

INTERACT MINISTRIES, INC.
FINANCIAL STATEMENTS
Year Ended March 31, 2014



INTERACT MINISTRIES, INC.

FINANCIAL STATEMENTS

Year Ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
InterAct Ministries, Inc.
Boring, Oregon

We have audited the accompanying financial statements of InterAct Ministries, Inc. (a non-profit organization), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 InterAct Ministries, Inc. as of March 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kern & Thompson, LLC
Portland, Oregon
July 21, 2014

INTERACT MINISTRIES, INC.
STATEMENT OF FINANCIAL POSITION
March 31, 2014

ASSETS

Cash and cash equivalents	\$ 62,240
Prepaid expenses	16,699
Investments	1,928,819
Property and equipment, net	<u>373,350</u>
Total assets	\$ <u>2,381,108</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses payable	\$ 33,623
Accrued payroll and related liabilities	18,680
Rent deposits	8,975
Liability under split interest agreements	<u>263,690</u>
Total liabilities	<u>324,968</u>
Unrestricted Net assets	
Board-designated ministry funds	178,556
Board-designated work funds	113,967
Board-designated fire insurance	125,000
Invested in property and equipment	373,350
Available for operations	<u>1,265,267</u>
Total unrestricted net assets	<u>2,056,140</u>
Total liabilities and net assets	\$ <u>2,381,108</u>

See notes to financial statements.

INTERACT MINISTRIES, INC.

STATEMENT OF ACTIVITIES

Year Ended March 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions	\$ 2,246,456	\$ -	\$ 2,246,456
Interest and dividends	95,364	-	95,364
Rental and service fees	105,806	-	105,806
Sale of merchandise	10,122	-	10,122
Other revenue	16,960	-	16,960
	<u>2,474,708</u>	<u>-</u>	<u>2,474,708</u>
Net assets released from restrictions	<u>180,815</u>	<u>(180,815)</u>	<u>-</u>
Total support and revenue	<u>2,655,523</u>	<u>(180,815)</u>	<u>2,474,708</u>
Expenses			
Program services			
Evangelism and discipleship - Canada	764,377	-	764,377
Evangelism and discipleship - Alaska	552,862	-	552,862
Support ministries - Alaska	280,752	-	280,752
Community development - Russia	245,117	-	245,117
Home ministry	7,679	-	7,679
Bible schools and training	14,189	-	14,189
Other programs and ministries	81,199	-	81,199
Supporting services			
Management and general	432,066	-	432,066
Fundraising	72,675	-	72,675
Total expenses	<u>2,450,916</u>	<u>-</u>	<u>2,450,916</u>
Change in net assets before investment gain (loss)	204,607	(180,815)	23,792
Net realized and unrealized gains and (losses) on investments	<u>171,462</u>	<u>-</u>	<u>171,462</u>
Change in net assets	376,069	(180,815)	195,254
Net assets, beginning of year, as restated	<u>1,680,071</u>	<u>180,815</u>	<u>1,860,886</u>
Net assets, end of year	<u>\$ 2,056,140</u>	<u>\$ -</u>	<u>\$ 2,056,140</u>

See notes to financial statements.

INTERACT MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended March 31, 2014

	PROGRAM SERVICES							SUPPORTING SERVICES			
	Evangelism and Discipleship Canada	Evangelism and Discipleship Alaska	Support Ministries Alaska	Community Development Russia	Home Ministry	Bible School and Training	Other Programs and Ministries	Total Program	Management and General	Fund-raising	Total
	Salaries	\$ -	\$ 285,296	\$ 95,561	\$ 149,079	\$ -	\$ 11,683	\$ 31,036	\$ 572,655	\$ 230,159	\$ 52,000
Housing allowance	-	67,557	64,839	24,000	-	-	24,000	180,396	20,895	-	201,291
Payroll taxes	-	18,347	5,147	8,485	-	894	-	32,873	16,402	3,978	53,253
Professional services	1,078	1,140	1,902	422	-	-	-	4,542	12,779	2,488	19,809
Staff training/member care	-	1,887	150	-	-	-	-	2,037	2,751	20	4,808
Public Relations	-	337	-	-	-	-	-	337	2,468	-	2,805
Insurance	-	7,485	3,057	-	-	-	-	10,542	3,726	-	14,268
Office and printing supplies	1,329	2,453	2,493	-	-	22	37	6,334	40,951	2,604	49,889
Telephone expense	-	2,450	458	-	-	-	-	2,908	4,000	-	6,908
Postage and shipping	-	232	1,414	-	-	-	-	1,646	11,188	736	13,570
Utilities	-	-	14,591	-	-	-	-	14,591	5,096	-	19,687
Repairs and maintenance	-	2,568	26,038	-	-	-	-	28,606	13,439	-	42,045
Vehicle expense	-	1,199	5,262	-	660	-	-	7,121	5,621	1,586	14,328
Travel and meals	-	5,368	-	2,063	3,861	-	-	11,292	14,976	2,332	28,600
Meetings and Conferences	-	7,752	53	10,048	1,975	-	-	19,828	10,608	3,716	34,152
Miscellaneous	105	1,905	168	715	-	-	161	3,054	8,185	2,435	13,674
Interest and Taxes	-	-	25,163	-	-	-	-	25,163	15,198	780	41,141
Depreciation Expense	-	-	15,078	-	-	-	-	15,078	4,551	-	19,629
Grants to US Affiliates	300	-	-	5,343	-	-	10,116	15,759	-	-	15,759
Grants to Canada	761,565	3	-	-	564	-	6,425	768,557	-	-	768,557
Grants to Russia	-	-	-	29,550	-	-	-	29,550	-	-	29,550
MER reimbursement	-	146,883	19,378	15,412	619	1,590	9,424	193,306	9,073	-	202,379
	<u>\$ 764,377</u>	<u>\$ 552,862</u>	<u>\$ 280,752</u>	<u>\$ 245,117</u>	<u>\$ 7,679</u>	<u>\$ 14,189</u>	<u>\$ 81,199</u>	<u>\$ 1,946,175</u>	<u>\$ 432,066</u>	<u>\$ 72,675</u>	<u>\$ 2,450,916</u>

