

**BATTS, MORRISON, WALES & LEE, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS  
www.nonprofitecpa.com

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Pioneers, Inc.  
Orlando, Florida

We have audited the accompanying consolidated statements of financial position of Pioneers, Inc. ("the Organization") as of September 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, the consolidated changes in its net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Batts, Morrison, Wales & Lee, P.A.*

BATTS, MORRISON, WALES & LEE, P.A.

Orlando, Florida  
February 2, 2010

**PIONEERS, INC.**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**ASSETS**

	September 30,	
	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents (Note B)	\$ 1,254,707	\$ 2,823,258
Temporary investments (Note D)	5,473,700	4,316,791
Inventories (Note B)	397,956	305,067
Prepaid expenses and other assets (Note B)	143,099	622,298
Land, buildings and equipment, net (Note E)	7,579,529	7,682,434
<b>Total assets</b>	<b>\$14,848,991</b>	<b>\$15,749,848</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 600,511	\$ 564,824
Notes payable (Note F)	—	1,315,000
<b>Total liabilities</b>	<b>600,511</b>	<b>1,879,824</b>
<b>NET ASSETS</b>		
Unrestricted	5,333,691	5,214,933
Temporarily restricted (Note B)	8,914,789	8,655,091
<b>Total net assets</b>	<b>14,248,480</b>	<b>13,870,024</b>
<b>Total liabilities and net assets</b>	<b>\$14,848,991</b>	<b>\$15,749,848</b>

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

**PIONEERS, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

	For The Years Ended September 30,	
	2009	2008
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
Public support and revenue:		
Campground revenues	\$ 579,349	\$ 607,866
Grant revenue	555,000	280,000
Contributions	492,198	320,395
Other income	346,799	563,444
Net gain (loss) on temporary investments	255,648	(960,890)
Interest and dividend income	160,598	175,011
Total public support and revenue	2,389,592	985,826
Net assets released from restrictions:		
Satisfaction of use restrictions	29,762,377	28,154,903
Total public support and revenue and net assets released from restrictions	32,151,969	29,140,729
Expenses:		
Program activities:		
Evangelism and church planting	22,461,398	21,532,559
Training	1,397,896	1,267,944
Ministry to constituency	1,040,847	1,062,425
Membership development	761,722	738,917
Short-term overseas ministries	638,554	434,427
Total program activities	26,300,417	25,036,272
Supporting activities:		
Management and general	3,771,995	3,678,208
Fund raising - general	788,302	783,661
Campground expenses	668,577	670,979
Fund raising - appointees	503,920	444,795
Total supporting activities	5,732,794	5,577,643
Total expenses	32,033,211	30,613,915
<b>Change in unrestricted net assets</b>	<b>118,758</b>	<b>(1,473,186)</b>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	29,390,897	28,870,869
Grant revenue	631,178	540,480
Net assets released from restrictions	(29,762,377)	(28,154,903)
<b>Change in temporarily restricted net assets</b>	<b>259,698</b>	<b>1,256,446</b>
<b>CHANGE IN NET ASSETS</b>	<b>378,456</b>	<b>(216,740)</b>
<b>NET ASSETS – Beginning of year</b>	<b>13,870,024</b>	<b>14,086,764</b>
<b>NET ASSETS – End of year</b>	<b>\$14,248,480</b>	<b>\$13,870,024</b>

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**PIONEERS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For The Years Ended September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributors	\$31,069,273	\$30,011,744
Cash paid to suppliers and employees	(31,708,221)	(30,339,556)
Investment income received	160,598	179,776
Other revenue received	956,878	1,271,408
<b>Net cash flows from operating activities</b>	<b>478,528</b>	<b>1,123,372</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of temporary investments	(5,143,857)	(1,863,844)
Proceeds from sales of temporary investments	4,242,596	2,481,419
Purchases of and improvements to land, buildings and equipment	(280,818)	(1,753,322)
<b>Net cash flows from investing activities</b>	<b>(1,182,079)</b>	<b>(1,135,747)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowing	—	915,000
Repayment of principal	(865,000)	—
<b>Net cash flows from financing activities</b>	<b>(865,000)</b>	<b>915,000</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,568,551)</b>	<b>902,625</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of year</b>	<b>2,823,258</b>	<b>1,920,633</b>
<b>CASH AND CASH EQUIVALENTS – End of year</b>	<b>\$ 1,254,707</b>	<b>\$ 2,823,258</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 378,456	\$ (216,740)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	383,723	451,955
Forgiveness of debt	(450,000)	—
Loss on disposals of equipment	—	4,686
(Gain) loss on temporary investments, net	(255,648)	960,890
Change in inventories	(92,889)	(31,911)
Change in prepaid expenses and other assets	479,199	(87,817)
Change in accounts payable and accrued expenses	35,687	42,309
<b>Net cash flows from operating activities</b>	<b>\$ 478,528</b>	<b>\$ 1,123,372</b>

