

**CHRISTIAN LEADERSHIP CONCEPTS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2017 AND 2016**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Christian Leadership Concepts, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Christian Leadership Concepts, Inc. (a Tennessee not-for-profit corporation, the "Organization") which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and changes in net assets, functional expenses, 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.

Auditors' 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 from 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 auditors' 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 Christian Leadership Concepts, Inc. as of December 31, 2017 and 2016, 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.



June 22, 2018

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash	\$ 727,312	\$ 725,267
Contributions receivable, current portion, net of allowance of \$51,737	8,623	25,869
Curriculum receivable	49,080	54,320
Pledges receivable, current portion	24,700	19,500
Prepaid expenses	1,888	2,180
Inventory	6,137	-
	<u>817,740</u>	<u>827,136</u>
PROPERTY, PLANT AND EQUIPMENT		
Building	835,106	835,106
Land	252,479	252,479
Machinery and equipment	72,203	72,203
Furniture and fixtures	116,774	115,233
Leasehold improvements	85,620	85,620
Less: Accumulated depreciation	<u>(556,434)</u>	<u>(512,460)</u>
	<u>805,748</u>	<u>848,181</u>
OTHER ASSETS		
Contributions receivable, net of current portion	-	60,360
Pledges receivable, net of current portion	15,250	28,000
Copyrights, net of amortization	62,080	74,096
	<u>77,330</u>	<u>162,456</u>
TOTAL ASSETS	<u><u>\$ 1,700,818</u></u>	<u><u>\$ 1,837,773</u></u>

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2017 AND 2016

LIABILITIES AND NET ASSETS		
	2017	2016
CURRENT LIABILITIES		
Accounts payable	\$ 19,047	\$ 8,934
Accrued expenses	13,361	13,261
Note payable, current portion	30,000	30,000
Deferred revenue	34,996	28,749
	<u>97,404</u>	<u>80,944</u>
Total current liabilities		
LONG TERM LIABILITIES		
Long-term debt:		
Note payable, net of current portion	5,000	35,000
Less: unamortized discount	(2,283)	(4,251)
Long-term debt less unamortized discount	<u>2,717</u>	<u>30,749</u>
	<u>100,121</u>	<u>111,693</u>
TOTAL LIABILITIES		
NET ASSETS		
Unrestricted	1,552,124	1,592,351
Temporarily restricted	48,573	133,729
	<u>1,600,697</u>	<u>1,726,080</u>
Total net assets		
	<u>\$ 1,700,818</u>	<u>\$ 1,837,773</u>
TOTAL LIABILITIES AND NET ASSETS		

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
UNRESTRICTED REVENUE AND SUPPORT		
Contributions	\$ 884,081	\$ 868,229
Curriculum income	145,382	143,097
Rental income	113,015	60,628
In-kind income	18,500	15,826
Miscellaneous	7,338	132
Interest income	3,711	4,640
Other income	-	1,970
Net assets released from restrictions	99,156	33,788
Total unrestricted revenue and support	<u>1,271,183</u>	<u>1,128,310</u>
FUNCTIONAL EXPENSES		
Program services	802,529	684,287
Management and general	211,806	230,786
Fundraising	297,075	224,166
Total functional expenses	<u>1,311,410</u>	<u>1,139,239</u>
Decrease in unrestricted net assets	<u>(40,227)</u>	<u>(10,929)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	14,000	47,500
Net assets released from restrictions	<u>(99,156)</u>	<u>(33,788)</u>
(Decrease) increase in temporarily restricted net assets	<u>(85,156)</u>	<u>13,712</u>
(Decrease) increase in net assets	(125,383)	2,783
Net assets, beginning of year	<u>1,726,080</u>	<u>1,723,297</u>
Net assets, end of year	<u>\$ 1,600,697</u>	<u>\$ 1,726,080</u>

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fund- Raising	Total
Salaries and payroll taxes	\$ 351,541	\$ 76,900	\$ 120,842	\$ 549,283
Housing allowance	119,105	26,053	40,942	186,100
Insurance	32,169	16,117	11,672	59,958
Depreciation and amortization	50,391	5,599	-	55,990
Office expense	4,484	22,417	2,989	29,890
Rent	3,881	19,401	2,587	25,869
Travel and entertainment	18,511	2,314	2,314	23,139
Auto expense	13,753	1,834	2,751	18,338
Telephone expense	9,565	1,063	-	10,628
Repairs and maintenance	15,740	-	-	15,740
Professional fees	74,342	18,586	-	92,928
Postage and printing	1,061	424	2,759	4,244
Group activities	8,930	-	-	8,930
Miscellaneous	14,810	14,810	-	29,620
Utilities	23,375	2,597	-	25,972
Contributions	1,600	-	-	1,600
Books and materials	36,381	-	-	36,381
Dues and subscriptions	1,140	-	-	1,140
Taxes and licenses	-	3,691	-	3,691
In-kind expense	-	-	18,500	18,500
Consulting	21,750	-	-	21,750
Bad debt expense	-	-	57,937	57,937
Special events	-	-	33,782	33,782
	<u>\$ 802,529</u>	<u>\$ 211,806</u>	<u>\$ 297,075</u>	<u>\$ 1,311,410</u>

