



PARTNERS
International

**Consolidated Financial Statements and
Independent Auditors' Report**

June 30, 2009 and 2008

Partners International

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CERTIFIED PUBLIC
ACCOUNTANTS
AND BUSINESS
CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Partners International
Spokane, Washington

We have audited the accompanying consolidated statements of financial position of Partners International as of June 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Partners International management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Partners International-Asia Pacific Office, a 100% owned subsidiary, which statements reflect total assets constituting approximately 1% of the consolidated total assets as of June 30, 2009.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Partners International as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Spokane, Washington
September 8, 2009

Partners International

Consolidated Statements of Financial Position

| | June 30, | |
|--|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Assets | | |
| <i>CURRENT ASSETS:</i> | | |
| Cash and cash equivalents | \$ 462,381 | \$ 927,398 |
| Current investments | 1,405,324 | 1,864,954 |
| Promises-to-give receivable | 535,077 | 776,400 |
| Prepaid expenses and other assets | 240,061 | 378,180 |
| Total current assets | <u>2,642,843</u> | <u>3,946,932</u> |
| <i>PROPERTY AND EQUIPMENT, net of accumulated depreciation</i> | <u>1,855,371</u> | <u>1,815,545</u> |
| <i>OTHER ASSETS:</i> | | |
| Long-term promises-to-give receivable | 155,919 | 155,588 |
| Long-term investments | 418,413 | 520,827 |
| Total other assets | <u>574,332</u> | <u>676,415</u> |
| | <u>\$ 5,072,546</u> | <u>\$ 6,438,892</u> |
| Liabilities and Net Assets | | |
| <i>CURRENT LIABILITIES:</i> | | |
| Accounts payable | \$ 23,157 | \$ 4,534 |
| Accrued expenses | 132,246 | 158,231 |
| Total current liabilities | <u>155,403</u> | <u>162,765</u> |
| <i>OTHER LIABILITIES:</i> | | |
| Deferred compensation | - | 42,500 |
| Gift annuities | 306,798 | 331,123 |
| Total other liabilities | <u>306,798</u> | <u>373,623</u> |
| Total liabilities | <u>462,201</u> | <u>536,388</u> |
| <i>NET ASSETS:</i> | | |
| Unrestricted: | | |
| Net investment in property and equipment | 1,855,371 | 1,815,545 |
| Board designated: | | |
| Capacity Building U.S. Ministries | 15,437 | 51,144 |
| Undesignated | (130,615) | (979,530) |
| Total unrestricted net assets | <u>1,740,193</u> | <u>887,159</u> |
| Temporarily restricted | 2,770,152 | 4,915,345 |
| Permanently restricted | 100,000 | 100,000 |
| Total net assets | <u>4,610,345</u> | <u>5,902,504</u> |
| | <u>\$ 5,072,546</u> | <u>\$ 6,438,892</u> |

See accompanying notes to consolidated financial statements.

Partners International

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <i>SUPPORT AND REVENUE:</i> | | | | |
| Contributions from constituency | \$ 1,979,547 | \$ 7,422,214 | \$ - | \$ 9,401,761 |
| Asia Pacific Office income | - | 282 | - | 282 |
| Gifts in-kind | - | 5,110,229 | - | 5,110,229 |
| Investment loss | - | (342,738) | - | (342,738) |
| Gain on disposition of assets | 225 | - | - | 225 |
| Rental loss, net of expenses of \$47,420 | (6,978) | - | - | (6,978) |
| | <u>1,972,794</u> | <u>12,189,987</u> | <u>-</u> | <u>14,162,781</u> |
| <i>NET ASSETS RELEASED FROM RESTRICTIONS:</i> | | | | |
| Ministry activity costs | 790,287 | (790,287) | - | - |
| Administrative allocations | 1,236,784 | (1,236,784) | - | - |
| Satisfaction of donor restrictions | 12,308,109 | (12,308,109) | - | - |
| | <u>14,335,180</u> | <u>(14,335,180)</u> | <u>-</u> | <u>-</u> |
| Total support and revenue | <u>16,307,974</u> | <u>(2,145,193)</u> | <u>-</u> | <u>14,162,781</u> |
| <i>EXPENSES:</i> | | | | |
| Ministries and programs | 13,269,529 | - | - | 13,269,529 |
| Supporting services: | | | | |
| General and administrative | 680,096 | - | - | 680,096 |
| Fund raising | 1,505,315 | - | - | 1,505,315 |
| Total expenses | <u>15,454,940</u> | <u>-</u> | <u>-</u> | <u>15,454,940</u> |
| <i>CHANGES IN NET ASSETS</i> | 853,034 | (2,145,193) | - | (1,292,159) |
| <i>NET ASSETS, BEGINNING OF YEAR</i> | <u>887,159</u> | <u>4,915,345</u> | <u>100,000</u> | <u>5,902,504</u> |
| <i>NET ASSETS, END OF YEAR</i> | <u>\$ 1,740,193</u> | <u>\$ 2,770,152</u> | <u>\$ 100,000</u> | <u>\$ 4,610,345</u> |

