

CHANGEDLIVES.ORG

Financial Statements
For The Year Ended September 30, 2017

CHANGEDLIVES.ORG 2017

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THE BLEVINS GROUP

PLLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ChangedLives.org:

We have audited the accompanying financial statements of ChangedLives.org ("Changed Lives") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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 Changed Lives as of September 30, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Blevins Group, PLLC

Wednesday, March 14, 2018

Statement of Financial Position
September 30, 2017

ASSETS

Cash	\$	3,982,814
Investments		3,059,856
Inventories		117,192
Property and equipment, net		<u>149,784</u>
Total assets	\$	<u><u>7,309,646</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$	<u>6,347</u>
Net assets:		
Unrestricted		6,620,797
Unrestricted - Board designated		325,025
Temporarily restricted		<u>357,477</u>
Total net assets		<u>7,303,299</u>
Total liabilities and net assets	\$	<u><u>7,309,646</u></u>

Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 140,796	\$ —	\$ 140,796
Bequests	61,667	—	61,667
Investment income	30,356	741	31,097
Realized loss on investment	(10,895)	—	(10,895)
Unrealized gain (loss) on investment	68,606	(244)	68,362
Investment expense	(10,446)	—	(10,446)
Net assets released from restriction	150	(150)	—
Total revenues and other support	<u>280,234</u>	<u>347</u>	<u>280,581</u>
Expenses:			
Program activities, including special projects totaling \$188,916 (see Note 5)	877,716	—	877,716
Management and general	143,705	—	143,705
Fundraising	113,674	—	113,674
Total expenses	<u>1,135,095</u>	<u>—</u>	<u>1,135,095</u>
Change in net assets	(854,861)	347	(854,514)
Net assets at beginning of year	<u>7,800,683</u>	<u>357,130</u>	<u>8,157,813</u>
Net assets at end of year	<u>\$ 6,945,822</u>	<u>\$ 357,477</u>	<u>\$ 7,303,299</u>

Statement of Cash Flows
Year Ended September 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ (854,514)
Adjustments to reconcile to net cash used by operating activities:	
Depreciation	24,242
Realized loss on investments	10,895
Unrealized gain on investments	(68,362)
Change in:	
Inventories	(89,854)
Accounts payable	514
Net cash used by operating activities	<u>(977,079)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(28,114)
Purchase of investments, net	(2,003,937)
Proceeds from sale or redemption of investments	193,482
Net cash used by investing activities	<u>(1,838,569)</u>
Net decrease in cash	(2,815,648)
Cash at beginning of year	<u>6,798,462</u>
Cash at end of year	<u>\$ 3,982,814</u>

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ChangedLives.org ("Changed Lives") is a nonprofit, Tennessee corporation organized in 1968 and has been a member of the Evangelical Council for Financial Accountability (ECFA) since 1987. For 33 years, Changed Lives produced a weekly, worldwide TV and radio program, provided reprints of all messages and distributed Bibles and Christian books to listeners. In 2001, Changed Lives transitioned to the 24/7 global reach of the internet via **changedlives.org**, continuing to feature Ben Haden on both video and audio.

In 2008, **changedlives.org** added its continuing weekly radio broadcasts to the website - enabling the listener to hear any given radio broadcast 24/7. Changed Lives continues with the distribution of CDs, DVDs and books - all by Ben Haden. Ben Haden, the primary host of all segments and formats, was a former CEO of a daily newspaper, attorney, CIA agent, author and a pastor of 36 years.

Changed Lives is nondenominational, neither underwritten by, nor answerable to any individual denomination. It is geared to men and women - in plain language with both unbeliever and believer in mind. Each radio broadcast includes a specific invitation to Jesus Christ.

Ben Haden went to be with his Heavenly Father in October, 2013. The ministry of Changed Lives will continue to present Ben Haden's thought provoking sermons, messages, teachings and discussion about Jesus Christ — all recorded throughout the years — 24/7, nationally and globally...via changedlives.org, FM radio and social media, new CDs & DVDs, new books & eBooks — allowing individuals to share with family and friends of all ages and in their sphere of influence.

Basis of Accounting and Estimates

The financial statements of Changed Lives have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification ("ASC") in topic 958, *Not-for-Profit Entities*.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under ASC sub-topic 958-205, Changed Lives is required to present a statement of cash flows and to report information regarding its financial position and activities according to three classes of net assets as follows.

Permanently restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by Changed Lives. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted: Net assets subject to donor-imposed stipulations that may be met by actions of Changed Lives or the passage of time.

Unrestricted: Net assets not subject to donor-imposed stipulations.