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fund- Raising	Total
Salaries and payroll taxes	\$ 332,379	\$ 72,708	\$ 114,255	\$ 519,342
Housing allowance	125,756	27,508	43,228	196,492
Insurance	33,838	18,063	12,352	64,253
Depreciation and amortization	49,816	5,535	-	55,351
Office expense	4,637	23,179	3,091	30,907
Rent	3,878	19,387	2,585	25,850
Travel and entertainment	10,238	1,280	1,280	12,798
Auto expense	11,584	1,545	2,317	15,446
Telephone expense	8,508	945	-	9,453
Repairs and maintenance	17,348	-	-	17,348
Professional fees	5,071	45,639	-	50,710
Postage and printing	1,289	515	3,349	5,153
Group activities	5,998	-	-	5,998
Miscellaneous	10,758	10,759	-	21,517
Utilities	21,514	2,390	-	23,904
Contributions	150	-	-	150
Books and materials	21,958	-	-	21,958
Dues and subscriptions	1,442	-	-	1,442
Taxes and licenses	-	1,333	-	1,333
In-kind expense	-	-	15,826	15,826
Consulting	18,125	-	-	18,125
Bad debt expense	-	-	3,860	3,860
Special events	-	-	22,023	22,023
	<u>\$ 684,287</u>	<u>\$ 230,786</u>	<u>\$ 224,166</u>	<u>\$ 1,139,239</u>

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	<u>\$ (125,383)</u>	<u>\$ 2,783</u>
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	43,974	45,338
Amortization of copyright	12,016	10,013
Amortization of discount on note payable	1,968	1,640
Bad debt expense	57,937	3,860
Changes in assets and liabilities:		
Contributions receivable	25,869	25,867
Curriculum receivable	(960)	(24,560)
Pledges receivable	7,550	(41,460)
Prepaid expenses	292	4,185
Inventory	(6,137)	-
Accounts payable	10,113	(16,496)
Accrued expenses	100	3,174
Deferred revenue	<u>6,247</u>	<u>28,749</u>
Total adjustments	<u>158,969</u>	<u>40,310</u>
Net cash provided by operating activities	<u>33,586</u>	<u>43,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<u>(1,541)</u>	<u>(11,704)</u>
Net cash used by investing activities	<u>(1,541)</u>	<u>(11,704)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of note payable	<u>(30,000)</u>	<u>(25,000)</u>
Net cash used by financing activities	<u>(30,000)</u>	<u>(25,000)</u>
Increase in cash	2,045	6,389
Cash, beginning of year	<u>725,267</u>	<u>718,878</u>
Cash, end of year	<u><u>\$ 727,312</u></u>	<u><u>\$ 725,267</u></u>

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Christian Leadership Concepts, Inc. (the "Organization") is a not-for-profit, nondenominational religious organization that is dedicated to equipping men to provide leadership based on a growing relationship with Jesus Christ and sound biblical principles applied to every area of their lives. The Organization is supported primarily by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Certificates of deposit are considered cash if interest penalties are not substantial enough to prohibit early withdrawal. The Organization generally maintains cash on deposit at financial institutions which, at times, may exceed federally insured limits. The uninsured balance totaled approximately \$10,200 and \$2,500 at December 31, 2017 and 2016, respectively. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Pledges Receivable

Unconditional promises to give cash and other assets are reported at their estimated fair value at the date the promise is received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give due in subsequent periods are reported at the present value of their net realizable value using risk free interest rates applicable to the years in which the promises are to be received. An allowance for uncollectible pledges, when applicable, is estimated based on collection history and management's analysis of specific promises made. All pledges receivable were considered to be fully collectible at December 31, 2017 and 2016.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Contributions receivable represent the unconditional promises to give which was specified as free rent for a period of four and a half years at a market price of approximately \$2,156 per month by the donor. As of December 31, 2017, twenty-eight months remain of free rent. Subsequent to year-end, however, the building under lease was sold and the free rent agreement ended. An allowance was made for the remaining uncollectible receivable.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are carried at cost. Expenditures for ordinary maintenance and repairs are expensed as incurred. Renewals and betterments that materially extend the life of the asset are capitalized.

