

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001

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INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
Moravian Ministries Foundation in America
Winston-Salem, North Carolina

We have audited the accompanying statements of financial position of The Moravian Ministries Foundation in America (a non-profit organization) as of December 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Moravian Ministries Foundation in America's management. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Moravian Ministries Foundation in America as of December 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CERTIFIED PUBLIC ACCOUNTANTS

March 27, 2003

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS:		
Cash and cash equivalents	\$ 47,991	\$ 105,156
Accounts receivable	42,058	39,814
Prepaid expenses	4,373	-
Real estate held for sale	-	69,000
Property and equipment, net	7,245	10,326
Investments	23,147,503	18,109,918
Assets held in charitable remainder trusts	<u>2,044,118</u>	<u>2,264,914</u>
 Total assets	 <u>\$ 25,293,288</u>	 <u>\$ 20,599,128</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 4,049	\$ 4,620
Due to other Moravian Church supported entities	454	783
Charitable gift annuity liabilities:		
Annuity payment liabilities	838,477	722,882
Remainder interests due to Moravian Church entities	469,358	616,004
Charitable remainder trust liabilities:		
Liabilities under unitrust agreements	349,256	441,662
Remainder interests due to Moravian Church entities	373,283	330,761
Liabilities under perpetual trusts	144,772	157,757
Agency funds	<u>23,033,581</u>	<u>18,238,561</u>
 Total liabilities	 <u>\$ 25,213,230</u>	 <u>\$ 20,513,030</u>
 Unrestricted net assets	 <u>\$ 80,058</u>	 <u>\$ 86,098</u>
 Total liabilities and net assets	 <u>\$ 25,293,288</u>	 <u>\$ 20,599,128</u>

See accompany notes to financial statements.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
SUPPORT AND REVENUE:		
Provincial budget support	\$ 138,848	\$ 154,276
Trust management fees	152,503	100,425
Professional fees - campaign services and feasibility studies	22,000	20,701
Provincial support - common appeal	21,312	12,953
Contributions and grants	175	5,035
Investment income	1,530	7,059
Net realized and unrealized loss on investments	(6,043)	(5,567)
Loss on property and equipment	(2,474)	-
Other	<u>2,053</u>	<u>625</u>
Total support and revenue	<u>\$ 329,904</u>	<u>\$ 295,507</u>
EXPENSES:		
Personnel - salaries, taxes, fringe benefits	\$ 186,754	\$ 167,836
Automobile	12,020	10,360
Computer system expenses	2,155	-
Data processing fees and services	4,627	-
Travel and meetings	36,359	24,743
Insurance	1,154	985
Office supplies and maintenance	9,161	4,555
Payroll services	815	552
Postage	9,482	8,923
Printing	38,634	18,693
Professional services	6,180	11,009
Rent - office	4,752	2,496
Software contracts and fees	6,505	905
Telephone	7,806	5,521
Website costs	2,200	-
Administrative fees	-	2,600
Depreciation	2,647	2,823
Miscellaneous	<u>4,693</u>	<u>4,377</u>
Total expenses	<u>\$ 335,944</u>	<u>\$ 266,378</u>
CHANGE IN NET ASSETS	\$ (6,040)	\$ 29,129
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<u>86,098</u>	<u>56,969</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u><u>\$ 80,058</u></u>	<u><u>\$ 86,098</u></u>

