

CHANGEDLIVES.ORG

Financial Statements
For The Year Ended September 30, 2016

CHANGEDLIVES.ORG 2016

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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, 2016, 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, 2016, 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

Thursday
September 28, 2017

Statement of Financial Position
September 30, 2016

ASSETS

Cash	\$ 6,798,462
Investments	1,191,934
Inventories	27,338
Property and equipment, net	<u>145,912</u>
 Total assets	 <u><u>\$ 8,163,646</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	<u>\$ 5,833</u>
 Net assets:	
Unrestricted	7,482,187
Unrestricted - Board designated	318,496
Temporarily restricted	<u>357,130</u>
 Total net assets	 <u>8,157,813</u>
 Total liabilities and net assets	 <u><u>\$ 8,163,646</u></u>

Statement of Activities
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 170,157	\$ —	\$ 170,157
Bequests	16,198	—	16,198
Investment income	47,395	413	47,808
Realized gain on investment	17,931	—	17,931
Unrealized gain on investment	1,585	384	1,969
Investment expense	(14,858)	—	(14,858)
Net assets released from restriction	150	(150)	—
Total revenues and other support	<u>238,558</u>	<u>647</u>	<u>239,205</u>
Expenses:			
Media ministries, including special projects totaling \$555,474 (see Note 5)	1,192,593	—	1,192,593
Management and general	149,098	—	149,098
Fundraising expenses	120,523	—	120,523
Total expenses	<u>1,462,214</u>	<u>—</u>	<u>1,462,214</u>
Change in net assets	(1,223,656)	647	(1,223,009)
Net assets at beginning of year	<u>9,024,339</u>	<u>356,483</u>	<u>9,380,822</u>
Net assets at end of year	<u>\$ 7,800,683</u>	<u>\$ 357,130</u>	<u>\$ 8,157,813</u>

Statement of Cash Flows
Year Ended September 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ (1,223,009)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	21,337
Realized gain on investments	(17,931)
Unrealized gain on investments	(1,969)
Decrease in:	
Inventories	34,015
Accounts payable	(6,346)
Net cash used by operating activities	<u>(1,193,903)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(17,733)
Purchase of investments, net	(332,690)
Proceeds from sale or redemption of investments	4,109,823
Net cash used by investing activities	<u>3,759,400</u>
Net decrease in cash	2,565,497
Cash at beginning of year	<u>4,232,965</u>
Cash at end of year	<u><u>\$ 6,798,462</u></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. Most radio broadcasts include 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, ONE on ONE A Minute With Ben series, and Facebook — 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 \$21,337 for 2016.

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 September 28, 2017, 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, 2016, are summarized below:

	Cost	Fair Value
Equity securities	\$ 4,511	\$ 1,230
Annuity	318,496	318,496
U.S. government securities	24,960	29,154
Real estate interest	808,906	808,906
Coins - collection	29,732	29,732
Coins - krugers	4,416	4,416
	<u>\$ 1,191,021</u>	<u>\$ 1,191,934</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended September 30, 2016:

	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 47,395	\$ 413	\$ 47,808
Net realized and unrealized gain	19,516	384	19,900
Total investment income	<u>\$ 66,911</u>	<u>\$ 797</u>	<u>\$ 67,708</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	\$ 1,230	\$ —	\$ —	\$ 1,230
Fixed income	29,154	—	—	29,154
Annuity	—	—	318,496	318,496
Real estate	—	—	808,906	808,906
Coins	—	—	34,148	34,148
	<u>\$ 30,384</u>	<u>\$ —</u>	<u>\$1,161,550</u>	<u>\$ 1,191,934</u>

2 INVESTMENTS (CONTINUED)

Equity securities 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, 2016 for Changed Lives' investments classified in Level 3:

Level 3 roll forward	<u>Annuity</u>	<u>Real assets</u>	<u>Total</u>
Fair value as of October 1, 2015	\$ 312,048	\$ 843,054	\$1,155,102
Acquisitions	<u>6,448</u>	<u>—</u>	<u>6,448</u>
Fair value as of September 30, 2016	<u>\$ 318,496</u>	<u>\$ 843,054</u>	<u>\$1,161,550</u>

There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2016.

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, 2016, are summarized below:

Program production and office equipment	\$ 216,739
Leasehold improvements	<u>97,168</u>
	313,907
Less accumulated depreciation	<u>(167,995)</u>
Property and equipment, net	<u>\$ 145,912</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 2016 totaled \$555,474.

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 in multiple formats - book, eBook, CD, DVD, Facebook, Social Media - and is being developed in multiple 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 2016, 116,000 ONE on ONE books (Volume I & II) have been sent out as gifts in two massive outreach mailings (most recently, Easter). The Spanish version (Volume I & II) is ready for production and will launch in the early part of 2017. Facebook ONE on ONE will launch in December 2016. Spending on this project during fiscal 2016 totaled \$414,241.

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 2016 totaled \$35,909.

5 SPECIAL PROJECTS (CONTINUED)

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 2016 totaled \$24,005.

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 2017. Spending on this project during fiscal 2016 totaled \$63,951.

Database Project

Two databases (donors/non-donors in UNIX & Ben Haden's messages since 1963) undergoing upgrades to enable optimal usage and mining. Spending on this project during fiscal 2016 totaled \$17,368.

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 \$12,000 under the lease and \$13,389 for other short-term needs.

Future minimum lease payments under the lease as of September 30, 2016, are as follows:

Year Ending September 30:		
2017	\$	12,140
2018	\$	12,380
2019	\$	5,200

Subsequent to year end, 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.