See notes to financial statements.

INTERACT MINISTRIES, INC.
STATEMENT OF CASH FLOWS
Year Ended March 31, 2014

Cash flows from operating activities:	
Change in net assets	\$ 195,254
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	19,629
Net realized and unrealized (gains) losses on investments	(171,462)
Changes in assets and liabilities	
Prepaid expenses	(1,035)
Accounts and accrued expenses payable	15,538
Accrued payroll and related liabilities	95
Rent deposits	4,300
Liabilities under split interest agreements	12,092
Net cash provided by (used in) operating activities	<u>74,411</u>
Cash flows from investing activities:	
Purchase of investments	(792,704)
Proceeds from sale of investments	733,790
Purchase of property and equipment	(17,575)
Net cash provided by (used in) investing activities	<u>(76,489)</u>
Net change in cash and cash equivalents	(2,078)
Cash and cash equivalents, beginning of year	<u>64,318</u>
Cash and cash equivalents, end of year	<u>\$ 62,240</u>

See notes to financial statements.

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A – DESCRIPTION OF ORGANIZATION

InterAct Ministries, Inc. (the Organization) is a religious organization associated with churches of the Protestant faith. The general office is located in Boring, Oregon, and serves missionaries in Alaska, Canada, and Russia. The purpose of the Organization is to glorify God by seeking to fulfill the Great Commission of “making disciples of all nations” through the establishment of indigenous churches among unreached people and groups. Operations are supported largely by contributions from individuals and churches interested in supporting the work of the missionaries.

The activities of the Organization consist of the following:

➤ **Program Expenses**

Evangelism and Discipleship - Canada – The Organization provides funding and administrative support for over 30 missionary families who provide evangelization and discipleship among the least-reached people groups in approximately 20 communities throughout western Canada. Ministries include youth outreach and conferences, leadership training, friendship evangelism, Bible studies, worship services, and other church-related activities.

Evangelism and Discipleship - Alaska - The Organization provides funding and administrative support for over 20 missionary families who provide evangelization and discipleship in approximately 10 communities in Alaska. Ministries include youth outreach and conferences, leadership training, friendship evangelism, Bible studies, worship services and other church-related activities.

Support Ministries - Alaska - The Organization maintains a 140 acre campus facility in Palmer, Alaska to provide conference and training facilities for the Organization and other associated ministries. The facility includes individual houses and dorms, meeting rooms and recreation space, as well as, an airstrip, offices and maintenance facilities. This campus greatly enhances the evangelism, discipleship, and training ministries of the Organization and other similar organizations throughout the state.

The Organization also has a dedicated team of staff trained to provide pastoral care to other staff members serving in difficult and remote ministry locations.

Community Development - Russia – The Organization provides the administration and support of four missionary families in Russia who are involved in discipleship and community development ministries in eastern Siberia. Staff members provide training and coaching to indigenous peoples desiring to make an economic impact in their communities. The Organization also provides initial funding for start-up businesses in the regions served. Once the businesses are stable, the initial funding is repaid through an associated organization in Siberia and becomes available for further community development projects.

Home Ministry, Bible School, and other Ministries - In addition to serving in Canada, Alaska, and Russia, the Organization’s staff also ministers to churches and individuals in the 48 contiguous states in return for program funding. Field staff speak and teach in these supporting churches on a regular basis. Staff new to the Organization will minister in their local churches prior to their first field assignment.

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

NOTE A – DESCRIPTION OF ORGANIZATION (CONTINUED)

The Organization also has a dedicated team of staff trained to provide pastoral care to other staff members serving in difficult and remote ministry locations.