See accompany notes to financial statements.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,040)	\$ 29,129
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,647	2,823
Loss on property and equipment	2,474	-
Net realized and unrealized loss on investments	6,043	5,567
(Increase) in accounts receivable	(2,244)	(1,101)
(Increase) decrease in prepaid expenses	(4,373)	1,834
Increase (decrease) in accounts payable	(571)	3,176
(Decrease) in due to other Moravian Church supported entities	(329)	(71,180)
Net receipts over payments of agency funds	8,082,354	4,494,239
Purchase of investments, net - agency funds	(8,189,320)	(4,456,864)
Proceeds from real estate sale - agency funds	<u>54,599</u>	<u>14,209</u>
 Net cash provided (used) by operating activities	 <u>\$ (54,760)</u>	 <u>\$ 21,832</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments	\$ -	\$ 23,000
Purchases of investments	(365)	(3,838)
Proceeds from sale of property and equipment	150	-
Purchases of property and equipment	<u>(2,190)</u>	<u>(1,209)</u>
 Net cash provided (used) by investing activities	 <u>\$ (2,405)</u>	 <u>\$ 17,953</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ (57,165)	 \$ 39,785
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>105,156</u>	 <u>65,371</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 47,991</u></u>	 <u><u>\$ 105,156</u></u>
SUPPLEMENTAL DATA:		
Non-cash agency transactions:		
Receipt of real estate held for sale	<u>\$ -</u>	<u>\$ 69,000</u>

See accompany notes to financial statements.

MORAVIAN MINISTRIES FOUNDATION IN AMERICA

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1 - NATURE OF ORGANIZATION:

The Moravian Ministries Foundation in America (MMFA) is an inter-provincial agency serving both the Northern and Southern provinces of the Moravian Church in America. The function and role of the MMFA is to promote, receive, and distribute major and planned gifts from individuals who wish to support the mission and ministries of the Church. In addition, MMFA also promotes institutional stewardship through the investment services and programs of the Moravian Common Fund and assists churches and church related entities in fundraising campaigns.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The financial statements of MMFA have been prepared on the accrual basis of accounting.

Basis of Presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "*Financial Statements of Not-For-Profit Organizations*." Under SFAS No. 117, MMFA 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.

Use of Estimates:

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

Cash and Cash Equivalents:

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Property and Equipment:

Property and equipment are carried at cost or, if donated, at the fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives ranging from five to ten years. The cost of maintenance and repairs is expensed as incurred.

MORAVIAN MINISTRIES FOUNDATION IN AMERICA

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: - (Continued)

Investments:

MMFA carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the statement of financial position.

Moravian Common Fund:

The Moravian Ministries Foundation in America established the Moravian Common Fund with State Street Global Advisors to enable MMFA, local churches and affiliated ministries of the Moravian Church in America to invest their endowments and permanent funds in a professionally managed and diversified portfolio.

Investment Expenses:

Expenses relating to investment income, including custodial fees and investment advisory fees, have been netted against investment income in the financial statements.

The custodial and investment advisory fees incurred by the Moravian Common Fund and the MMFA's other investments totaled \$172,676 and \$130,434 for the years ended December 31, 2002 and 2001.

Donated Assets:

Donated marketable securities and other non-cash donations are recorded at their estimated fair values at the date of donation.

Income Tax Status:

MMFA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, MMFA qualifies for the charitable contribution deduction under Section 170 and is classified as an organization that is not a private foundation under Section 509(a).

NOTE 3 - CONCENTRATIONS OF CREDIT AND MARKET RISK:

Financial instruments that potentially expose MMFA to concentrations of credit and market risk consist primarily of cash equivalents and investments.

Cash equivalents are maintained primarily at U.S. Trust. MMFA has not experienced any losses on its cash equivalents.

MMFA's investments are held primarily by U.S. Trust and State Street Global Advisors. MMFA's investment portfolio is diversified among various equity and debt securities.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 4 - PROPERTY AND EQUIPMENT:

A summary of property and equipment at December 31, 2002 and 2001 is as follows:

	2002	2001
Computer equipment	\$ 6,448	\$ 11,082
Furniture and equipment	<u>6,492</u>	<u>6,227</u>
	\$ 12,940	\$ 17,309
Less accumulated depreciation	<u>(5,695)</u>	<u>(6,983)</u>
Net property and equipment	<u>\$ 7,245</u>	<u>\$ 10,326</u>

NOTE 5 - INVESTMENTS:

Investments, stated at fair value, consisted of the following at December 31, 2002 and 2001:

