

AFRICAN LEADERSHIP, INC.

FINANCIAL STATEMENTS

December 31, 2014 and 2013

AFRICAN LEADERSHIP, INC.

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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, 2014 and 2013, 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, 2014 and 2013, 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, Owen & Hand, PLLC

Nashville, Tennessee
August 10, 2015

AFRICAN LEADERSHIP, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 324,904	\$ 655,875
Accounts receivable, net	-	129,176
Inventory	20,145	48,190
Investments - at market	90,966	89,531
Other assets	16,874	-
	<u>452,889</u>	<u>922,772</u>
Fixed assets:		
Computers	43,680	32,348
Office furniture and equipment	33,458	28,839
Automobiles	60,064	60,064
Accumulated depreciation	(113,225)	(107,791)
	<u>23,977</u>	<u>13,460</u>
Total fixed assets	<u>23,977</u>	<u>13,460</u>
Total assets	<u><u>\$ 476,866</u></u>	<u><u>\$ 936,232</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 53,839	\$ 53,485
Deposit	-	30,000
Notes payable, current portion	-	12,000
	<u>53,839</u>	<u>95,485</u>
Total current liabilities	<u>53,839</u>	<u>95,485</u>
Notes payable, net of current portion	<u>-</u>	<u>24,000</u>
Total liabilities	<u>53,839</u>	<u>119,485</u>
Net assets:		
Unrestricted	(68,668)	88,912
Temporarily restricted	491,695	727,835
	<u>423,027</u>	<u>816,747</u>
Total net assets	<u>423,027</u>	<u>816,747</u>
Total liabilities and net assets	<u><u>\$ 476,866</u></u>	<u><u>\$ 936,232</u></u>

See accompanying notes.

AFRICAN LEADERSHIP, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Contributions	\$ 972,419	\$ 870,964	\$ 1,843,383
In-kind contribution	5,905	579,418	585,323
Net proceeds-sale of FashionABLE assets	289,479	-	289,479
Other income	24,765	-	24,765
Merchandise sales	19,774	-	19,774
Net investment income	1,704	-	1,704
Net assets released from restrictions	1,686,522	(1,686,522)	-
Total revenue and other support	<u>3,000,568</u>	<u>(236,140)</u>	<u>2,764,428</u>
Expenses:			
Program services:			
Project contributions	672,937	-	672,937
In-kind project contribution	579,418	-	579,418
Program administration expenses	355,177	-	355,177
Payroll expenses	341,656	-	341,656
Pastor and project support	280,191	-	280,191
Travel	209,874	-	209,874
Cost of goods sold	28,111	-	28,111
Total program services	<u>2,467,364</u>	<u>-</u>	<u>2,467,364</u>
Administrative services:			
Payroll expenses	171,934	-	171,934
Bad debt expense	69,300	-	69,300
Professional fees	52,355	-	52,355
Rent	32,147	-	32,147
Other	30,037	-	30,037
Insurance	27,612	-	27,612
Bank and credit card charges	24,947	-	24,947
Telephone	9,685	-	9,685
Supplies	6,368	-	6,368
Depreciation	6,265	-	6,265
Automobile	1,989	-	1,989
Total administrative services	<u>432,639</u>	<u>-</u>	<u>432,639</u>
Fundraising services:			
Payroll and contract labor expenses	147,736	-	147,736
Advertising and marketing	56,688	-	56,688
Event expense	31,264	-	31,264
Printing and postage	12,364	-	12,364
Other	6,064	-	6,064
Website	4,029	-	4,029
Total fundraising services	<u>258,145</u>	<u>-</u>	<u>258,145</u>
Total expenses	<u>3,158,148</u>	<u>-</u>	<u>3,158,148</u>
Change in net assets	(157,580)	(236,140)	(393,720)
Net assets – beginning of year	<u>88,912</u>	<u>727,835</u>	<u>816,747</u>
Net assets – end of year	<u>\$ (68,668)</u>	<u>\$ 491,695</u>	<u>\$ 423,027</u>

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
Merchandise sales	512,501	-	512,501
In-kind contribution	-	493,575	493,575
Other income	10,620	-	10,620
Net investment loss	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.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (393,720)	\$ 12,794
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	6,265	13,521
Loss on disposal of fixed assets	2,116	-
Net proceeds-sale of FashionABLE assets	(289,479)	-
Provision for bad debts	69,300	-
Net realized and unrealized loss on investments	215	2,170
Note payable converted to contribution	-	(10,000)
Change in operating assets and liabilities:		
Accounts receivable	59,876	242,763
Inventory	28,045	(29,004)
Other assets	(16,874)	-
Accounts payable and accrued expenses	354	20,342
Deposit	(30,000)	30,000
Net cash (used in) provided by operating activities	<u>(563,902)</u>	<u>282,586</u>
Cash flows from investing activities:		
Purchase of fixed assets	(18,898)	(4,108)
Purchase of investments	(38,625)	(4,051)
Net proceeds-sale of FashionABLE assets	289,479	-
Proceeds from sale of investments	<u>36,975</u>	<u>50,866</u>
Net cash provided by investing activities	<u>268,931</u>	<u>42,707</u>
Cash flows from financing activities:		
Payments on notes payable	<u>(36,000)</u>	<u>(4,000)</u>
Net cash used in financing activities	<u>(36,000)</u>	<u>(4,000)</u>
Net (decrease) increase in cash in bank	(330,971)	321,293
Cash and cash equivalents – beginning of year	<u>655,875</u>	<u>334,582</u>
Cash and cash equivalents – end of year	<u><u>\$ 324,904</u></u>	<u><u>\$ 655,875</u></u>

See accompanying notes.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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, 2014 and 2013.