See accompanying notes to consolidated financial statements.

Partners International

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <i>SUPPORT AND REVENUE:</i> | | | | |
| Contributions from constituency | \$ 2,670,786 | \$ 8,871,830 | \$ - | \$ 11,542,616 |
| Asia Pacific Office loss | - | (39,042) | - | (39,042) |
| Gifts in-kind | - | 2,063,918 | - | 2,063,918 |
| Investment income | - | 101,238 | - | 101,238 |
| Loss on disposition of assets | (3,965) | - | - | (3,965) |
| Rental loss, net of expenses of \$46,549 | (6,875) | - | - | (6,875) |
| | <u>2,659,946</u> | <u>10,997,944</u> | <u>-</u> | <u>13,657,890</u> |
| <i>NET ASSETS RELEASED FROM RESTRICTIONS:</i> | | | | |
| Ministry activity costs | 808,564 | (808,564) | - | - |
| Administrative allocations | 1,265,387 | (1,265,387) | - | - |
| Satisfaction of donor restrictions | 8,885,837 | (8,885,837) | - | - |
| | <u>10,959,788</u> | <u>(10,959,788)</u> | <u>-</u> | <u>-</u> |
| Total support and revenue | <u>13,619,734</u> | <u>38,156</u> | <u>-</u> | <u>13,657,890</u> |
| <i>EXPENSES:</i> | | | | |
| Ministries and programs | 11,158,074 | - | - | 11,158,074 |
| Supporting services: | | | | |
| General and administrative | 636,994 | - | - | 636,994 |
| Fund raising | 1,944,739 | - | - | 1,944,739 |
| Total expenses | <u>13,739,807</u> | <u>-</u> | <u>-</u> | <u>13,739,807</u> |
| <i>CHANGES IN NET ASSETS</i> | (120,073) | 38,156 | - | (81,917) |
| <i>NET ASSETS, BEGINNING OF YEAR</i> | <u>1,007,232</u> | <u>4,877,189</u> | <u>100,000</u> | <u>5,984,421</u> |
| <i>NET ASSETS, END OF YEAR</i> | <u>\$ 887,159</u> | <u>\$ 4,915,345</u> | <u>\$ 100,000</u> | <u>\$ 5,902,504</u> |

See accompanying notes to consolidated financial statements.

Partners International

Consolidated Statements of Functional Expenses

| | Year Ended June 30, 2009 | | | Total |
|------------------------|--------------------------|----------------------------|---------------------|----------------------|
| | Ministries and Programs | General and Administrative | Fund Raising | |
| Grants and allocations | \$ 9,581,425 | \$ - | \$ - | \$ 9,581,425 |
| Salaries | 1,810,307 | 384,637 | 687,214 | 2,882,158 |
| Benefits | 480,997 | 99,110 | 179,704 | 759,811 |
| Travel | 488,548 | 31,008 | 139,639 | 659,195 |
| Telephone | 62,231 | 2,368 | 14,270 | 78,869 |
| Postage | 77,595 | 5,420 | 55,683 | 138,698 |
| Supplies | 44,272 | 2,017 | 7,441 | 53,730 |
| Printing | 149,800 | 1,858 | 128,891 | 280,549 |
| Outside services | 159,671 | 91,991 | 175,785 | 427,447 |
| Occupancy | 108,001 | 8,268 | 14,895 | 131,164 |
| Depreciation | 188,244 | 34,874 | 36,180 | 259,298 |
| Other expenses | 118,438 | 18,545 | 65,613 | 202,596 |
| | <u>\$ 13,269,529</u> | <u>\$ 680,096</u> | <u>\$ 1,505,315</u> | <u>\$ 15,454,940</u> |

