

AFRICAN LEADERSHIP, INC.

FINANCIAL STATEMENTS

December 31, 2012 and 2011

AFRICAN LEADERSHIP, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
African Leadership, Inc.
Brentwood, Tennessee

We have audited the accompanying financial statements of African Leadership, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of African Leadership, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier Den + Howard, PLLC

Nashville, Tennessee
April 30, 2013

AFRICAN LEADERSHIP, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

| | 2012 | 2011 |
|---------------------------------------|--------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash in bank | \$ 334,582 | \$ 479,252 |
| Accounts receivable | 371,939 | - |
| Inventory | 19,186 | 23,128 |
| Investments - at market | 138,516 | 665,311 |
| | <u>864,223</u> | <u>1,167,691</u> |
| Fixed assets: | | |
| Computers | 30,883 | 25,355 |
| Office furniture and equipment | 26,196 | 25,946 |
| Automobiles | 60,064 | 67,224 |
| Accumulated depreciation | (94,270) | (82,566) |
| | <u>22,873</u> | <u>35,959</u> |
| Total fixed assets | <u>22,873</u> | <u>35,959</u> |
| Total assets | <u><u>\$ 887,096</u></u> | <u><u>\$ 1,203,650</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 33,143 | \$ 32,150 |
| Notes payable, current portion | 18,000 | - |
| | <u>51,143</u> | <u>32,150</u> |
| Total current liabilities | <u>51,143</u> | <u>32,150</u> |
| Notes payable, net of current portion | <u>32,000</u> | <u>10,000</u> |
| Total liabilities | <u>83,143</u> | <u>42,150</u> |
| Net assets: | | |
| Unrestricted | 177,342 | 1,678 |
| Temporarily restricted | 626,611 | 1,159,822 |
| | <u>803,953</u> | <u>1,161,500</u> |
| Total net assets | <u>803,953</u> | <u>1,161,500</u> |
| Total liabilities and net assets | <u><u>\$ 887,096</u></u> | <u><u>\$ 1,203,650</u></u> |

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| Revenue and other support: | | | |
| Contributions | \$ 1,179,453 | \$ 1,076,202 | \$ 2,255,655 |
| In-kind contribution | - | 450,833 | 450,833 |
| Merchandise sales | 359,228 | - | 359,228 |
| Other income | 13,265 | - | 13,265 |
| Investment loss | (10,193) | - | (10,193) |
| Net assets released from restrictions | 2,060,246 | (2,060,246) | - |
| Total revenue and other support | <u>3,601,999</u> | <u>(533,211)</u> | <u>3,068,788</u> |
| Expenses: | | | |
| Program services: | | | |
| Project contributions | 587,772 | - | 587,772 |
| Payroll expenses | 483,357 | - | 483,357 |
| In-kind project contribution | 450,833 | - | 450,833 |
| Pastor and project support | 323,495 | - | 323,495 |
| Travel | 213,232 | - | 213,232 |
| Cost of goods sold | 117,271 | - | 117,271 |
| Other | 19,672 | - | 19,672 |
| Total program services | <u>2,195,632</u> | <u>-</u> | <u>2,195,632</u> |
| Administrative services: | | | |
| Payroll expenses | 238,110 | - | 238,110 |
| Professional fees | 95,748 | - | 95,748 |
| Insurance | 55,592 | - | 55,592 |
| Bank and credit card charges | 52,744 | - | 52,744 |
| Rent | 45,015 | - | 45,015 |
| Other | 40,624 | - | 40,624 |
| Telephone | 26,468 | - | 26,468 |
| Depreciation | 18,864 | - | 18,864 |
| Contract labor | 18,091 | - | 18,091 |
| Automobile | 13,054 | - | 13,054 |
| Supplies | 12,363 | - | 12,363 |
| Total administrative services | <u>616,673</u> | <u>-</u> | <u>616,673</u> |
| Fundraising services: | | | |
| Payroll and contract labor expenses | 274,204 | - | 274,204 |
| Advertising and marketing | 208,893 | - | 208,893 |
| Event expense | 52,767 | - | 52,767 |
| Printing and postage | 30,929 | - | 30,929 |
| Website | 29,041 | - | 29,041 |
| Other | 18,196 | - | 18,196 |
| Total fundraising services | <u>614,030</u> | <u>-</u> | <u>614,030</u> |
| Total expenses | <u>3,426,335</u> | <u>-</u> | <u>3,426,335</u> |
| Change in net assets | 175,664 | (533,211) | (357,547) |
| Net assets – beginning of year | <u>1,678</u> | <u>1,159,822</u> | <u>1,161,500</u> |
| Net assets – end of year | <u>\$ 177,342</u> | <u>\$ 626,611</u> | <u>\$ 803,953</u> |

