



PIONEERS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019





REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Pioneers, Inc.
Orlando, Florida

We have audited the accompanying consolidated financial statements of Pioneers, Inc. ("the Organization"), which consist of the consolidated statement of financial position as of September 30, 2019, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pioneers, Inc. as of September 30, 2019, the changes in its consolidated net assets, and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Battt Morrison Wales & Lee, P.A.

BATTt MORRISON WALES & LEE, P.A.

Orlando, Florida
January 28, 2020

BATTt MORRISON WALES & LEE, P.A. • CERTIFIED PUBLIC ACCOUNTANTS

OFFICES | ORLANDO • DALLAS
800.960.0803 • WWW.NONPROFITCPA.COM
KEEPING WATCH FOR NONPROFITS ACROSS THE UNITED STATES®

PIONEERS, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2019

ASSETS

ASSETS

Cash and cash equivalents (Note B)	\$ 973,978
Investments (Note E)	22,915,769
Other assets	942,572
Land, buildings, and equipment, net (Note F)	<u>17,877,510</u>

Total assets	<u>\$ 42,709,829</u>
---------------------	-----------------------------

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,746,377
Line of credit (Note G)	<u>1,900,000</u>

Total liabilities	<u>3,646,377</u>
--------------------------	-------------------------

NET ASSETS

Without donor restrictions (Note H)	34,387,848
With donor restrictions (Note I)	<u>4,675,604</u>

Total net assets	<u>39,063,452</u>
-------------------------	--------------------------

Total liabilities and net assets	<u>\$ 42,709,829</u>
---	-----------------------------

PIONEERS, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For The Year Ended September 30, 2019

	Without donor restrictions	With donor restrictions	Total
PUBLIC SUPPORT AND REVENUE AND NET ASSETS			
RELEASED FROM RESTRICTIONS			
Contributions	\$ 63,295,038	\$ 2,318,977	\$ 65,614,015
Grant revenue	—	979,543	979,543
Campground revenue	1,418,161	—	1,418,161
Other income	786,618	—	786,618
Interest and dividend income	600,752	—	600,752
Net gain on investments	598,513	—	598,513
Net assets released from restrictions	<u>3,809,187</u>	<u>(3,809,187)</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>70,508,269</u>	<u>(510,667)</u>	<u>69,997,602</u>
EXPENSES			
Program activities			
Evangelism and church planting	50,198,492	—	50,198,492
Ministry to constituency	4,378,697	—	4,378,697
Training	2,218,180	—	2,218,180
Membership development	1,889,009	—	1,889,009
Short-term overseas ministries	<u>401,482</u>	<u>—</u>	<u>401,482</u>
Total program activities	<u>59,085,860</u>	<u>—</u>	<u>59,085,860</u>
Supporting activities			
Management and general	6,435,767	—	6,435,767
Fundraising - general	2,745,306	—	2,745,306
Campground expenses	1,265,917	—	1,265,917
Fundraising - appointees	<u>1,079,349</u>	<u>—</u>	<u>1,079,349</u>
Total supporting activities	<u>11,526,339</u>	<u>—</u>	<u>11,526,339</u>
Total expenses	<u>70,612,199</u>	<u>—</u>	<u>70,612,199</u>
CHANGE IN NET ASSETS	(103,930)	(510,667)	(614,597)
NET ASSETS - Beginning of year	<u>34,491,778</u>	<u>5,186,271</u>	<u>39,678,049</u>
NET ASSETS - End of year	<u>\$ 34,387,848</u>	<u>\$ 4,675,604</u>	<u>\$ 39,063,452</u>

The Accompanying Notes are an Integral
Part of These Consolidated Financial Statements

PIONEERS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2019

OPERATING CASH FLOWS

Cash received from contributors and grantors	\$ 67,493,558
Other revenue received	2,204,779
Investment income received	600,752
Cash paid for operating activities and costs	<u>(69,557,492)</u>

Net operating cash flows	<u>741,597</u>
---------------------------------	-----------------------

INVESTING CASH FLOWS

Purchases of investments	(4,411,817)
Proceeds from sales of investments	4,993,591
Purchases of and improvements to land, buildings, and equipment	<u>(547,865)</u>