| | Year Ended June 30, 2008 | | | Total |
|------------------------|--------------------------|----------------------------|---------------------|----------------------|
| | Ministries and Programs | General and Administrative | Fund Raising | |
| Grants and allocations | \$ 7,801,111 | \$ - | \$ - | \$ 7,801,111 |
| Salaries | 1,555,403 | 380,523 | 985,799 | 2,921,725 |
| Benefits | 395,296 | 99,215 | 278,151 | 772,662 |
| Travel | 525,972 | 32,092 | 179,599 | 737,663 |
| Telephone | 50,501 | 3,311 | 23,818 | 77,630 |
| Postage | 62,240 | 6,475 | 64,690 | 133,405 |
| Supplies | 42,004 | 7,494 | 15,869 | 65,367 |
| Printing | 115,586 | 15,946 | 106,546 | 238,078 |
| Outside services | 120,498 | 37,557 | 66,934 | 224,989 |
| Occupancy | 58,247 | 13,191 | 28,096 | 99,534 |
| Depreciation | 107,209 | 27,527 | 93,918 | 228,654 |
| Other expenses | 324,007 | 13,663 | 101,319 | 438,989 |
| | <u>\$ 11,158,074</u> | <u>\$ 636,994</u> | <u>\$ 1,944,739</u> | <u>\$ 13,739,807</u> |

See accompanying notes to consolidated financial statements.

Partners International

Consolidated Statements of Cash Flows

| | Years Ended June 30, | |
|---|----------------------|--------------------|
| | <u>2009</u> | <u>2008</u> |
| <i>CASH FLOWS FROM OPERATING ACTIVITIES:</i> | | |
| Cash contributions received | \$ 9,642,753 | \$ 11,779,806 |
| Investment income | 36,003 | 44,198 |
| Rental and other income | 3,286 | 6,875 |
| Cash provided to Partners' ministries | (4,175,331) | (7,776,787) |
| Cash paid to employees | (3,762,735) | (3,694,250) |
| Cash paid to service providers | <u>(2,059,090)</u> | <u>(1,332,960)</u> |
| Net cash used in operating activities | <u>(315,114)</u> | <u>(973,118)</u> |
| <i>CASH FLOWS FROM INVESTING ACTIVITIES:</i> | | |
| Property and equipment purchases | (308,881) | (340,893) |
| Investment purchases | (1,417,965) | (2,229,776) |
| Proceeds from sale of investments | <u>1,601,268</u> | <u>3,149,197</u> |
| Net cash provided by (used in) investing activities | <u>(125,578)</u> | <u>578,528</u> |
| <i>CASH FLOWS FROM FINANCING ACTIVITIES:</i> | | |
| Change in gift annuities | <u>(24,325)</u> | <u>(14,167)</u> |
| <i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i> | (465,017) | (408,757) |
| <i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i> | <u>927,398</u> | <u>1,336,155</u> |
| <i>CASH AND CASH EQUIVALENTS, END OF YEAR</i> | <u>\$ 462,381</u> | <u>\$ 927,398</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

| | Years Ended June 30, | |
|--|----------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| <i>Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities:</i> | | |
| <i>CASH FLOWS FROM OPERATING ACTIVITIES:</i> | | |
| Change in net assets | \$ (1,292,159) | \$ (81,917) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Operational depreciation | 259,298 | 228,514 |
| Rental depreciation | 9,757 | 11,244 |
| Loss on disposal of assets | - | 3,965 |
| Net realized and unrealized gain on investments | 378,741 | (57,040) |
| Net change in promises-to-give receivable | 240,992 | 194,259 |
| Net changes in assets and liabilities: | | |
| Cash surrender value of life insurance | | 94,455 |
| Prepaid expenses and other assets | 138,119 | 389,087 |
| Accounts payable | 18,623 | (673,600) |
| Accrued expenses | (25,985) | (7,451) |
| Promises-to-give payable | - | (1,069,144) |
| Deferred compensation | (42,500) | (5,490) |
| | <u>(42,500)</u> | <u>(5,490)</u> |
| Net cash provided by (used in) operating activities | <u>\$ (315,114)</u> | <u>\$ (973,118)</u> |
| <i>Noncash Transactions:</i> | | |
| Gifts in-kind received and distributed to Partners' ministries | <u>\$ 5,110,229</u> | <u>\$ 2,063,918</u> |

Partners International

Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION:

Partners International (Partners) was incorporated in 1961 in California as a not-for-profit corporation. Partners is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code), and is also exempt from state income taxes. Partners has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code. Contributions by the public are deductible for tax purposes.