Accounts Receivable

Accounts receivable at December 31, 2013 consists 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, 2014 and 2013

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. Cash 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, 2014 or 2013. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years prior to the year ended December 31, 2011 are closed to examination.

Advertising and Marketing Costs

Advertising and marketing costs are charged to expense as incurred. Advertising and marketing expense totaled \$56,688 and \$38,054 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013

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. The value of contributed time is not reflected in these statements, since it does not meet the recording requirements specified by accounting principles generally accepted in the United States of America.

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 August 10, 2015, when these financial statements were available to be issued. 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. Accounts receivable related to the promotional agreement at December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 69,300	\$ 102,800
Less allowance for bad debts	<u>(69,300)</u>	<u>-</u>
	<u><u>\$ -</u></u>	<u><u>\$ 102,800</u></u>

Subsequent to December 31, 2014 and before the issuance of this report, the Organization assigned the \$69,300 balance outstanding to a collection organization and established a bad debt allowance for the that amount as of December 31, 2014.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

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.

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, 2014 and 2013

NOTE 4 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

	<u>2014</u> Quoted Prices in Active Markets for Identical Items (Level 1)	<u>2013</u> Quoted Prices in Active Markets for Identical Items (Level 1)
Cash investments	\$ 69,200	\$ 60,016
Bond funds and fixed income securities	<u>21,766</u>	<u>29,515</u>
	<u><u>\$ 90,966</u></u>	<u><u>\$ 89,531</u></u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 1,517	\$ 2,228
Unrealized and realized loss on investments	<u>187</u>	<u>(2,170)</u>
Net investment income	<u><u>\$ 1,704</u></u>	<u><u>\$ 58</u></u>

NOTE 5 – NOTES PAYABLE

Notes payable consists of the following at December 31:

	<u>2014</u>	<u>2013</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 was 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 was to be paid in full. The Organization paid the principal balance in full in January 2014.	\$ -	\$ 36,000
Less current portion	<u>-</u>	<u>(12,000)</u>
Notes payable, net of current portion	<u><u>\$ -</u></u>	<u><u>\$ 24,000</u></u>

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 6 – IN-KIND CONTRIBUTIONS AND EXPENSES

During 2014 and 2013, the Organization received in-kind medical supplies and pharmaceutical contributions, respectively, which were shipped to Africa. In-kind contribution revenue and expense totaled \$579,418 and \$493,575 for 2014 and 2013, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Common Grounds Academy – pastor training	\$ 259,359	\$ 454,334
Common Grounds Center - international projects	119,534	195,094
KTA dedicated funds	70,817	-
Staff support	36,713	44,929
Other	<u>5,272</u>	<u>33,478</u>
	<u>\$ 491,695</u>	<u>\$ 727,835</u>

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 \$29,620 and \$38,643 related to these letters of agreement during 2014 and 2013, 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:

<u>Years Ending</u> <u>December 31,</u>	
2015	\$ 52,014
2016	50,946
2017	52,196
2018	8,742
2019	<u>-</u>
	<u>\$ 163,898</u>

Rental expense for the years ended December 31, 2014 and 2013 totaled \$59,047 and \$42,794, respectively.

AFRICAN LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

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, 2014 and 2013.

NOTE 10 – FASHIONABLE ASSET SALE

Effective January 15, 2014, the Organization sold the assets of its FashionABLE Scarves operation (“FashionABLE”) to a former employee for the net proceeds of \$289,479. FashionABLE operated to raise funds by selling clothing accessories imported from Africa. Assets sold included all assigned contracts, transferred clothing inventory, FashionABLE trade accounts or notes receivable, all related client customer lists and referral sources, and all related intangible and intellectual property. Certain liabilities related to the assets sold were also assumed by the buyer. The net proceeds of \$289,479 collected from the sale are included in revenue and other support in the statement of operations for the year ended December 31, 2014.

NOTE 11 – ASSET PURCHASE AGREEMENT

During May of 2014, the Organization purchased the assets of Global Support Mission, Inc. and its *Know.Think.Act* ministry (“KTA”). Assets purchased included physical assets, assigned contracts, intangible rights and property, and data records such as donor lists and referral sources. Consideration for the purchase included retaining and continuing to employ three of KTA’s employees, paying a six month consulting fee, and agreeing to consider appointing two former KTA board members to its board. Revenues contributed to the Organization from KTA donors during 2014 totaled \$226,317 and are included in contributions on the statement of activities for the year ended December 31, 2014.