AFRICAN LEADERSHIP, INC.

FINANCIAL STATEMENTS

December 31, 2013 and 2012

AFRICAN LEADERSHIP, INC.

TABLE OF CONTENTS

FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013 and 2012, 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.

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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, 2013 and 2012, 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, Dean & Howard, PLLC

Nashville, Tennessee
June 5, 2014

AFRICAN LEADERSHIP, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash in bank	$ 655,875	$ 334,582
Accounts receivable	129,176	371,939
Inventory	48,190	19,186
Investments - at market	89,531	138,516
Total current assets	922,772	864,223
Fixed assets:		
Computers	32,348	30,883
Office furniture and equipment	28,839	26,196
Automobiles	60,064	60,064
Accumulated depreciation	(107,791)	(94,270)
Total fixed assets	13,460	22,873
Total assets	$ 936,232	$ 887,096
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 53,485	$ 33,143
Deposit	30,000	-
Notes payable, current portion	12,000	18,000
Total current liabilities	95,485	51,143
Notes payable, net of current portion	24,000	32,000
Total liabilities	119,485	83,143
Net assets:		
Unrestricted	88,912	177,342
Temporarily restricted	727,835	626,611
Total net assets	816,747	803,953
Total liabilities and net assets	$ 936,232	$ 887,096

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Contributions	$ 1,274,305	$ 823,254	$ 2,097,559
In-kind contribution	-	493,575	493,575
Merchandise sales	512,501	-	512,501
Other income	10,620	-	10,620
Investment income	58	-	58
Net assets released from restrictions	1,215,605	(1,215,605)	-
Total revenue and other support	3,013,089	101,224	3,114,313
Expenses:			
Program services:			
In-kind project contribution	493,575	-	493,575
Project contributions	405,552	-	405,552
Payroll expenses	337,568	-	337,568
Pastor and project support	325,836	-	325,836
Program Administration Expenses	293,582	-	293,582
Cost of goods sold	228,346	-	228,346
Travel	89,767	-	89,767
Total program services	2,174,226	-	2,174,226
Administrative services:			
Payroll expenses	338,918	-	338,918
Insurance	62,956	-	62,956
Other	52,364	-	52,364
Bank and credit card charges	48,118	-	48,118
Professional fees	47,544	-	47,544
Rent	27,218	-	27,218
Depreciation	13,521	-	13,521
Telephone	13,481	-	13,481
Supplies	6,909	-	6,909
Automobile	3,858	-	3,858
Total administrative services	614,887	-	614,887
Fundraising services:			
Payroll and contract labor expenses	159,020	-	159,020
Printing and postage	44,427	-	44,427
Advertising and marketing	38,054	-	38,054
Event expense	33,563	-	33,563
Other	19,384	-	19,384
Website	17,958	-	17,958
Total fundraising services	312,406	-	312,406
Total expenses	3,101,519	-	3,101,519
Change in net assets	(88,430)	101,224	12,794
Net assets – beginning of year	177,342	626,611	803,953
Net assets – end of year	$ 88,912	$ 727,835	$ 816,747

See accompanying notes.

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

	Unrestricted	Temporarily Restricted	Total
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	3,601,999	(533,211)	3,068,788
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	2,195,632	-	2,195,632
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	616,673	-	616,673
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	614,030	-	614,030
Total expenses	3,426,335	-	3,426,335
Change in net assets	175,664	(533,211)	(357,547)
Net assets – beginning of year	1,678	1,159,822	1,161,500
Net assets – end of year	$ 177,342	$ 626,611	$ 803,953

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 12,794	$ (357,547)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,521	18,864
Gain on disposal of fixed assets	-	(1,201)
Net realized and unrealized loss on investments	2,170	29,941
Note payable converted to contribution	(10,000)	-
Change in operating assets and liabilities:		
Accounts receivable	242,763	(371,939)
Inventory	(29,004)	3,942
Accounts payable and accrued expenses	20,342	993
Deposit	30,000	-
Net cash provided by (used in) operating activities	282,586	(676,947)
Cash flows from investing activities:		
Proceeds from sale of fixed assets	-	1,201
Purchase of fixed assets	(4,108)	(5,778)
Purchase of investments	(4,051)	(22,842)
Proceeds from sale of investments	50,866	519,696
Net cash provided by investing activities	42,707	492,277
Cash flows from financing activities:		
Proceeds from notes payable	-	40,000
Payments on notes payable	(4,000)	-
Net cash (used in) provided by financing activities	(4,000)	40,000
Net increase (decrease) in cash in bank	321,293	(144,670)
Cash in bank – beginning of year	334,582	479,252
Cash in bank – end of year	$ 655,875	$ 334,582

See accompanying notes.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012.

