

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002

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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, 2003 and 2002, 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, 2003 and 2002, 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

May 10, 2004

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS:		
Cash and cash equivalents	\$ 67,987	\$ 47,991
Accounts receivable	68,856	42,058
Due from other Moravian Church supported entities	35	-
Prepaid expenses	2,042	4,373
Property and equipment, net	6,043	7,245
Investments	31,199,156	23,147,503
Assets held in charitable remainder trusts	<u>2,189,163</u>	<u>2,044,118</u>
 Total assets	 <u>\$ 33,533,282</u>	 <u>\$ 25,293,288</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 4,231	\$ 4,049
Due to other Moravian Church supported entities	-	454
Charitable gift annuity liabilities:		
Annuity payment liabilities	929,407	838,477
Remainder interests due to Moravian Church entities	629,667	469,358
Charitable remainder trust liabilities:		
Liabilities under unitrust agreements	386,831	349,256
Remainder interests due to Moravian Church entities	443,586	373,283
Liabilities under perpetual trusts	180,152	144,772
Agency funds	<u>30,871,312</u>	<u>23,033,581</u>
 Total liabilities	 <u>\$ 33,445,186</u>	 <u>\$ 25,213,230</u>
 Unrestricted net assets	 <u>\$ 88,096</u>	 <u>\$ 80,058</u>
 Total liabilities and net assets	 <u>\$ 33,533,282</u>	 <u>\$ 25,293,288</u>

See accompany notes to financial statements.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
SUPPORT AND REVENUE:		
Provincial budget support	\$ 120,000	\$ 138,848
Trust management fees	191,251	152,503
Professional fees - campaign services and feasibility studies	29,000	22,000
Provincial support - common appeal	5,538	21,312
Contributions - common appeal	21,508	-
Contributions and grants	2,800	175
Investment income	1,051	1,530
Net realized and unrealized gain (loss) on investments	4,437	(6,043)
Loss on property and equipment	-	(2,474)
Other	-	2,053
Total support and revenue	\$ 375,585	\$ 329,904
EXPENSES:		
Personnel - salaries, taxes, fringe benefits	\$ 205,003	\$ 186,754
Automobile	11,756	12,020
Computer system expenses	-	2,155
Data processing fees and services	-	4,627
Travel and meetings	39,961	36,359
Insurance	1,331	1,154
Office supplies and maintenance	8,054	9,161
Payroll services	945	815
Postage	11,513	9,482
Printing	29,863	38,634
Professional services	5,395	6,180
Rent - office	8,163	4,752
Software contracts and fees	8,354	6,505
Telephone	9,741	7,806
Website costs	440	2,200
Training and education	2,075	-
Common appeal - printing/postage	21,356	-
Common appeal - service fees	152	-
Depreciation	2,016	2,647
Miscellaneous	1,429	4,693
Total expenses	\$ 367,547	\$ 335,944
CHANGE IN NET ASSETS	\$ 8,038	\$ (6,040)
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	80,058	86,098
UNRESTRICTED NET ASSETS AT END OF YEAR	\$ 88,096	\$ 80,058

See accompany notes to financial statements.

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,038	\$ (6,040)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,016	2,647
Loss on property and equipment	-	2,474
Net realized and unrealized (gain) loss on investments	(4,437)	6,043
(Increase) in accounts receivable	(26,798)	(2,244)
(Increase) in due from other Moravian Church supported entities	(35)	-
(Increase) decrease in prepaid expenses	2,331	(4,373)
Increase (decrease) in accounts payable	182	(571)
(Decrease) in due to other Moravian Church supported entities	(454)	(329)
Increase in gift annuity death payout payable	18,077	-
Net receipts over payments of agency funds	3,672,105	8,082,354
Purchase of investments, net - agency funds	(3,667,469)	(8,189,320)
Proceeds from real estate sale - agency funds	<u>-</u>	<u>54,599</u>
 Net cash provided (used) by operating activities	 <u>\$ 3,556</u>	 <u>\$ (54,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments	\$ 17,000	\$ -
Purchases of investments	(560)	(365)
Proceeds from sale of property and equipment	-	150
Purchases of property and equipment	<u>-</u>	<u>(2,190)</u>
 Net cash provided (used) by investing activities	 <u>\$ 16,440</u>	 <u>\$ (2,405)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 19,996	 \$ (57,165)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>47,991</u>	 <u>105,156</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 67,987</u>	 <u>\$ 47,991</u>

See accompany notes to financial statements.

MORAVIAN MINISTRIES FOUNDATION IN AMERICA

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 three 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, 2003 AND 2002

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 \$227,421 and \$172,676 for the years ended December 31, 2003 and 2002.

