions up to 4% of wages, excluding bonuses, overtime, and commission. Employer contributions during the years ended December 31, 2016 and 2015 were \$56,582 and \$37,413, respectively.

6. JOINT COSTS

The Ministry incurs compensation and benefits expense for employees that affects program expense, supporting expense, and fundraising expense. Total compensation and benefits expense for the years ended December 31, 2016 and 2015 were \$2,662,078 and \$2,094,525, respectively. The Ministry allocated \$1,998,101 and \$1,492,530, respectively, to program expense, \$455,458 and \$388,434, respectively, to supporting services expense, and \$207,641 and \$213,561, respectively, to fundraising expense.

7. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2016 and 2015, temporarily restricted net assets are as follows:

	2016	2015
Building Expansion Fund	\$ 780,511	\$ 26,216
Church Partnerships	30,000	-0-
First Five Mobile App	-0-	158,915
Total Temporarily Restricted Net Assets	\$ 810,511	\$ 185,131

8. OPERATING LEASES

The Ministry has non-cancelable operating leases, primarily for various forms of office equipment, their main office building, and a second, smaller, leased office space. Those leases generally contain renewal options and require the Ministry to pay all executory costs such as taxes, maintenance and insurance. Rental expenses amounted to \$120,680 and \$89,537 for the years ended December 31, 2016 and 2015, respectively, and is included in office expense on the statement of activities and changes in net assets. The Ministry also signed a 12-month contract for software services in October 2015. A portion of this contract is payable in 2016.

THE PROVERBS 31 MINISTRY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Lease terms for the main office building provide for a ten year lease with two additional five year extensions. The lease is set to expire in 2022. Terms provide for an option to purchase the building for an amount provided by the contract, which is adjusted annually. As of February 2015, the purchase price was \$574,167 and will adjust annually with a rate of 5.5% applied to the outstanding balance. As of December 31, 2016, the Ministry has paid an additional \$100,000 towards the purchase of the building.

The Ministry also leased office space at a secondary location in Matthews, North Carolina during 2016 and 2015. The lease for this office space expires in August 2018.

Future minimum lease payments under operating leases as of December 31, 2016 are as follows:

Years Ending December 31:	
2017	\$137,016
2018	111,616
2019	63,816
2020	63,816
2021	63,816
2022 and beyond	53,180

9. CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Ministry to concentrations of credit risk, consist principally of cash, cash equivalents and mutual funds. The Ministry maintains its cash accounts with a federally insured financial institution. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Ministry had deposits in excess of FDIC limits in the amount of \$541,361. The mutual funds are held at an investment company that is protected under the Securities Investor Protection Corporation, which provides coverage up to \$500,000, including \$250,000 in cash. At December 31, 2016, the Ministry held \$295,084 of cash in the investment company account. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

10. CONCENTRATION OF PURCHASES

During the year 2015, an e-commerce company took over the processing and fulfillment of all resource sales and maintained all inventory. As a result, payments to this vendor increased significantly. Total disbursements to this e-commerce company totaled \$1,115,231 and \$815,460 for the years ended December 31, 2016 and 2015.

11. RELATED PARTY TRANSACTIONS

The Ministry reimbursed a company owned by a related party of the president for actual pilot and fuel expenses for an airplane used for ministry purposes. The amount paid to this company is considered at market or below market price. Speaking fees and expenses received by and paid by the president are not reflected in these statements.

The Ministry receives contributions from members of the Executive Team and Board of Directors. Total contributions from these individuals in 2016 and 2015 were \$226,044 and \$154,008, respectively.

THE PROVERBS 31 MINISTRY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

12. LINE OF CREDIT

The Ministry opened a line of credit in November 2015 in the amount of \$700,000, which is secured by cash and cash equivalents. As of December 31, 2016, the Ministry has drawn \$630,000 on the line, \$421,600 of which was still outstanding as of 12/31/2016. As of May 10, 2017, the Ministry has repaid the line of credit in full.

13. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through May 10, 2017, the date on which the financial statements were available to be issued. The land purchased at \$740,000 and reflected in Land Held for Sale on the Statement of Financial Position is on the market as of May 10, 2017. Because of rapid growth, the Ministry is considering other options, including purchasing an existing building that would provide more square footage and parking than the previously purchased land could support.