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------------|-----------------------------------|--------------|
| Revenue and other support: | | | |
| Contributions | \$ 1,296,154 | \$ 1,055,267 | \$ 2,351,421 |
| In-kind contribution | - | 807,697 | 807,697 |
| Merchandise sales | 224,234 | - | 224,234 |
| Investment income | 40,349 | - | 40,349 |
| Net assets released from restrictions | 2,146,165 | (2,146,165) | - |
| Total revenue and other support | 3,706,902 | (283,201) | 3,423,701 |
| Expenses: | | | |
| Program services: | | | |
| In-kind project contribution | 807,697 | - | 807,697 |
| Project contributions | 585,166 | - | 585,166 |
| Payroll expenses | 475,668 | - | 475,668 |
| Pastor and project support | 377,492 | - | 377,492 |
| Travel | 177,673 | - | 177,673 |
| Cost of goods sold | 89,928 | - | 89,928 |
| Other | 50,556 | - | 50,556 |
| Total program services | 2,564,180 | - | 2,564,180 |
| Administrative services: | | | |
| Payroll expenses | 215,960 | - | 215,960 |
| Professional fees | 98,145 | - | 98,145 |
| Other | 68,248 | - | 68,248 |
| Bank and credit card charges | 56,943 | - | 56,943 |
| Insurance | 51,471 | - | 51,471 |
| Rent | 38,225 | - | 38,225 |
| Telephone | 25,065 | - | 25,065 |
| Depreciation | 19,843 | - | 19,843 |
| Automobile | 16,574 | - | 16,574 |
| Contract labor | 15,425 | - | 15,425 |
| Supplies | 14,505 | - | 14,505 |
| Total administrative services | 620,404 | - | 620,404 |
| Fundraising services: | | | |
| Payroll and contract labor expenses | 231,789 | - | 231,789 |
| Advertising and marketing | 107,628 | - | 107,628 |
| Event expense | 28,646 | - | 28,646 |
| Other | 26,880 | - | 26,880 |
| Printing and postage | 26,046 | - | 26,046 |
| Website | 17,398 | - | 17,398 |
| Total fundraising services | 438,387 | - | 438,387 |
| Total expenses | 3,622,971 | - | 3,622,971 |
| Change in net assets | 83,931 | (283,201) | (199,270) |
| Net assets – beginning of year | (82,253) | 1,443,023 | 1,360,770 |
| Net assets – end of year | \$ 1,678 | \$ 1,159,822 | \$ 1,161,500 |

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (357,547) | \$ (199,270) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 18,864 | 19,843 |
| (Gain) loss on disposal of fixed assets | (1,201) | 2,684 |
| Net realized and unrealized loss (gain) on investments | 29,941 | (7,303) |
| Change in operating assets and liabilities: | | |
| Pledged receivables | - | 1,000 |
| Accounts receivable | (371,939) | - |
| Inventory | 3,942 | 3,188 |
| Accounts payable and accrued expenses | 993 | (36,486) |
| Net cash used in operating activities | <u>(676,947)</u> | <u>(216,344)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of fixed assets | 1,201 | - |
| Purchase of fixed assets | (5,778) | (4,599) |
| Purchase of investments | (22,842) | (61,688) |
| Proceeds from sale of investments | 519,696 | 130,485 |
| Net cash provided by investing activities | <u>492,277</u> | <u>64,198</u> |
| Cash flows from financing activities: | | |
| Proceeds from note payable | 40,000 | - |
| Payments on notes payable | - | (20,000) |
| Net cash provided by (used in) financing activities | <u>40,000</u> | <u>(20,000)</u> |
| Net decrease in cash in bank | (144,670) | (172,146) |
| Cash in bank – beginning of year | <u>479,252</u> | <u>651,398</u> |
| Cash in bank – end of year | <u><u>\$ 334,582</u></u> | <u><u>\$ 479,252</u></u> |

See accompanying notes.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – DESCRIPTION AND PURPOSE OF ORGANIZATION

African Leadership, Inc. (the “Organization”) is a Christian education organization that trains African pastors and funds relief and development projects. The Organization is primarily funded by donations from individuals, charities, and other organizations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets as of December 31, 2012 and 2011.

Accounts Receivable

Accounts receivable at December 31, 2012 consist primarily of a refund related to an agreement between the Organization and a promotional agency (See Note 3).

Inventory

Inventories are stated at the lower of cost or market. Cost is determined by the first in, first out method.

Fixed Assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Significant additions and betterments are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance related to unrecognized tax benefits that clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization had no uncertain tax positions at December 31, 2012 or 2011. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years prior to the year ended December 31, 2009 are closed to examination.

Advertising and Marketing Costs

Advertising and marketing costs are charged to expense as incurred. Advertising and marketing expense totaled \$208,893 and \$107,628 for the years ended December 31, 2012 and 2011, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

Donated goods and services are recognized at the fair value of items received at the time of donation. The Organization also receives volunteer services from a number of individuals in carrying out its programs that do not meet the criteria for recognition in the financial statements.

Concentration of Credit Risk

The Organization generally maintains cash at financial institutions in excess of the federally insured amount. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk related to its cash held at financial institutions.