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

**PIONEERS, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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 Whipporwill KOA. The Organization also operates a retail business known as “Heartcraft,” which sells crafts purchased from businesses that have been established alongside church planting efforts in foreign countries. The Organization also conducts conferences and sells books and media items.

During the year ended September 30, 2007, the Organization purchased certain assets of an unrelated Colorado not-for-profit corporation. Additionally, the sole voting membership in 10X Productions, Inc. (“10X”) was transferred to the Organization. 10X Productions, Inc. is organized in Colorado as a nonprofit corporation, the principal activity of which is writing, filming, producing and distributing a certain film. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Organization’s financial statements include the accounts of 10X. All significant interorganization transactions and balances have been eliminated. During the year ended September 30, 2009, 10X was dissolved and the film copyright was assigned to the Organization.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Restricted and unrestricted revenue and support**

Contributions received are recorded as unrestricted or temporarily restricted support, 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as “net assets released from restrictions.”

**Temporarily restricted net assets**

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 or specific projects are under the full control of the Organization. In order to conservatively account for such contributions, the Organization recognizes them as temporarily restricted until they are expended for appropriate ministry purposes. Net assets were restricted for U.S.-based ministry, pre-field ministry and foreign ministry.

**Cash and cash equivalents**

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

**Temporary investments**

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

**Inventories**

Inventories consist of campground general store sundries, Heartcraft craft items, books and media items and are stated at the lower of cost or market, as determined by the first-in, first-out cost flow assumption.

**Prepaid expenses and other assets**

At September 30, 2008, prepaid expenses and other assets consisted primarily of motion picture production costs. As described in Note A, during the year ended September 30, 2007, the Organization acquired the assets and sole voting membership in 10X, the primary activity of which was the production of a feature length motion picture project (“the Project”). As of September 30, 2008, the Project was in the final stages of production and the Organization was attempting to secure licensing arrangements in connection with the syndication and distribution of the Project. Revenues associated with the future licensing of the Project will be recognized when earned.

**PIONEERS, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During the year ended September 30, 2009, the Organization evaluated the value of the Project for impairment using a discounted cash flow method. The asset was determined to be impaired based on a comparison of the carrying amount of the asset to future discounted cash flows expected to be generated by the asset. See Note F.

**Land, buildings and equipment**

Land, buildings and equipment are stated at cost, if purchased, or fair value on the date of donation, if donated. Depreciation is provided using straight line methods over the estimated useful lives of the related assets, and has been allocated between campground and Heartcraft use of property and program and supporting activities based on estimated relative use.

**Income taxes**

The Organization is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Organization is further classified as a public charity and not a private foundation for federal tax purposes. The Organization engages in certain unrelated business activities. However, the Organization has not incurred unrelated business income taxes related to such activities. As a result, no income tax provision or liability has been provided for in the accompanying consolidated financial statements. The Organization has not taken any material uncertain tax positions for which the tax benefits associated therewith may not be recognized under accounting principles generally accepted in the United States of America.

**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 related to the useful lives of buildings and equipment and the value of the Project. Actual results could differ from the estimates.

**Reclassifications**

Certain amounts included in the consolidated financial statements for the year ended September 30, 2008, have been reclassified to conform to classifications adopted during the year ended September 30, 2009. These reclassifications had no material effect on the accompanying consolidated financial statements.

**Subsequent events**

The Organization has evaluated for possible financial reporting and disclosure subsequent events through February 2, 2010, the date as of which the consolidated financial statements were available to be issued.

**NOTE C – CONCENTRATION OF CREDIT RISK**

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.

