

THE PROVERBS 31 MINISTRY, INC.  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
AND  
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA  
CERTIFIED PUBLIC ACCOUNTANTS

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THE PROVERBS 31 MINISTRY, INC.  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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# FRANKLIN & FRANKLIN, PA

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, 2017 and 2016, 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, 2017 and 2016, 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

April 12, 2018

THE PROVERBS 31 MINISTRY, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents - unrestricted	\$ 1,128,901	\$ 983,998
Accounts and other receivables	10,490	9,282
Pledges receivable	91,256	100,789
Investments	1,331,106	1,105,169
Inventories	180,410	59,287
Prepaid expenses	73,885	86,056
TOTAL CURRENT ASSETS	2,816,048	2,344,581
OTHER ASSETS:		
Cash and cash equivalents - temporarily restricted	230,739	239,550
Pledges receivable, net of discount (\$5,521 in 2017 and \$7,813 in 2016)	465,185	683,756
Property and equipment, net	267,841	324,375
Land held for sale	749,039	749,039
Website, net of amortization (\$11,543 in 2017 and \$0 in 2016)	73,717	-
Building debt reduction	100,000	100,000
TOTAL OTHER ASSETS	1,886,521	2,096,720
TOTAL ASSETS	\$ 4,702,569	\$ 4,441,301
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	\$ 140,054	\$ 152,396
Accrued PTO liability	53,991	51,776
401(k) liability	16,270	14,744
Line of credit	-	421,600
Deferred revenue	69,941	76,069
TOTAL CURRENT LIABILITIES	280,256	716,585
LONG-TERM DEBT	-	-
TOTAL LIABILITIES	280,256	716,585
NET ASSETS:		
Unrestricted net assets	3,726,389	2,914,205
Temporarily restricted net assets	695,924	810,511
TOTAL NET ASSETS	4,422,313	3,724,716
TOTAL LIABILITIES AND NET ASSETS	\$ 4,702,569	\$ 4,441,301

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, 2017 AND 2016

CHANGES IN UNRESTRICTED NET ASSETS:	2017	2016
SUPPORT AND REVENUE:		
Contributions	\$ 2,900,773	\$ 2,379,179
Resource sales, net of cost of goods sold - \$1,569,828 for 2017 and \$1,517,599 for 2016.	1,422,810	1,096,553
Ministry training	1,059,910	896,691
Conference income	599,880	644,126
Speaking ministry income	82,349	81,626
Special projects	4,033	60,422
Gain on investments	43,639	3,417
Miscellaneous income (expense)	(81,400)	(104,803)
Net assets released from restrictions	180,858	257,948
TOTAL SUPPORT AND REVENUE	6,212,852	5,315,159
EXPENSES:		
Program services expense	4,072,495	3,452,660
Management and general expense	937,092	746,789
Fundraising expense	391,081	302,074
TOTAL OPERATING EXPENSES	5,400,668	4,501,523
CHANGE IN UNRESTRICTED NET ASSETS	812,184	813,636
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted contributions	66,271	883,328
Net assets released from restrictions	(180,858)	(257,948)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(114,587)	625,380
CHANGE IN NET ASSETS	697,597	1,439,016
NET ASSETS, BEGINNING OF YEAR	3,724,716	2,285,700
NET ASSETS, END OF YEAR	\$ 4,422,313	\$ 3,724,716

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, 2017

	Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Management and General	Fundraising		
Compensation and benefits	\$2,519,510	\$ 618,306	\$ 228,174	\$ 846,480	\$3,365,990
Conferences	348,821	-	-	-	348,821
Ministry training	335,453	25,055	-	25,055	360,508
Consulting	17,800	-	-	-	17,800
Office expense	192,686	68,141	16,622	84,763	277,449
Other ministry expenses	40,283	-	-	-	40,283
Volunteer and staff expense	63,825	21,275	-	21,275	85,100
Travel expense	80,753	-	-	-	80,753
Radio expense	26,503	-	-	-	26,503
Online processing fees	50,314	75,283	-	75,283	125,597
Professional fees	-	91,409	-	91,409	91,409
Marketing expense	335,585	21,150	-	21,150	356,735
Newsletter expense	-	-	-	-	-
Mid-year and year-end letter	-	-	82,913	82,913	82,913
Fundraising - other	-	-	63,372	63,372	63,372
Depreciation and amortization	60,962	16,473	-	16,473	77,435
<b>Total Functional Expenses</b>	<b>\$4,072,495</b>	<b>\$ 937,092</b>	<b>\$ 391,081</b>	<b>\$1,328,173</b>	<b>\$5,400,668</b>

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	57,462	16,788	74,250	247,359
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 and amortization	66,944	-	-	-	66,944
<b>Total Functional Expenses</b>	<b>\$ 3,452,660</b>	<b>\$ 746,789</b>	<b>\$ 302,074</b>	<b>\$ 1,048,863</b>	<b>\$ 4,501,523</b>

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 697,597	\$ 1,439,016
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	77,435	66,944
Loss on sale of assets	695	-
Loss on previously capitalized land and building costs	7,941	37,655
Changes in operating assets and liabilities:		
accounts and other receivables	(1,208)	(956)
pledges receivable	228,104	(717,313)
investments	(225,937)	(902,965)
inventories	(121,123)	(29,907)
prepaid expenses	12,171	(57,277)
accounts payable	(12,342)	94,485
accrued PTO liability	2,215	19,830
401(k) liability	1,526	4,056
deferred revenue	(6,128)	21,274
	<u>660,946</u>	<u>(25,158)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(19,943)	(37,382)
Payments on website development	(85,260)	-
Proceeds from asset sale	1,949	-
Purchase of land held for sale	-	(714,039)
Net cash used for investing activities	<u>(103,254)</u>	<u>(751,421)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	-	630,000
Principal payments on line of credit	(421,600)	(208,400)
Net cash used for financing activities	<u>(421,600)</u>	<u>421,600</u>
Net change in cash	136,092	(354,979)
Cash and cash equivalents at beginning of year	<u>1,223,548</u>	<u>1,578,527</u>
Cash and cash equivalents at end of year	<u>\$ 1,359,640</u>	<u>\$ 1,223,548</u>
Cash and cash equivalents-unrestricted	\$ 1,128,901	\$ 983,998
Cash and cash equivalents- temporarily restricted	230,739	239,550
	<u>\$ 1,359,640</u>	<u>\$ 1,223,548</u>

No taxes were paid for 2017 and 2016.

