

**NEW LIFE ASSOCIATION, INC.
AND AFFILIATES**

**CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2017



NEW LIFE ASSOCIATION, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of ***New Life Association, Inc.***
and to the Boards of Directors of Affiliated Organizations

We have audited the accompanying consolidated financial statements of ***New Life Association, Inc.*** (a nonprofit organization) ***and Affiliates***, which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***New Life Association, Inc. and Affiliates*** as of September 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Erickson, Brown & Kloster, P.C.

Colorado Springs, Colorado
September 10, 2018

NEW LIFE ASSOCIATION, INC. AND AFFILIATES

Consolidated Statement of Financial Position

September 30, 2017

Assets

Current assets:

| | |
|------------------------------------|------------|
| Cash | \$ 743,325 |
| Investments | 16,314 |
| Accounts receivable | 394,647 |
| Promises to give - current portion | 30,670 |
| Inventory | 403,573 |
| Prepaid expenses | 517,899 |

Total current assets 2,106,428

| | |
|--|----------------------|
| Promises to give, net of current portion | 623,330 |
| Cash restricted for endowment | 21,416 |
| Investments held for endowment | 66,167 |
| Cash restricted for capital additions | 2,129,778 |
| Deposit | 2,666,667 |
| Property and equipment, net | 73,819,376 |
| | <u>\$ 81,433,162</u> |

Liabilities and Net Assets

Current liabilities:

| | |
|---------------------------------|--------------|
| Accounts payable | \$ 3,203,952 |
| Accrued expenses | 2,602,870 |
| Deferred revenue | 1,950,282 |
| Notes payable - current portion | 316,067 |

Total current liabilities 8,073,171

| | |
|---------------------------------------|-------------------|
| Notes payable, net of current portion | 3,194,634 |
| | <u>11,267,805</u> |

Net assets:

| | |
|-----------------------------------|----------------------|
| Unrestricted net assets | 66,349,890 |
| Temporarily restricted net assets | 3,727,884 |
| Permanently restricted net assets | 87,583 |
| | <u>70,165,357</u> |
| | <u>\$ 81,433,162</u> |

See accompanying notes

NEW LIFE ASSOCIATION, INC. AND AFFILIATES

Consolidated Statement of Activities

Year Ended September 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Support and revenue: | | | | |
| Offerings | \$ 44,148,408 | \$ 3,077,080 | \$ 54,518 | \$ 47,280,006 |
| Meetings and conferences offerings | 1,307,921 | - | - | 1,307,921 |
| Product offerings and sales | 1,750,257 | - | - | 1,750,257 |
| Bible colleges, net | 7,145,095 | - | - | 7,145,095 |
| Other program revenue | 733,174 | - | - | 733,174 |
| Investment loss | (400) | - | - | (400) |
| Net assets released from restrictions | 138,802 | (138,802) | - | - |
| Total support and revenue | 55,223,257 | 2,938,278 | 54,518 | 58,216,053 |
| Expenses: | | | | |
| Program: | | | | |
| Teaching ministry | 27,501,158 | - | - | 27,501,158 |
| Bible colleges | 13,161,744 | - | - | 13,161,744 |
| Total program | 40,662,902 | - | - | 40,662,902 |
| General and administrative | 4,829,073 | - | - | 4,829,073 |
| Fundraising | 3,562,979 | - | - | 3,562,979 |
| Total expenses | 49,054,954 | - | - | 49,054,954 |
| Change in net assets | 6,168,303 | 2,938,278 | 54,518 | 9,161,099 |
| Net assets, beginning of year | 60,181,587 | 789,606 | 33,065 | 61,004,258 |
| Net assets, end of year | \$ 66,349,890 | \$ 3,727,884 | \$ 87,583 | \$ 70,165,357 |

See accompanying notes

NEW LIFE ASSOCIATION, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
Year Ended September 30, 2017