Partners exists to enable, enhance, and extend partnerships with indigenous organizations involved in evangelism, church planning, leadership training, relief, and development to carry out their work. Partners actively performs due diligence on these partnering organizations through monitoring their ministry operations. It is also actively screening and selecting other indigenous organizations to partner with. Partners presently provides resources to approximately 68 overseas indigenous organizations.

During the years ended June 30, 2009 and 2008, cash contributions approximated 66% and 85%, respectively, of total support and revenue. In addition, gifts in-kind approximated 36% and 15%, respectively, of total support and revenue.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of Partners have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

- a. *Affiliated organizations* – Partners is affiliated with several organizations which are not included in these consolidated financial statements because they are not under common control. Partners and these organizations do, however, participate together in outreaches in many foreign countries. Contributions received from these organizations to fund joint outreaches were \$656,731 and \$918,880 for the years ended June 30, 2009 and 2008, respectively.
- b. *Principles of consolidation* – The accompanying consolidated financial statements include the accounts of Partners and its wholly owned subsidiary, Partners International – Asia Pacific Office. All material intercompany accounts, transactions, and profits have been eliminated. Decrease in net assets for the Asia Pacific Office was \$27,510 and \$98,649 for the years ended June 30, 2009 and 2008.
- c. *Foreign currency translation* – Amounts recorded in foreign currency are translated into United States dollars as follows:
 1. Monetary assets and monetary liabilities: at the rate of exchange in effect as of the statement of financial position dates.
 2. Non-monetary assets and non-monetary liabilities: at the exchange rate prevailing at the time of the acquisition of the assets or assumption of the liabilities.
 3. Revenues and expenses: at the average rate of exchange for the year.

Partners International

Notes to Consolidated Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- d. *Cash and cash equivalents* – Cash and cash equivalents include cash on hand and cash on deposit. Money market mutual funds and cash held in investment brokerage accounts are included in investments.

As of June 30, 2009, Partners has approximately \$50,728 in bank accounts located overseas.

- e. *Concentration of credit risk* – Cash and cash equivalents, at times, exceed federally insured limits. Partners has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.
- f. *Investments* – Investments consist of brokerage cash, treasury notes, mutual funds, and stocks, which are recorded at market value (Level 1 measurements). Donated securities are recorded at market value on the date of the gift and, thereafter, carried in accordance with the above provisions.

Fair value measurements – Effective July 1, 2008, Partners adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that Partners has the ability to access.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices of identical or similar assets or liabilities in inactive markets;
- inputs other than the quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for - substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Partners International

Notes to Consolidated Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- g. *Promises to give* – Partners receives promises to give ranging in length from one to ten years. Promises to give that are expected to be collected within one year are recorded at their pledge value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, discounted using an interest rate of 5%. Discounts on long-term promises to give were \$28,281 and \$37,012 at June 30, 2009 and 2008, respectively. Management deems all contributions receivable at June 30, 2009 and 2008, to be fully collectible and, accordingly, no allowance for uncollectible pledges has been recorded in the accompanying consolidated statements of financial position.
- h. *Property and equipment* – Property and equipment purchased are carried at cost, net of accumulated depreciation. Expenditures of less than \$1,000 are charged to expense. Donated property and equipment are carried at estimated fair market value on the date of the donation, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.
- i. *Gift annuities* – Partners has established a gift annuity plan whereby donors may contribute assets to the organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes.

The difference between the amount contributed for the gift annuity and liability for future payments, determined on an actuarial basis, is recognized as income at the date of the gift and is reflected on the statements of activities and changes in net assets as contributions from new gift annuities. The difference between assets in trust and liabilities is reported on the consolidated statements of financial position as unrestricted net assets.

The liability for future payments to annuitants, or commensurate value, is calculated annually based upon actuarially computed present values to comply with state legal reserve requirements. The change in the commensurate value, net of investment income, payments to annuitants and terminations, is reflected on the statements of activities as changes in value of split-interest agreements.