Cash paid for interest was \$1,910 and \$14,970 for 2017 and 2016, 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, 2017 AND 2016

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, a mobile application, online Bible studies, social media, resources, web-based training, radio, speaking events, and conferences to share God’s Word and help women grow in Christ.

Basis of Accounting

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*, 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, 2017 and 2016.

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 \$1,000. 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  
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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, 2017, gross sales were \$2,992,638 less cost of goods sold of \$1,569,828, resulting in net sales of \$1,422,810. 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.

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

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 on resource products are included in inventory until the product is sold, at which point it is expensed. Freight on supplies and other items are expensed as incurred.

THE PROVERBS 31 MINISTRY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED DECEMBER 31, 2017 AND 2016

Advertising

Advertising costs are expensed as incurred.

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 2016 amounts were reclassified to conform to the 2017 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:

	2017	2016
In one year or less	\$ 91,256	\$ 100,789
Between one year and five years	470,706	691,569
	561,962	792,358
Less:		
Allowance for uncollectible pledges	-	-
Discount	(5,521)	(7,813)
	\$ 556,441	\$ 784,545

3. INVESTMENTS

As of December 31, 2017 and 2016, the Ministry held mutual funds and fixed income bonds in the amount of \$1,331,106 and \$1,105,169, respectively. These funds are carried at fair value based on quoted prices in active markets (Level 1 investments). The net income on this investment account, \$43,639 and \$3,417, is reflected in the statement of activities and changes in net assets for the years ended December 31, 2017 and 2016.

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

THE PROVERBS 31 MINISTRY, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

equipment; five—ten years). Maintenance and repairs are expensed as paid; major renewals or betterments are capitalized. A summary of property at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Furnishings and equipment	\$ 246,935	\$ 231,713
Leasehold improvements	319,746	319,746
Building CIP	<u>-</u>	<u>7,941</u>
	566,681	559,400
Less accumulated depreciation	<u>(298,840)</u>	<u>(235,025)</u>
Property, net	<u>\$ 267,841</u>	<u>\$ 324,375</u>

#### 5. DEFINED CONTRIBUTION PENSION PLAN

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, 2017 and 2016 were \$67,284 and \$56,582, 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, 2017 and 2016 were \$3,365,990 and \$2,662,078, respectively. The Ministry allocated \$2,519,510 and \$1,998,979, respectively, to program expense, \$618,306 and \$455,458, respectively, to supporting services expense, and \$228,174 and \$207,641, respectively, to fundraising expense.

#### 7. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2017 and 2016, temporarily restricted net assets are as follows:

	<u>2017</u>	<u>2016</u>
Building Expansion Fund	\$ 655,924	\$ 780,511
Church Partnerships	30,000	30,000
Digital Accessibility	<u>10,000</u>	<u>-0-</u>
Total Temporarily Restricted Net Assets	<u>\$ 695,924</u>	<u>\$ 810,511</u>

The Building Expansion Fund includes restricted funds comprised of pledges and cash contributions made by donors primarily in 2016-2017 toward a building expansion and purchase of land. This expansion project is pending the completion of the Ministry's strategic plan. The Ministry is working directly with donors whose contribution restrictions have not been met to clarify the current status as well as future expectations.

THE PROVERBS 31 MINISTRY, INC.  
NOTES TO FINANCIAL STATEMENTS  
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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 \$141,307 and \$120,680 for the years ended December 31, 2017 and 2016, respectively, and is included in office expense on the statement of activities and changes in net assets.

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, 2017, 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 2017 and 2016. The lease for this office space expires in August 2018.

Future minimum lease payments under operating leases as of December 31, 2017 are as follows:

Years Ending December 31:	
2018	\$111,616
2019	63,816
2020	63,816
2021	63,816
2022	53,180
2023 and beyond	-0-

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, 2017, the Ministry had deposits in excess of FDIC limits in the amount of \$728,810. 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, 2017, the Ministry held \$112,786 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

Since 2015, an e-commerce company has managed the processing and fulfillment of all resource sales and maintained most inventory. Total disbursements to this e-commerce company totaled \$1,398,547 and \$1,115,231 for the years ended December 31, 2017 and 2016.

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

THE PROVERBS 31 MINISTRY, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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 2017 and 2016 were \$147,482 and \$452,663, respectively.

#### 12. LINE OF CREDIT

The Ministry opened a line of credit in November 2015 in the amount of \$700,000, which was secured by cash and cash equivalents. In 2016, the Ministry had drawn \$630,000 on the line, \$421,600 of which was outstanding as of December 31, 2016. During 2017, the Ministry has repaid the line of credit in full.

#### 13. LAND HELD FOR SALE

In 2016, the Ministry purchased land with the original intention of building a new facility. However, the plans for expansions changed and the land was not developed. The land has been on the market for sale as of December 2016 and through 2017. As of December 31, 2017, the land is contracted for sale, scheduled to close late in 2018.

#### 14. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through April 12, 2018, the date on which the financial statements were available to be issued.