The Organization also operates residential and extension Bible training and discipleship programs, as well as follow-up ministry to former students.

From time to time, when the Organization's ministry purposes can be expanded, staff will be assigned to minister with other organizations on a short-term basis.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues and support are recorded when earned, and expenditures are recorded as incurred.

Basis of Presentation

In accordance with generally accepted accounting principles for not-for-profit organizations, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - consist of resources over which the Organization has discretionary control to use in carrying on the general operations of the Organization.
- **Temporarily Restricted Net Assets** - consist of resources that have donor-imposed restrictions that permit the Organization to use up or expend the donated or granted assets as specified and are satisfied either by the passage of time or by specific actions of the Organization.
- **Permanently Restricted Net Assets** - consist of contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization currently has no permanently restricted net assets.

Expenses are reported as a decrease in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents

For financial reporting purposes, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Fair Value Measurements

Investments are the only assets measured at fair value on a recurring basis. Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data by correlation such as appraisals or other means such as calculations based on contractual rates and published tables.

Level 3 – Unobservable inputs that reflect management's assumptions and best estimates based on available data.

Investments are carried at fair value based on quoted prices in active markets in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-Kind Contributions

The Organization receives a substantial amount of donated services from a number of volunteers who assist in a range of operations. No amounts have been reflected in the financial statements for those services because they did not meet the criteria for recognition.

Income Taxes

The Organization has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's federal exempt organization information returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Expenditures for land, buildings, equipment, and automobiles over \$5,000 are capitalized at cost. Donated assets to be used in the ministry are capitalized at their fair market value on the date of the gift. Depreciation of buildings, equipment, and automobiles is computed by the straight-line method over the estimated useful lives of the assets (buildings up to 40 years and equipment and automobiles up to 5 years.)

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At March 31, 2014 the Organization had no uninsured cash balances.

NOTE C – INVESTMENTS

Investments are measured at fair value as follows as of March 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 23,468	\$ -	\$ -	\$ 23,468
Equities	1,676,518	-	-	1,676,518
Fixed income	217,227	-	-	217,227
Other	11,606	-	-	11,606
	<u>\$ 1,928,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,928,819</u>

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of March 31, 2014:

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Alaska ministry properties	\$ 905,289	\$ (832,350)	\$ 72,939
Office building	188,467	(177,720)	10,747
Furniture and equipment	107,897	(92,553)	15,344
Vehicles	16,700	(10,450)	6,250
Land	268,070	-	268,070
	<u>\$ 1,486,423</u>	<u>\$ (1,113,073)</u>	<u>\$ 373,350</u>

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

NOTE E – SPLIT INTEREST AGREEMENTS AND OTHER TRUSTS

The Organization has a Deferred Giving program that includes gift annuities, revocable trusts, and charitable remainder unitrusts. The trusts are administered by the Organization which acts as trustee.

Under terms of the split interest trusts, the donors and/or their families receive annual distributions from the trusts during their lifetime. At the time of the donor's death or after a fixed period, the assets of the trusts will be distributed to all beneficiaries, which may include organizations other than InterAct Ministries, Inc. The remainder is invested by the Organization consistent with its overall investment objectives.

The liability under split interest agreements is present based on donor life expectancy or a fixed period using an appropriate discount rate, and calculated from the present value of future benefits expected to be paid by the Organization. This was estimated to be \$263,690 as of March 31, 2014.

On an annual basis, the Organization revalues the assets in these trusts and adjusts the liability. The resulting actuarial gain or loss is recorded as a change in unrestricted net assets. No new remainder trusts were created for the year ending March 31, 2014.

NOTE F – RELATED PARTY TRANSACTIONS

The Organization has a joint ministry agreement with InterAct Ministries of Canada (IMC). The organizations are separate entities, however, they share goals and a common mission. They share an Executive Director and have at least one common Board member. The Organization received \$14,232 from IMC as compensation for processing certain donations that are sent to Canadian ministries. The Organization made grants totaling \$761,565 to IMC.

NOTE G – RESTATEMENT

Net assets as of March 31, 2013 have been restated to record an adjustment for an error in identifying land held by the Organization. In 2004, the Organization recorded the donated buildings, but not the land associated with a duplex and log cabin in Alaska. The cumulative effect on the restatement on beginning net assets and the effect on the financial statements for the year ended March 31, 2013 is as follows:

	<u>Land</u>	<u>Unrestricted Net Assets</u>
Land and net assets at March 31, 2013, as previously reported	\$ 169,770	\$ 1,581,771
Additional land donated in 2004	<u>98,300</u>	<u>98,300</u>
Restated land and net assets as of March 31, 2013	<u>\$ 268,070</u>	<u>\$ 1,680,071</u>

INTERACT MINISTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

NOTE H – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 21, 2014, which is the date the financial statements were available to be issued.