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 and State Street Global Advisors. 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, 2003 AND 2002

NOTE 4 - PROPERTY AND EQUIPMENT:

A summary of property and equipment at December 31, 2003 and 2002 is as follows:

	2003	2002
Computer equipment	\$ 7,262	\$ 6,448
Furniture and equipment	<u>6,492</u>	<u>6,492</u>
	\$ 13,754	\$ 12,940
Less accumulated depreciation	<u>(7,711)</u>	<u>(5,695)</u>
Net property and equipment	<u>\$ 6,043</u>	<u>\$ 7,245</u>

NOTE 5 - INVESTMENTS:

Investments, stated at fair value, consisted of the following at December 31, 2003 and 2002:

	2003	2002
Moravian Common Fund:		
Fixed income securities fund	\$ 8,080,671	\$ -
Equity securities fund	20,247,402	-
U.S. Treasury bills	-	1,460,060
Other U.S. bonds and obligations	-	1,731,997
Corporate bonds and obligations	-	2,825,250
Equity securities	-	9,212,018
Sponsored securities (mutual funds)	-	5,233,565
Short-term reserves and cash	<u>748,713</u>	<u>835,558</u>
	<u>\$ 29,076,786</u>	<u>\$ 21,298,448</u>
Other investments:		
Bond funds	\$ 612,509	\$ 569,805
Equity funds	1,386,116	1,042,073
Equity securities	23,552	-
Mutual funds	276	232
Short-term reserves and cash	<u>99,917</u>	<u>236,945</u>
	<u>\$ 2,122,370</u>	<u>\$ 1,849,055</u>
Total	<u>\$ 31,199,156</u>	<u>\$ 23,147,503</u>

**MORAVIAN MINISTRIES
FOUNDATION IN AMERICA**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 5 - INVESTMENTS: - (Continued)

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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, 2003 and 2002:

	2003	2002
Investments held by U.S. Trust	\$ 2,147,468	\$ 1,884,192
Other investments	43,074	65,552
Notes receivable	-	97,500
Net due to beneficiaries	(1,379)	(3,126)
	<u>\$ 2,189,163</u>	<u>\$ 2,044,118</u>
Trusts under which MMFA is trustee	\$ 830,417	\$ 722,539
Trusts under which other Moravian entities are trustee	<u>1,358,746</u>	<u>1,321,579</u>
	<u>\$ 2,189,163</u>	<u>\$ 2,044,118</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
FOUNDATION IN AMERICA**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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, 2003 and 2002, include \$2,095,667 and \$1,846,538, respectively attributable to charitable gift annuities (carried at fair market value.) Of this amount, \$1,540,998 and \$1,307,835, respectively represent charitable gift annuities in which MMFA is a party to the contract, and \$554,669 and \$538,703, 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, 2003 and 2002 were as follows:

	2003	2002
Beginning balance	\$ 23,033,581	\$ 18,238,561
Receipts	3,921,826	9,285,369
Investment income (net of fees)	383,901	318,745
Realized and unrealized losses on investments	4,165,626	(3,287,334)
Disbursements	<u>(633,622)</u>	<u>(1,521,760)</u>
Ending balance	<u>\$ 30,871,312</u>	<u>\$ 23,033,581</u>

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 7 - AGENCY FUNDS: - (Continued)

Agency fund receipts include:

	2003	2002
Additions to Common Fund	\$ 3,792,154	\$ 9,170,497
Contributions from individuals - MMFA transfer agent	66,227	104,562
Contributions to charitable remainder trusts	13,000	-
On One Stem Growing campaign	50,445	10,310
	<u>\$ 3,921,826</u>	<u>\$ 9,285,369</u>

Agency fund disbursements include:

Disbursements from Common Fund	\$ 372,142	\$ 920,945
Northern Province gift annuity payments	54,852	150,958
Southern Province gift annuity payments	11,102	113,235
Northern Province charitable remainder trust payments	5,804	6,336
Southern Province charitable remainder trust payments	101,733	107,808
Distributions of individual contributions - MMFA transfer agent	66,481	222,478
Other expenses - transfer to MMFA for On One Stem Growing	21,508	-
	<u>\$ 633,622</u>	<u>\$ 1,521,760</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 \$8,163 and \$4,752 for the years ended December 31, 2003 and 2002, respectively.

NOTE 9 - RETIREMENT PLAN:

MMFA maintains a retirement plan covering eligible employees. Expense under this plan totaled \$8,864 and \$8,045 for the years ended December 31, 2003 and 2002, respectively.

**MORAVIAN MINISTRIES
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 10 - OPERATING LEASES:

MMFA leases office equipment and a vehicle under operating lease arrangements. Rental expense for these leases totaled \$11,403 and \$9,239 for the years ended December 31, 2003 and 2002, respectively.

Future minimum lease payments under these operating leases as of December 31, 2003 are as follows:

Year ended December 31:		
2004		\$ 4,889
2005		1,175
2006		<u>269</u>
		<u>\$ 6,333</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, 2003, MMFA did not meet this requirement. Management projects, however, that the required reserve amount will be in place within the next annual budget cycle.