The commensurate value of gift annuities was \$306,798 and \$331,123 as of June 30, 2009 and 2008, respectively.

- j. *Basis of presentation* – The consolidated financial statement presentation follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Partners is required to report information regarding its financial position and activities according to the following classes of net assets:
- **Unrestricted** amounts are those currently available at the discretion of the Board of Directors for use in Partners' operations and those resources invested in property and equipment.
 - **Temporarily restricted** amounts are those which are stipulated by donors for specific operating purposes or for capital projects. The majority of the ending balance represents funds collected for field ministries which have not been expended as of year end.

Partners International

Notes to Consolidated Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- **Permanently restricted** amounts are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as specified in endowment agreements.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or if they are subject to legal restrictions.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and are reported in the statements of activities and changes in net assets as net assets released from restrictions. Partners' policy is to record temporarily restricted contributions received and expended in the same accounting period as temporarily restricted contributions and net assets released from restrictions.

For contributions restricted by donors for the acquisition of property and other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.

- k. *Revenue, support, and expenses* – Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to Partners. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Partners receive noncash gifts which are recorded as support at the estimated fair market value on the date of the gift. Goods given to Partners that do not have an objective basis for valuation are not recorded. Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.
- l. *Contributed services* – SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, requires recording the value of donated services that create or enhance nonfinancial assets or require specialized skills. Many volunteers have contributed significant amounts of their time to activities of Partners; however, since the above requirements were not met, the value of the contributed services is not recorded in the consolidated financial statements.
- m. *Functional allocation of expenses* – The cost of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program and supporting activities.
- n. *Use of estimates* – The preparation of consolidated 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 those estimates.
- o. *Allocation of joint costs* – Partners has adopted the American Institute of Certified Public Accountants' Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising*. This statement requires all costs which contain any fund-raising appeal to be allocated to fund-raising unless all of the following three tests are met: purpose, audience, and content.

Partners International

Notes to Consolidated Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- p. *Income taxes* – Partners is exempt from federal income taxes under Section 501(c)(3) of the IRC. Accordingly, no provision for income taxes is recorded in the accompanying financial statements. Partners has elected to defer the provisions of FIN 48, *Accounting for Income Taxes*, under the provisions of FSP FIN 48-3. Partners uses a FAS 5, *Loss Contingencies*, approach for evaluating uncertain tax positions.
- q. *Valuation of long-lived assets* – Partners using its best estimates based on reasonable and supportable assumptions and projections, reviews, and assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. No impairments were recognized during the years ended June 30, 2009 and 2008.
- r. *Reclassification* – Certain amounts in the 2008 consolidated financial statements have been reclassified to conform with the 2009 presentation with no effect on previously reported change in net assets.
- s. *Subsequent events* – Management has evaluated subsequent events through September 8, 2009, which represents the date that the financial statements were available to be issued. Management does not believe there are any subsequent events which would have provided additional evidence about the conditions that existed at June 30, 2009. Accordingly, none have been disclosed in the notes to the consolidated financial statements.

NOTE 3 – PROMISES TO GIVE:

Promises to give consisted of the following pledges due within one year:

| | June 30, | |
|--|-------------------|-------------------|
| | <u>2009</u> | <u>2008</u> |
| Receivable in one year or less | \$ 535,077 | \$ 776,400 |
| Receivable in one to five years | 114,600 | 105,600 |
| Receivable in five years or more | 69,600 | 87,000 |
| Less discount on long-term receivables | <u>(28,281)</u> | <u>(37,012)</u> |
| Net promises to give | <u>\$ 690,996</u> | <u>\$ 931,988</u> |

Partners International

Notes to Consolidated Financial Statements

NOTE 4 – PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

| | June 30, | |
|--|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Land and building | \$ 1,072,784 | \$ 1,072,784 |
| Leasehold improvements | 396,484 | 396,483 |
| Office and computer equipment | 1,473,719 | 1,162,563 |
| Vehicles | 13,532 | 13,532 |
| East Asia Coordinating Office | 4,370 | 6,646 |
| | <u>2,960,889</u> | <u>2,652,008</u> |
| Less accumulated depreciation and amortization | <u>(1,105,518)</u> | <u>836,463</u> |
| Property and equipment, net | <u>\$ 1,855,371</u> | <u>\$ 1,815,545</u> |
| Depreciation expense | <u>\$ 270,543</u> | <u>\$ 239,758</u> |