Net investing cash flows	<u>33,909</u>
---------------------------------	----------------------

FINANCING CASH FLOWS

Borrowings	13,000,000
Repayments	<u>(14,050,000)</u>

Net financing cash flows	<u>(1,050,000)</u>
---------------------------------	---------------------------

NET CHANGE IN CASH AND CASH EQUIVALENTS	(274,494)
--	------------------

CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,248,472</u>
--	-------------------------

CASH AND CASH EQUIVALENTS - End of year	<u><u>\$ 973,978</u></u>
--	---------------------------------

RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS

Change in net assets	\$ (614,597)
Adjustments to reconcile change in net assets to net operating cash flows	
Depreciation and amortization	1,047,458
Net gain on investments	(598,513)
Change in other assets	901,863
Change in accounts payable and accrued expenses	<u>5,386</u>

Net operating cash flows	<u><u>\$ 741,597</u></u>
---------------------------------	---------------------------------

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE A – NATURE OF ACTIVITIES

Pioneers, Inc. (“the Organization”) is a Virginia not-for-profit corporation which is authorized to conduct activities in the state of Florida. The purpose of the Organization, a Christian ministry, is to evangelize and plant churches among the major blocks of unreached people worldwide. The Organization is headquartered in Orlando, Florida. The Organization also has a franchise agreement with Kampgrounds of America, under which it operates a campground at its headquarters location, which does business as “Orlando Lake Whippoorwill KOA”. The franchise agreement will terminate in April 2020. In addition, the Organization operates a retail business known as “Latitudes,” which sells crafts purchased from businesses that have been established alongside church planting efforts in foreign countries. The Organization also sells books and media items.

In conformity with accounting principles generally accepted in the United States of America (“GAAP”), the consolidated financial statements of the Organization include the accounts of the following organizations:

- Arab World Ministries, Inc. (“AWM”), a not-for-profit New Jersey corporation, the principal activity of which is converting people to the Lord Jesus Christ and discipling them into spiritual maturity through the establishment of new churches. AWM ceded control of its governing board to the Organization.
- Lake Whip 1 LLC (“Lake Whip”), a Florida limited liability company organized to own certain real estate. The Organization is the sole member of Lake Whip.
- William Carey LLC (“WC LLC”), a Florida limited liability company organized for general business purposes. The Organization is the sole member of WC LLC.
- Mission Pointe Owners’ Association, Inc. (“Mission Pointe”), a not-for-profit Florida corporation organized to provide ownership, operation, maintenance, and preservation of certain property. The Organization and Lake Whip are the current members of Mission Pointe.
- The Organization has the authority to appoint or elect the governing bodies of two other entities. These separate legal entities are utilized to carry on specific work in various countries where the use of a separate entity provides practical or legal advantages. For security purposes, the names of the entities are not disclosed in these notes. In conformity with GAAP, the financial statements of these organizations are consolidated with the Organization’s financial statements.

All significant interorganization transactions and balances have been eliminated in consolidation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition and change in accounting policy

The Organization recognizes cash contributions as revenue when the contributions are received by the Organization. Contributions received are recorded as without or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restrictions are reclassified to net assets without restrictions and reported in the consolidated statement of activities as “net assets released from restrictions.”

All contributions are received as donations to the Organization and not to specific individuals. Contributions which donors request to be used to support the ministry activities of specific missionaries are under the full control of the Organization. The Organization accounts for such contributions as board designated until they are expended for appropriate ministry purposes. Prior to October 1, 2018, the Organization accounted for such donations as contributions with donor restrictions.

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments

The Board of Directors has established a policy that contributions for the support of ministry activities of certain missionaries are assessed an allocation of up to 10% to be used to maintain the U.S. Mobilization Base and are assessed an allocation of up to 2% to support international leadership.

Cash and cash equivalents

The Organization considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Investments

Investments include marketable equity and debt securities and are carried at estimated fair value.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using the straight line method over the estimated useful lives of the assets.

Net assets

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. The Board has designated a portion of net assets without donor restrictions for missionary accounts (See Note H). Net assets with donor restrictions consist of amounts with uses limited by donor-imposed time and/or purpose restrictions.