	2002	2001
Moravian Common Fund:		
U.S. Treasury bills	\$ 1,460,060	\$ 249,218
Other U.S. bonds and obligations	1,731,997	1,621,094
Corporate bonds and obligations	2,825,250	2,361,123
Equity securities	9,212,018	6,388,912
Sponsored securities (mutual funds)	5,233,565	4,085,295
Short-term reserves and cash	<u>835,558</u>	<u>1,138,282</u>
	<u>\$ 21,298,448</u>	<u>\$ 15,843,924</u>
Other investments:		
Bond funds	\$ 569,805	\$ 672,296
Equity funds	1,042,073	1,481,157
Equity securities	-	1,266
Mutual funds	232	318
Short-term reserves and cash	<u>236,945</u>	<u>110,957</u>
	<u>\$ 1,849,055</u>	<u>\$ 2,265,994</u>
Total	<u>\$ 23,147,503</u>	<u>\$ 18,109,918</u>

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 5 - INVESTMENTS: - (Continued)

Investment return for 2002 and 2001 is summarized as follows:

2002:

	<u>Investment Income</u>	<u>Net Realized and Unrealized Gain (Loss)</u>	<u>Total</u>
MMFA funds			
(statement of activities)	\$ 1,530	\$ (6,043)	\$ (4,513)
Agency funds	318,745	(3,287,334)	(2,968,589)
Charitable gift annuities	19,246	(234,294)	(215,048)
Charitable remainder trusts	7,220	(25,108)	(17,888)
Perpetual trusts	1,894	(24,694)	(22,800)
	<u>\$ 348,635</u>	<u>\$ (3,577,473)</u>	<u>\$ (3,228,838)</u>

2001:

	<u>Investment Income</u>	<u>Net Realized and Unrealized Gain (Loss)</u>	<u>Total</u>
MMFA funds			
(statement of activities)	\$ 7,059	\$ (5,567)	\$ 1,492
Agency funds	359,948	(1,228,476)	(868,528)
Charitable gift annuities	21,221	(54,789)	(33,568)
Charitable remainder trusts	8,097	(14,704)	(6,607)
Perpetual trusts	1,020	2,806	3,826
	<u>\$ 397,345</u>	<u>\$ (1,300,730)</u>	<u>\$ (903,385)</u>

NOTE 6 - SPLIT-INTEREST AGREEMENTS:

Charitable Remainder Trusts

MMFA administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. The terms of all charitable remainder trusts administered by MMFA are the lifetimes of the respective distribution recipients. At the end of the respective trusts' terms, the remaining assets are available for use by other Moravian Church entities as specified in the trust agreements.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6 - SPLIT-INTEREST AGREEMENTS: - (Continued)

Assets held in charitable remainder trusts, as reported on the statement of financial position, represent those assets contributed by individuals to establish charitable remainder trusts (as adjusted for investment return and distributions). These assets are carried at fair market value, and consisted of the following at December 31, 2002 and 2001:

	2002	2001
Investments held by U.S. Trust	\$ 1,884,192	\$ 1,792,883
Other investments	65,552	62,598
Real estate	-	325,000
Notes receivable	97,500	106,513
Net due to beneficiaries	(3,126)	(22,080)
	<u>\$ 2,044,118</u>	<u>\$ 2,264,914</u>
Trusts under which MMFA is trustee	\$ 722,539	\$ 772,423
Trusts under which other Moravian entities are trustee	<u>1,321,579</u>	<u>1,492,491</u>
	<u>\$ 2,044,118</u>	<u>\$ 2,264,914</u>

Upon receipt of irrevocable interests in charitable remainder trusts in which MMFA is trustee, the present value of future payments to lifetime distribution recipients and the present value of future payments of remainder interests due to other Moravian Church entities are recognized as liabilities. On an annual basis, MMFA revalues the trust liabilities and remainder interests based on federal discount and actuarial assumptions.

Charitable Gift Annuities:

MMFA is also the recipient of various charitable gift annuities. A charitable gift annuity agreement provides that, in exchange for a contribution to the general assets of MMFA, the donor will receive a fixed periodic annuity over a specified period of time. The terms of all charitable gift annuities administered by MMFA are the lifetimes of the respective donor/ annuitants.