Depreciation is calculated on the straight-line and other accelerated methods over the estimated useful lives of the assets as follows:

Building	39 years
Machinery and equipment	5 - 7 years
Furniture and fixtures	5 - 7 years
Leasehold improvements	4.5 years

Depreciation expense totaled \$43,974 and \$45,338 for the years ended December 31, 2017 and 2016, respectively.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Contributions that are restricted for specific programs are reflected as unrestricted revenue if the restriction is fulfilled during the same fiscal year as it is received.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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

Temporarily restricted net assets - net assets that are 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 and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - net assets that are subject to donor imposed restrictions 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 from these assets. There were no permanently restricted net assets at December 31, 2017 and 2016.

Curriculum Income

The curriculum receivable on the statements of financial position relates to amounts due from course participants whom have received materials but have yet to fully pay. All amounts were considered fully collectible at December 31, 2017 and 2016.

Deferred Revenue

The Organization rents out the Hiding Place, which is a retreat center owned by the Organization. Deferred revenue represents amounts collected in advance for future bookings. Revenue is recognized when the stay is complete.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. Accordingly, no provision for income tax has been made. Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Organization's management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2017, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Organization could be subject to routine audits by taxing jurisdictions for the periods of 2014 to the present; however, there are currently no audits for any tax periods in progress.

Copyrights

Copyrights for curriculum materials are amortized on a straight-line basis over their estimated useful life of three years.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified for comparative purposes to conform to 2017 presentation.

NOTE 3 - COPYRIGHTS

Copyrights for curriculum materials consisted of the following at December 31, 2017:

Copyrights	\$ 84,109
Less: Accumulated amortization	<u>(22,029)</u>
	<u><u>\$ 62,080</u></u>

Amortization expense related to the copyrights was \$12,016 for the year ended December 31, 2017.

NOTE 4 - NOTE PAYABLE

During 2016, a \$90,000 note payable was issued for the purchase of copyrights owned by a related party. The note is payable over three years and has been discounted based on an imputed interest rate of 4.5%. Future minimum payments of the note payable are as follows:

Year ending December 31:

2018	\$ 30,000
Noncurrent portion	<u>5,000</u>
	35,000
Less: Current portion	<u>(30,000)</u>
	<u><u>\$ 5,000</u></u>

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 5 - RETIREMENT PLAN

Employees of the Organization may participate in an Internal Revenue Code section 403(b) retirement savings plan. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

NOTE 6 - LEASE COMMITMENTS

The Organization leases equipment and office space under operating lease agreements. Rent expense totaled \$25,869 and \$25,850 for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments by year and in the aggregate under non-cancelable leases consist of the following:

<u>Year ending December 31:</u>	
2018	\$ 8,772
2019	9,396
2020	<u>3,132</u>
	<u>\$ 21,300</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017:

Contributions receivable	\$ 8,623
Pledges receivable - time restricted	<u>39,950</u>
	<u>\$ 48,573</u>

NOTE 8 - RELATED PARTIES

Pledges receivable in the amount of \$25,950 were due from six board members. A note payable was issued to a related party for the purchase of copyrights related to curriculum materials. See Note 4.

Subsequent to year end, the Organization sold its Hiding Place property to an organization owned by one of its board members for a purchase price of approximately \$788,000. The sale agreement allows the Organization to continue using the property rent free for its annual National Board Meeting through January 2023.

CHRISTIAN LEADERSHIP CONCEPTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued new accounting guidance that amend the requirements for financial statements and notes of a not-for-profit entity. The new guidance is effective for periods beginning after December 15, 2017, on a retrospective basis, with early adoption permitted. This new accounting guidance will result in changes to financial statement presentation and additional disclosures and the Organization is still evaluating its impact.

In February 2016, the FASB issued new accounting guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new accounting guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the effect of this pronouncement on its policies, procedures, and financial statements.

In May 2014, the FASB issued new accounting guidance to clarify the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective retrospectively for nonpublic entities for annual reporting periods beginning after December 15, 2018. The Organization is in the process of evaluating the impact of the provisions of this new accounting guidance but does not expect it to have a material impact on its financial position or results of operations.

NOTE 10 - MANAGEMENT REVIEW

The Organization's management has evaluated subsequent events through June 22, 2018, the date which the financial statements were available to be issued.