Income taxes

The Organization and AWM are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Organization and AWM are further classified as public charities and not private foundations for federal tax purposes. Mission Pointe is considered a taxable corporation for federal and state income tax purposes, subject to certain special rules applicable to property owners' associations. Mission Pointe has not incurred income taxes related to its activities. Lake Whip, WC LLC, and the Organization's other affiliates are treated as disregarded entities for federal tax purposes. The Organization engages in certain unrelated business activities. Income taxes (if any) are recognized as expenses when the related income is generated. As a result, no income tax provision or liability has been provided for in the accompanying consolidated financial statements.

Use of estimates

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these consolidated financial statements include those used in estimating the fair value of investments and the useful lives of buildings and equipment. Actual results could differ from the estimates.

Recently adopted accounting pronouncement

Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): Presentation of financial statements of Not-for-Profit Entities is effective for the Organization's consolidated financial statements for the year ended September 30, 2019. The ASU requires various changes to the presentation of financial statements for not-for-profit entities, the most significant of which relate to the classifications of net assets, a requirement to report expenses by natural classification as well as by functional classification, and new required disclosures related to an entity's liquidity and availability of resources. The adoption of the ASU had no effect on the Organization's consolidated net assets as of October 1, 2018.

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events

The Organization has evaluated for possible financial reporting and disclosure subsequent events through January 28, 2020, the date as of which the consolidated financial statements were available to be issued.

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available within one year of the consolidated statement of financial position as of September 30, 2019 for general expenditure are as follows:

Cash and cash equivalents	\$ 973,978
Investments	<u>22,915,769</u>
Total financial assets available	23,889,747
Less:	
Amounts unavailable due to donor restrictions	<u>(4,675,604)</u>
Net financial assets available within one year	<u>\$ 19,214,143</u>

The Organization is primarily supported by contributions. As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has certain assets limited to use for donor-restricted purposes. Because a donor's restriction requires resources to be used in a specific manner or in a future period, the Organization must maintain sufficient resources to meet its responsibilities to its donors. Thus, those financial assets may not be available for general expenditures within one year of September 30, 2019, and are excluded from net financial assets available to meet general expenditures within one year. The Organization's board designated funds held in missionary accounts are available for general expenditure within the next year. Management believes the Organization has sufficient investments available for general operations that may be drawn upon in the event of an unanticipated financial distress or an immediate liquidity need. The Organization also has a revolving line of credit in an amount up to \$4.5 million as an additional source of liquidity (see Note G).

NOTE D – CONCENTRATIONS

The Organization maintains its cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

The Organization's investments are held by one custodian. The Organization's line of credit is held by one bank.

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following:

Exchange-traded funds – equity indexes	\$ 13,996,665
Exchange-traded funds – bond indexes	<u>8,919,104</u>
Total investments	<u>\$ 22,915,769</u>

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

GAAP defines fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of “inputs” an organization may use in determining or estimating fair value. The inputs are categorized into “levels” that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – unadjusted quoted market prices in active markets for identical items

Level 2 – other significant observable inputs (such as quoted prices for similar items)

Level 3 – significant unobservable inputs

The Organization’s investments held as of September 30, 2019, are valued on a recurring basis using Level 1 inputs.

NOTE F – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

Land	\$ 3,729,738
Land improvements	1,378,659
Buildings and improvements	15,512,577
Furniture and equipment	4,361,455
Construction in progress, net	<u>798,194</u>
Total land, buildings, and equipment	25,780,623
Less: Accumulated depreciation	<u>(7,903,113)</u>
Land, buildings, and equipment, net	<u>\$ 17,877,510</u>

For the year ended September 30, 2019, depreciation expense was approximately \$1,045,000.

NOTE G – LINE OF CREDIT

The Organization has a revolving line of credit agreement with a bank with an available balance of up to \$4.5 million. Interest on any outstanding balance is payable monthly at the one-month LIBOR plus 1.00% per annum (3.02% as of September 30, 2019). The line of credit also contains various financial and other covenants, the most restrictive of which requires the Organization to maintain a certain minimum amount of net assets. The line of credit is secured by a certain investment account and is payable in full on August 20, 2021. As of September 30, 2019, \$1,900,000, was outstanding on the line of credit. For the year ended September 30, 2019, interest expense was approximately \$13,000.