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6 - SPLIT-INTEREST AGREEMENTS: - (Continued)

It is the policy of MMFA to maintain a separate account for assets donated under such agreements. Donated assets are invested and an account balance maintained for each charitable gift annuity until the death of the donor/annuitant, with adjustments for investment return and distributions. Investments, as reported on the statement of financial position at December 31, 2002 and 2001, include \$1,846,538 and \$2,261,367, respectively attributable to charitable gift annuities (carried at fair market value.) Of this amount, \$1,307,835 and \$1,338,886, respectively represent charitable gift annuities in which MMFA is a party to the contract, and \$538,703 and \$922,481, respectively represent charitable gift annuities in which MMFA is acting as agent for the Northern or Southern Province.

Upon receipt of charitable gift annuities in which MMFA is a party to the contract, the present value of future payments to donor/annuitants and the present value of future payments of remainder interests due to other Moravian Church entities are recognized as liabilities. On an annual basis, MMFA revalues the gift annuity liabilities and remainder interests based on federal discount and actuarial assumptions.

NOTE 7 - AGENCY FUNDS:

MMFA acts as an agent, or custodian, for certain assets owned by churches, the Northern and Southern provinces and other Moravian church-related entities by receiving, investing, and disbursing funds on their behalf. Changes in agency funds for the year ended December 31, 2002 and 2001 were as follows:

	2002	2001
Beginning balance	\$ 18,238,561	\$ 14,903,798
Receipts	9,285,369	5,680,114
Investment income (net of fees)	318,745	359,948
Realized and unrealized losses on investments	(3,287,334)	(1,228,476)
Disbursements	<u>(1,521,760)</u>	<u>(1,476,823)</u>
Ending balance	<u>\$ 23,033,581</u>	<u>\$ 18,238,561</u>

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 7 - AGENCY FUNDS: - (Continued)

Agency fund receipts include:

	2002	2001
Additions to Common Fund	\$ 9,170,497	\$ 5,427,289
Contributions from individuals - MMFA transfer agent	104,562	252,825
On One Stem Growing campaign	<u>10,310</u>	<u>-</u>
	<u>\$ 9,285,369</u>	<u>\$ 5,680,114</u>

Agency fund disbursements include:

Disbursements from Common Fund	\$ 920,945	\$ 684,120
Northern Province gift annuity payments	150,958	75,582
Southern Province gift annuity payments	113,235	65,675
Northern Province charitable remainder trust payments	6,336	6,905
Southern Province charitable remainder trust payments	107,808	110,723
Southern Province charitable remainder trust asset transfer	-	389,118
Distributions of individual contributions - MMFA transfer agent	222,478	142,290
Other expenses	<u>-</u>	<u>2,410</u>
	<u>\$ 1,521,760</u>	<u>\$ 1,476,823</u>

NOTE 8 - OFFICE RENT:

MMFA rents office space from Salem Congregation in the "Old Salem" area of Winston-Salem, North Carolina. This space is rented on a year-to-year basis, with reasonable annual increases in rental amounts. Payments to Salem Congregation (which include maintenance and utilities) under this arrangement totaled \$4,752 and \$2,496 for the years ended December 31, 2002 and 2001, respectively.

NOTE 9 - RETIREMENT PLAN:

MMFA maintains a retirement plan covering eligible employees. Expense under this plan totaled \$8,045 and \$7,539 for the years ended December 31, 2002 and 2001, respectively.

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 10 - OPERATING LEASES:

MMFA leases office equipment and a vehicle under operating lease arrangements. Rental expense for these leases totaled \$9,239 and \$9,325 for the years ended December 31, 2002 and 2001, respectively.

Future minimum lease payments under these operating leases as of December 31, 2002 and are as follows:

Yearended Decem ber 31:		
2003		\$ 9,239
2004		<u>3,259</u>
		<u>\$ 12,498</u>

NOTE 11 - RESERVE REQUIREMENTS:

North Carolina law requires MMFA, as a party to charitable gift annuities, to establish and maintain a reserve totalling at least \$100,000. At December 31, 2002, MMFA did not meet this requirement. Management projects, however, that the required reserve amount will be in place within the next annual budget cycle.