**PIONEERS, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE D – TEMPORARY INVESTMENTS**

Temporary investments consisted of the following:

	September 30,	
	2009	2008
Equity mutual funds and securities	\$ 3,804,835	\$ 2,437,733
Bond mutual funds	1,372,822	1,429,543
U.S. government securities	296,043	449,515
Total temporary investments	\$ 5,473,700	\$ 4,316,791

Accounting principles generally accepted in the United States of America (“GAAP”) define fair value as the price the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. GAAP also established a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. 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). Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – quoted prices in active markets for identical investments

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

Level 3 – significant unobservable 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. Estimated fair values of assets measured on a recurring basis as of September 30, 2009, are as follows:

	Estimated Fair Value Measurements at Reporting Date Using			
	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 3,804,835	\$ 3,804,835	\$ —	\$ —
Marketable debt securities	1,668,865	1,668,865	—	—
Total	\$ 5,473,700	\$ 5,473,700	\$ —	\$ —

**PIONEERS, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE E – LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consisted of the following:

<u>Category</u>	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 2,234,039	\$ 2,234,039
Land improvements	966,763	943,816
Buildings	5,434,921	5,465,057
Furniture and equipment	1,640,847	1,689,818
Construction in progress	<u>993,423</u>	<u>766,850</u>
Total land, buildings and equipment	11,269,993	11,099,580
Less: Accumulated depreciation	<u>(3,690,464)</u>	<u>(3,417,146)</u>
Land, buildings and equipment, net	<u>\$ 7,579,529</u>	<u>\$ 7,682,434</u>

For the years ended September 30, 2009 and 2008, total depreciation expense of \$383,723 and \$451,955, respectively, has been allocated in the amounts of \$84,099 and \$97,971 for campground use and \$299,624 and \$353,984 for program and supporting activities, respectively.

**NOTE F – NOTES PAYABLE**

At September 30, 2008, the Organization had an unsecured line of credit up to \$450,000 payable to an unrelated individual. Any outstanding balance was due upon demand. The purpose of the note was to fund the completion of a certain feature length motion picture project (see Note B). The sole source for repayment of the note was to be revenues generated from the Project. If the Organization did not comply with certain conditions of the agreement, the unpaid principal balance would bear interest at the rate of 8% per annum from July 1, 2007 until the principal balance was paid in full. As of September 30, 2008, the Organization had drawn \$450,000 on the line of credit. During the year ended September 30, 2009, the individual forgave the line of credit, which had an outstanding balance at the time of forgiveness of \$450,000. The Organization netted the \$450,000 forgiveness of the line of credit with the \$480,730 impairment adjustment of the Project. As a result, (\$30,730) is included in other income in the consolidated statement of activities for the year ended September 30, 2009 related to these transactions.

At September 30, 2008, the Organization had a note payable to a Trust, the purpose of which was to fund the purchase of certain real property. The note was secured by a mortgage on the property. The note was payable in two annual principal payments of \$432,500 each plus interest at a rate of 6% per annum, the first of which was due October 2008. The outstanding balance of this note was paid in September 2009.

Interest expense amounted to approximately \$25,000 and \$50,000 for the years ended September 30, 2009 and 2008, respectively.

**NOTE G – AGENCY TRANSACTIONS**

The Organization received contributions in the approximate amounts of \$239,000 and \$225,000 from Sprint-Pioneers Ministries, Inc. (a Canadian ministry) and paid approximately \$256,000 and \$289,000 to Sprint-Pioneers Ministries, Inc. during the years ended September 30, 2009 and 2008, respectively. These amounts represent contributions made by donors to Sprint-Pioneers Ministries, Inc. but earmarked for Pioneers, Inc. and contributions received by Pioneers, Inc. but earmarked for Sprint-Pioneers Ministries, Inc. Additionally, the Organization received contributions in the approximate amounts of \$139,000 and \$157,000 from other Pioneers ministries based in Australia, New Zealand, Singapore and Europe and paid approximately \$407,000 and \$364,000 to these other ministries during the years ended September 30, 2009 and 2008, respectively. These amounts represent contributions made by donors to other ministries but earmarked for Pioneers, Inc. and contributions received by Pioneers, Inc. but earmarked for such other ministries.