Accounts Receivable

Accounts receivable at December 31, 2013 and 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.

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. With the exception of in-kind contributions, 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, 2013 or 2012. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years prior to the year ended December 31, 2010 are closed to examination.

Advertising and Marketing Costs

Advertising and marketing costs are charged to expense as incurred. Advertising and marketing expense totaled $38,054 and $208,893 for the years ended December 31, 2013 and 2012, 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.

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 June 5, 2014, when these financial statements were available to be issued. Other than described in Note 10, the Organization 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. The campaign ended in November of 2012 and the remaining unearned prepaid fees were to be refunded to the Organization. Results of the campaign are as follows as of December 31, 2013:

Prepaid fees ($125 for each of the 4,000 anticipated new donors)	$ 500,000
Marketing expense incurred in 2012 (approx. 1,050 new donors)	(129,200)
Amount due the Organization at December 31, 2012	370,800
Amount refunded the Organization during 2013	(268,000)
Amount due the Organization at December 31, 2013 (included in accounts receivable)	$ 102,800

Management expects the balance as of December 31, 2013 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).

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.

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

	2013 Quoted Prices in Active Markets for Identical Items (Level 1)	2012 Quoted Prices in Active Markets for Identical Items (Level 1)
Cash investments	$ 57,567	$ 86,144
Common stock	2,449	1,067
Bond funds and fixed income securities	29,515	51,305
	$ 89,531	$ 138,516

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

	2013	2012
Interest and dividends	$ 2,228	$ 19,748
Unrealized and realized loss on investments	(2,170)	(29,941)
Net income (loss) on investments	$ 58	$ (10,193)

NOTE 5 – NOTES PAYABLE

Notes payable consists of the following at December 31:

	2013	2012
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.	$ 36,000	$ 40,000

NOTE 5 – NOTES PAYABLE (Continued)

	2013	2012
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 was to pay interest only at a fixed rate of 4%. Interest payments were due annually until the maturity date of September 15, 2013 at which time the note and any accrued interest was to be paid in full. During 2013, the note payable was converted to a contribution.	-	10,000
	36,000	50,000
Less current portion	(12,000)	(18,000)
Notes payable, net of current portion	$ 24,000	$ 32,000

Scheduled principal requirements on notes payable are as follows at December 31, 2013:

Years Ending December 31,	
2014	$ 12,000
2015	24,000
	$ 36,000

Subsequent to December 31, 2013, this debt was paid in full.

NOTE 6 – IN-KIND CONTRIBUTIONS AND EXPENSES

During 2013 and 2012, the Organization received in-kind medical supplies and pharmaceutical contributions, respectively, which were shipped to Africa. In-kind contribution revenue and expense totaled $493,575 and $450,833 for 2013 and 2012, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Pastor training	$ 454,334	$ 280,527
International projects	195,094	274,758
Staff support	44,929	56,194
Other	33,478	15,132
	$ 727,835	$ 626,611

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 $38,643 and $40,129 related to these letters of agreement during 2013 and 2012, respectively.

The Organization leases certain office space and equipment under noncancelable operating leases that expire in February 2018. Future minimum lease payments under noncancelable leases are as follows:

Years Ending December 31,		
2014	$	48,115
2015		50,394
2016		50,676
2017		52,196
2018		8,742
	$	210,123

Rental expense for the years ended December 31, 2013 and 2012 totaled $42,794 and $45,015, 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, 2013 and 2012.

NOTE 10 – SUBSEQUENT EVENTS

Global Support Mission, also known as *Know. Think. Act.* ("KTA"), is a 501(c)(3) organization that has conducted charitable work in Africa. Its founder and board of directors have determined to cease operations and distribute their remaining assets to the Organization. Consequently, effective May 15, 2014, the Organization has entered into an agreement whereby it will receive KTA's assets; assume KTA's mission in Africa; and commit to hire two KTA employees.

The Board of Directors of the Organization has entered into an agreement to sell its Fashionable operations to a former employee for $300,000. The Fashionable operations have historically raised funds by selling clothing accessories imported from Africa. The purchase agreement was effective January 15, 2014. As of December 31, 2013, the Organization received a $30,000 down payment, which was recorded as a deposit liability in the accompanying statement of financial position.