Subsequent Events

The Organization has evaluated subsequent events through April 30, 2013, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

During 2012, the Organization entered into a promotional agreement to increase “Mocha Club” donations. Terms of the agreement required the Organization to prepay for 4,000 anticipated new donors at \$125 per donor. Results of the campaign were as follows as of December 31, 2012:

| | |
|---|--------------------------|
| Prepaid fees (\$125 for each of the 4,000 anticipated new donors) | \$ 500,000 |
| Marketing expense incurred (approx. 1,050 new donors) | <u>(129,200)</u> |
| Amount due the organization (included in accounts receivable) | <u><u>\$ 370,800</u></u> |

The campaign ended in November of 2012 and management expects the remaining balance to be fully collectible.

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has adopted the fair value measurement topic of the FASB ASC, 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include the following:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

Cash investments: Valued at cost at year-end.

Common stock: Valued at quoted prices of ownership units held by the Organization at year-end.

Bond funds and fixed income securities: Valued at quoted prices of ownership units held by the Organization at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

The basis of fair value measurement for investments consists of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|--|--|---|
| | Quoted Prices in Active Markets for Identical Items | Quoted Prices in Active Markets for |
| Identical Items | <u>(Level 1)</u> | <u>(Level 1)</u> |
| Cash investments | \$ 86,144 | \$ 63,639 |
| Common stock | 1,067 | - |
| Bond funds and fixed income securities | <u>51,305</u> | <u>601,672</u> |
| | <u>\$ 138,516</u> | <u>\$ 665,311</u> |

The following schedule summarizes the investment income as reported in the statements of activities at December 31:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|------------------|
| Interest and dividends | \$ 19,748 | \$ 33,046 |
| Unrealized and realized (loss) gain on investments | <u>(29,941)</u> | <u>7,303</u> |
| Net (loss) gain on investments | <u>\$ (10,193)</u> | <u>\$ 40,349</u> |

NOTE 5 – NOTES PAYABLE

Notes payable consists of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| In January 2012, the Organization entered into an unsecured promissory note agreement with an individual for \$40,000, with interest fixed at 4% per annum. Under the terms of the agreement, the Organization is to pay principal and interest payments semiannually beginning January 2013, until the maturity date of January 16, 2015, at which time the note and any accrued interest is to be paid in full. | \$ 40,000 | \$ - |

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 5 – NOTES PAYABLE (Continued)

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| In September 2010, the Organization entered into an unsecured promissory note agreement with a related party for \$10,000. Under the terms of the agreement, the Organization is to pay interest only at a fixed rate of 4%. Interest payments are due annually until the maturity date of September 15, 2013 at which time the note and any accrued interest is to be paid in full. | | |
| | <u>10,000</u> | <u>10,000</u> |
| | 50,000 | 10,000 |
| Less current portion | <u>(18,000)</u> | <u>-</u> |
| Notes payable, net of current portion | <u>\$ 32,000</u> | <u>\$ 10,000</u> |

Scheduled principal requirements on notes payable are as follows at December 31, 2012:

| | |
|-------------------------------------|------------------|
| Years Ending <u>December 31,</u> | |
| 2013 | \$ 18,000 |
| 2014 | 8,000 |
| 2015 | <u>24,000</u> |
| | <u>\$ 50,000</u> |

NOTE 6 – IN-KIND CONTRIBUTIONS AND EXPENSES

During 2012 and 2011, the Organization received in-kind medical supplies and pharmaceutical contributions, respectively, which were shipped to Africa. In-kind contribution revenue and expense totaled \$450,833 and \$807,697 for 2012 and 2011, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31, 2012:

| | |
|------------------------|-------------------|
| Pastor training | \$ 280,527 |
| International projects | 274,758 |
| Staff support | 56,194 |
| Other | <u>15,132</u> |
| | <u>\$ 626,611</u> |

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 8 – COMMITMENTS

The Organization annually enters into letters of agreement with various musical artists to promote the “Mocha Club” fundraising campaign. For each donor who signs up for credit card donations, the Organization has agreed to pay the artist a fee. The Organization paid a total of \$40,129 and \$50,260 related to these letters of agreement during 2012 and 2011, respectively.

The Organization leases certain office space under a noncancelable operating lease that expires in February 2013. The Organization also leases office equipment under a noncancelable operating lease that expires in May 2015. Future minimum lease payments under noncancelable leases are as follows:

| <u>Years Ending</u> <u>December 31,</u> | |
|--|------------------|
| 2013 | \$ 8,015 |
| 2014 | 2,865 |
| 2015 | <u>1,194</u> |
| | <u>\$ 12,074</u> |

Rental expense for the years ended December 31, 2012 and 2011 totaled \$45,015 and \$38,225, respectively.

NOTE 9 – RETIREMENT PLAN

The Organization has adopted a defined contribution 403(b) retirement plan for all eligible employees who have elected salary deferral. The Organization made no contributions to the plan for the years ended December 31, 2012 and 2011.