Cash

Changed Lives maintains its cash accounts at various financial institutions. Short-term, liquid investments with original maturities of three months or less are considered to be cash equivalents and are presented as cash.

Fair Value Measurements

Investments are reported at fair value in the Changed Lives financial statements.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. If an investment is held for which an active market with quoted prices exists, the market price of an identical security is used to report fair value. Other investments are valued based on management's best estimate based on outside valuations based on market conditions.

Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Accounting Standards Board ("FASB") ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC Topic 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Changed Lives uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methods employed. The hierarchy is defined as described below.

- *Level 1* - Quoted prices are available in active markets for identical assets or liabilities as of September 30. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- *Level 2* - Pricing inputs are other than quoted prices in active markets. These include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities that can be directly observed.
- *Level 3* - Little to no pricing observability as of September 30. These assets and liabilities are measured using management's best estimate of fair value. Inputs into the determination of fair value are not observable and require significant management judgment or estimation.

The hierarchy gives the highest priority Level 1 inputs and the lowest priority to Level 3 inputs. However, the determination of what constitutes "observable" requires significant judgment by management. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Changed Lives' perceived risk of that instrument.

Inventory

Inventories, consisting of books, are valued at cost determined on a first-in/first-out basis.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost. Donated assets are capitalized at their fair market value on the date of the gift. Repair and maintenance costs are charged to expense as incurred; significant renewals or betterments greater than \$500 are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of the depreciable assets. Depreciation expense totaled \$24,242 for 2017.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from 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

Changed Lives is a nonprofit organization that is exempt from income taxes as an entity described in Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenses

Costs are charged to program services, management and general, and fundraising functions based on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated based on the best estimate of salary expense and indirect expenses incurred for each function.

Donated Services

Changed Lives receives donated services from unpaid volunteers who assist in administrative services. No amounts have been recognized in the Statement of Activities because the criteria for recognition under ASC No. 958 have not been satisfied.

Subsequent Events

Subsequent events were evaluated through March 14, 2018, which is the date the financial statements were available to be issued.

2 INVESTMENTS

Changed Lives investment strategy involves maximizing growth with minimal risk using a combination of growth and income investments. Investments are generally maintained in a way that is readily liquid.

Investments as of September 30, 2017, are summarized below:

	Cost	Fair Value
Equity securities	\$ 1,797,541	\$ 1,862,867
Annuity	325,025	325,025
U.S. government securities	24,960	28,910
Real estate interest	808,906	808,906
Coins - collection	29,732	29,732
Coins - krugers	4,416	4,416
	<u>\$ 2,990,580</u>	<u>\$ 3,059,856</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 30,356	\$ 741	\$ 31,097
Net realized and unrealized gain	57,711	(244)	57,467
	<u>\$ 88,067</u>	<u>\$ 497</u>	<u>\$ 88,564</u>

As stated in Note 1, Changed Lives accounts for its investments in securities according to the provisions of ASC 820. A summary of the inputs used to value Changed Lives' investments as of September 30, 2016, is as follows:

	Investments Classified in the Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments:				
Equities	\$ 1,862,867	\$ —	\$ —	\$ 1,862,867
Fixed income	28,910	—	—	28,910
Annuity	—	—	325,025	325,025
Real estate	—	—	808,906	808,906
Coins	—	—	34,148	34,148
	<u>\$ 1,891,777</u>	<u>\$ —</u>	<u>\$1,168,079</u>	<u>\$ 3,059,856</u>

2 INVESTMENTS (CONTINUED)

Equity securities and corporate and treasury bonds are classified in Level 1 of the fair value hierarchy. Investments classified in Level 3 consist of directly held investments that have valuation based on input other than quoted prices.

The following table presents activity for the year ended September 30, 2017, for Changed Lives' investments classified in Level 3:

<u>Level 3 roll forward</u>	<u>Annuity</u>	<u>Real assets</u>	<u>Total</u>
Fair value as of October 1, 2016	\$ 318,496	\$ 843,054	\$1,161,550
Acquisitions	<u>6,529</u>	<u>—</u>	<u>6,529</u>
Fair value as of September 30, 2017	<u>\$ 325,025</u>	<u>\$ 843,054</u>	<u>\$1,168,079</u>

During fiscal year 2017, there were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3.

The annuity investment is board restricted and is flexible. It can be reinvested if desired.

Real assets are held as real estate, currently available for sale, and other real assets held for investment purposes.