NOTE 5 – INVESTMENTS:

Investments consisted of the following:

| | June 30, | |
|--|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Current investments: | | |
| Cash and money market accounts | \$ 21,667 | \$ 18,838 |
| Treasury notes | 146,817 | 290,727 |
| Equity securities | 118,394 | 131,787 |
| Mutual funds | 1,118,446 | 1,423,602 |
| | <u>1,405,324</u> | <u>1,864,954</u> |
| Long-term investments: | | |
| Assets set aside to fund gift annuities: | | |
| Mutual funds | 318,892 | 366,382 |
| Investments under endowment agreement | 99,521 | 111,945 |
| Deferred compensation deposits | - | 42,500 |
| | <u>418,413</u> | <u>520,827</u> |
| | <u>\$ 1,823,737</u> | <u>\$ 2,385,781</u> |

Partners International

Notes to Consolidated Financial Statements

NOTE 5 – INVESTMENTS (continued):

Investment loss consisted of:

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|-------------------|
| Interest and dividends | \$ 36,003 | \$ 44,198 |
| Realized and unrealized loss on investments | (369,585) | 67,378 |
| Investment fees | <u>(9,156)</u> | <u>(10,338)</u> |
| | <u>\$ (342,738)</u> | <u>\$ 101,238</u> |

NOTE 6 – GIFTS IN-KIND:

Partners solicits gifts in-kind on behalf of indigenous organizations it partners with. Requests for gifts are presented through Partners' area directors. Once a project has been approved, contacts are made to locate and secure the requested items. Transportation may be handled by Partners or the donee organization, and Partners tracks the gift once it has been shipped to ensure it is received by the requesting organization and used in ministry.

Medical supplies are recorded at wholesale values, using amounts obtained from the *Drug Topics Red Book* published each year by Medical Economics.

NOTE 7 – ALLOCATION OF JOINT COSTS:

As stated in note 1, Partners has adopted the American Institute of Certified Public Accountants' Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising*. Partners incurs costs for activities such as writing, publications, and serving churches that include fund-raising appeals. These costs are referred to as joint costs and are allocated to program activities and fund raising. Joint cost allocations are as follows:

| | <u>Years Ended June 30,</u> | |
|-----------------------------------|-----------------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Program activities | \$ 1,110,880 | \$ 798,938 |
| Management and general activities | 680,096 | 636,994 |
| Fund raising | <u>1,505,316</u> | <u>1,944,739</u> |
| | <u>\$ 3,296,292</u> | <u>\$ 3,380,671</u> |

Partners International

Notes to Consolidated Financial Statements

NOTE 8 – LEASES:

Partners leases portions of the headquarters building in Spokane, Washington, to other tenants. Monthly lease payments increase 2% annually and were \$3,404 and \$3,337, respectively, as of June 30, 2009 and 2008.

Rental loss was \$6,978 and \$6,875 for the years ended June 30, 2009 and 2008, respectively. These losses are net of direct expenses of \$47,420 and \$46,549 for the years ended June 30, 2009 and 2008, respectively.

The minimum lease revenue for future years is as follows:

| <u>Years Ending</u> <u>June 30,</u> | <u>Amount</u> |
|--|-------------------|
| 2010 | \$ 42,883 |
| 2011 | 43,741 |
| 2012 | 44,615 |
| 2013 | <u>45,508</u> |
| | <u>\$ 176,747</u> |

In October 2005, Partners entered into an operating lease for use of certain office space. The lease expires in September 2009 and requires monthly rental payments of \$602. Future minimum rental payments under this lease total \$1,806 for the year ending June 30, 2010.

In August 2008, Partners entered into a lease agreement for a smaller satellite office in Cupertino, California. The lease calls for monthly rental payments of \$2,200 and expires in August 2013.

Total rental expense totaled \$60,891 and \$38,745 for the years ended June 30, 2009 and 2008, respectively.

NOTE 9 – RETIREMENT PLAN:

Partners has a defined contribution plan covering substantially all full-time employees over 21 years of age. Deposits to the plan are based on a percentage of compensation. Retirement expense for this plan was \$85,669 and \$117,314 for the years ended June 30, 2009 and 2008, respectively.