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE H – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

Board designated for missionary accounts	\$ 18,650,516
Undesignated	<u>15,737,332</u>
Total net assets without donor restrictions	<u>\$ 34,387,848</u>

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were for the following purposes:

Projects	\$ 4,541,389
Various missionary-related activities	<u>134,215</u>
Total net assets with donor restrictions	<u>\$ 4,675,604</u>

As a result of the change in accounting policy of missionary account balances as further described in Note B, approximately \$17,992,000 of amounts previously classified as net assets with donor restrictions were reclassified to net assets without donor restrictions as of October 1, 2018.

NOTE J – SELF-FUNDED MEDICAL PROGRAMS

The Organization maintains self-funded medical and prescription drug benefit plans for eligible employees and their eligible dependents. The Organization has contracted with a third party administrator to process claims. The Organization provides coverage for each employee up to the first \$700,000 of claims incurred in a calendar year. The Organization has stop-loss insurance coverage for claims incurred which exceed \$700,000 per individual per event, with an unlimited individual lifetime stop loss payment amount. As of September 30, 2019, the Organization has recorded an actuarially-calculated estimated liability of \$515,000, related to the self-funded medical programs. Such amount is included in “accounts payable and accrued expenses” on the accompanying consolidated statement of financial position.

NOTE K – EXPENSE ALLOCATIONS

Functional and natural expenses for the Organization for the year ended September 30, 2019 are as follows:

	Total program activities	Total supporting activities	Total expenses
Personnel costs	\$ 42,509,565	\$ 7,061,968	\$ 49,571,533
Travel	5,948,825	684,751	6,633,576
General and office	3,694,951	2,281,854	5,976,805
Grants	3,971,773	94,723	4,066,496
Training and education	2,743,690	572,641	3,316,331
Depreciation and amortization	<u>217,056</u>	<u>830,402</u>	<u>1,047,458</u>
Total expenses	<u>\$ 59,085,860</u>	<u>\$ 11,526,339</u>	<u>\$ 70,612,199</u>

PIONEERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

NOTE K – EXPENSE ALLOCATIONS (Continued)

The above schedule of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas based primarily on employee time and space utilization.

NOTE L – PROPERTY DEVELOPMENT

During March 2017, the Organization granted title to certain undeveloped property (“the Property”) to Lake Whip. In connection therewith, Lake Whip entered into a Ground Lease (“the Lease”) with Lake Nona Hotel, LLC (“Lake Nona”), an unrelated third party. Lake Nona constructed a hotel on the Property which was completed during the year ended September 30, 2019. Pursuant to the Lease, Lake Nona will pay annual rent of \$50,000 to Lake Whip. The Lease has an initial term of fifty years but may be canceled sooner. In addition to the fixed annual rent, Lake Nona is also required to pay an amount equal to 10% of Lake Nona’s annual net profit (as the term “net profit” is defined in the Lease), if any, to Lake Whip, as well as certain common area maintenance, property taxes, and other amounts. Upon expiration or earlier termination of the Lease, the property, with improvements, will no longer be subject to the Lease. No amounts have been recognized in the accompanying consolidated financial statements related to Lake Whip’s future interest in the improvements to the property due to significant uncertainty regarding the timing of the Lease termination and the future value (and recoverability) of such improvements.

The Organization is also obligated to pay 50% of the costs to construct certain road improvements in connection with developing the Property. During the year ended September 30, 2019, the Organization capitalized approximately \$200,000 in connection with such payments, and is obligated to fund approximately \$112,000 of additional road improvements as construction is completed.

NOTE M – FUTURE PROPERTY SALE

During the year ended September 30, 2019, the Organization entered into an agreement with a developer for the sale of certain real property. Upon closing, which is currently scheduled to occur in April 2020, the Organization expects to receive proceeds of no less than \$12,100,000. The effects of this transaction will be recognized in the Organization’s consolidated financial statements during the period in which the transaction is finalized.