3 PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2017, are summarized below:

Program production and office equipment	\$ 242,113
Leasehold improvements	<u>99,908</u>
	342,021
Less accumulated depreciation	<u>(192,337)</u>
Property and equipment, net	<u>\$ 149,784</u>

4 RESTRICTED NET ASSETS

Changed Lives received a restricted gift in 1998 from a trust. The terms of the gift provide that the related assets be carried in separate accounts from other assets of Changed Lives and be used for specified purposes. The purposes included the provision of funds for those in need, in seminary, in missions, and in church work; provision for preparation and/or publication of Christian writings; underwriting expenses and fair honorarium for preaching of the Gospel in churches that cannot afford special services; and provision of funds for preparation, production, and distribution of teaching or preaching of the Gospel through videotapes, audio tapes, compact discs, computers or satellite.

5 SPECIAL PROJECTS

Changed Lives embarked on five key projects in 2014 that will continue over the next 3-5 years. Spending on these five projects during fiscal year 2017 totaled \$188,916.

ONE on ONE A Minute With Ben Project

A new series for today - fast pace, life-on-the-go, minute-long attention spans, short segments, social media - reaching out to new audiences and the existing Changed Lives audience. ONE on ONE features powerful, timeless segments of Ben Haden's messages, as recorded live, between his first year as a pastor in 1963 through his last year on this earth, 2013.

ONE on ONE A Minute With Ben is now in English and Spanish – and in multiple formats -- book, eBook, CD, DVD, Facebook, Social Media -- and is being further developed in additional languages. Extensive research, compilation, development, design, production and mailing expenses have been strategically incurred to create this series and to expand across formats and languages -- making Ben Haden's propelling words and insights available today and for years to come.

As of September 30, 2017, 116,000 ONE on ONE books (Volume I & II) have been sent as “gifts” in two massive outreach mailings (most recently, Easter 2016). An additional 6,500 books have been ordered by individuals or small groups. Fiscal year 2017 also saw the launch of ENTRE TU Y YO -- the Spanish book version of ONE on ONE as well as Facebook ONE on ONE.

Spending on this project during fiscal year 2017 totaled \$19,830.

5 SPECIAL PROJECTS (CONTINUED)

Digital Conversion Project

Ben Haden's messages were recorded live from 1963 to 2013 across multiple recording formats spanning the same time period. The earlier messages exist only in audio, the later in audio and video. A massive, coordinated project to convert each and every message from its original format into today's digital format is under way. Originals are sent outside to experts for the creation of first generation digital masters. Spending on this project during fiscal year 2017 totaled \$79,427.

Digital Library and Broadcast Project

All first generation digital masters are entered into the Digital Library and then, one by one, are checked for quality, listened to from start to finish and then edited to ready for radio and internet broadcast (broadcast openings and closings added). This project is time-intensive and will make many thousands of stored messages in old formats now usable. Spending on this project during fiscal year 2017 totaled \$38,845.

New Books Project

Will I Live Before I Die? is one of the new books offered at no cost to the recipient. The book launched in English and will launch in Spanish in 2018. Spending on this project during fiscal 2017 totaled \$37,094.

Database Project

Two major databases (UNIX Donor & Non-Donor database and Five Decades of Ben Haden's Messages – 1963 - 2013) are undergoing upgrades to enable optimal usage and mining. Spending on this project in fiscal year 2017 totaled \$10,720.

As Spoken Project

All final digitalized masters of messages are mechanically transcribed and then the task of comparing this mechanical transcription to the "As Spoken" voice of Ben Haden on the digital master begins. This last step ensures the final transcription truly captures the words, the pauses, the intonations – as spoken. These final transcriptions provide actual material for books, eBooks, changedlives.org, packaging, marketing, etc. Spending on this project in fiscal year 2017 totaled \$3,000.

6 LEASES

Changed Lives has a lease agreement for its office facilities in Chattanooga, Tennessee. The lease is for a period of five years from March 1, 2014 and provides for annual rental increases in years four and five and that Changed Lives pays for gas, electricity and property and general liability insurance. The lease also provides for a two year extension.

Rent expense for the fiscal year was \$12,140 under the lease.

Future minimum lease payments under the lease as of September 30, 2017, are as follows.

Year Ending September 30:

2018	\$	12,380
2019	\$	5,200

During fiscal year 2017, the building in which space is leased under this agreement was sold at auction. An amended lease agreement provides for continuation of rentals or adequate compensation in the event Changed Lives relocates.

7 CONCENTRATIONS OF CREDIT RISK

Changed Lives places their temporary cash deposits primarily with a local bank. Cash and certificate of deposit balances at financial institutions are insured by FDIC up to \$250,000.

Management is aware that a risk of exposure exists for deposits in excess of the \$250,000 insurance level. However, management considers this a low and acceptable risk.