| | Program Services | | | Supporting Services | | |
|--|----------------------|----------------------|------------------------------|-------------------------------|---------------------|---------------------------------|
| | Teaching Ministry | Bible Colleges | Total Program Services | General and Administrative | Fundraising | Total Functional Expenses |
| Salaries and wages | \$ 5,756,519 | \$ 4,735,031 | \$ 10,491,550 | \$ 3,941,778 | \$ 1,141,927 | \$ 15,575,255 |
| Employee benefits | 317,192 | 307,262 | 624,454 | 101,502 | 29,405 | 755,361 |
| Payroll taxes | 414,614 | 345,722 | 760,336 | 283,907 | 82,247 | 1,126,490 |
| Total salaries and related expenses | 6,488,325 | 5,388,015 | 11,876,340 | 4,327,187 | 1,253,579 | 17,457,106 |
| Broadcast air time | 11,408,661 | - | 11,408,661 | - | 1,148,113 | 12,556,774 |
| Supplies | 1,275,851 | 968,134 | 2,243,985 | 8,250 | 248,424 | 2,500,659 |
| Contributions | 1,636,499 | 428,453 | 2,064,952 | - | - | 2,064,952 |
| Travel | 440,700 | 1,468,712 | 1,909,412 | 53,536 | 70,531 | 2,033,479 |
| Occupancy | 183,467 | 1,687,986 | 1,871,453 | 21,584 | 10,792 | 1,903,829 |
| Printing and publications | 1,080,635 | 160,969 | 1,241,604 | - | 197,018 | 1,438,622 |
| Postage and shipping | 947,776 | 65,074 | 1,012,850 | 6,129 | 183,659 | 1,202,638 |
| Professional fees | 382,265 | 295,539 | 677,804 | 261,756 | 75,830 | 1,015,390 |
| Cost of multi-media materials | 908,632 | 13,070 | 921,702 | - | - | 921,702 |
| Public relations | 843,360 | 77,261 | 920,621 | - | - | 920,621 |
| Conferences and events | 663,306 | 187,458 | 850,764 | - | - | 850,764 |
| Dues, fees, and subscriptions | 186,223 | 269,471 | 455,694 | 26,603 | 319,239 | 801,536 |
| Equipment rental and maintenance | 337,668 | 179,686 | 517,354 | 39,725 | 19,863 | 576,942 |
| Mission outreach | 147,052 | 286,617 | 433,669 | - | - | 433,669 |
| Insurance | 35,457 | 79,820 | 115,277 | 4,171 | 2,086 | 121,534 |
| Consulting | 45,117 | 41,520 | 86,637 | - | - | 86,637 |
| Telephone | 15,819 | 55,007 | 70,826 | 10,832 | 3,138 | 84,796 |
| Employee morale | 27,378 | 29,252 | 56,630 | 18,747 | 5,431 | 80,808 |
| Bad debt | - | 69,523 | 69,523 | - | - | 69,523 |
| Education | 11,764 | 22,671 | 34,435 | - | - | 34,435 |
| Honorariums | 5,502 | 6,539 | 12,041 | - | - | 12,041 |
| Total expenses before depreciation and amortization | 27,071,457 | 11,780,777 | 38,852,234 | 4,778,520 | 3,537,703 | 47,168,457 |
| Depreciation and amortization | 429,701 | 1,380,967 | 1,810,668 | 50,553 | 25,276 | 1,886,497 |
| Total expenses | \$ 27,501,158 | \$ 13,161,744 | \$ 40,662,902 | \$ 4,829,073 | \$ 3,562,979 | \$ 49,054,954 |
| Functional expense percentages | 56% | 27% | 83% | 10% | 7% | 100% |

See accompanying notes

NEW LIFE ASSOCIATION, INC. AND AFFILIATES
Consolidated Statement of Cash Flows
Year Ended September 30, 2017

Cash flows from operating activities:

| | |
|---|--------------|
| Change in net assets | \$ 9,161,099 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation and amortization | 1,886,497 |
| Net realized and unrealized gain on investments | (998) |
| Noncash contributions of investments | (15,230) |
| Proceeds from sale of donated securities | 15,230 |
| Contributions restricted for capital additions and endowment | (12,613,817) |
| Noncash change in accounts payable and accrued expenses related to cash purchases of property and equipment | 618,273 |
| Increase in assets: | |
| Accounts receivable | (33,546) |
| Promises to give | (654,000) |
| Inventory | (84,842) |
| Prepaid expenses | (95,696) |
| Deposit | (2,666,667) |
| Increase (decrease) in liabilities: | |
| Accounts payable | 435,482 |
| Accrued expenses | 427,057 |
| Deferred revenue | (93,385) |

Net cash used in operating activities (3,714,543)

Cash flows from investing activities:

| | |
|--|-------------|
| Purchases of investments | (35,510) |
| Proceeds from sale of investments | 249 |
| Increase in cash restricted for endowment purposes | (17,281) |
| Increase in cash restricted for capital additions | (2,129,778) |
| Purchases of property and equipment | (7,695,053) |

Net cash used in investing activities (9,877,373)

Cash flows from financing activities:

| | |
|--|------------|
| Proceeds from contributions restricted for capital additions | 12,559,299 |
| Proceeds from contributions restricted for endowment | 54,518 |
| Principal payments on notes payable | (243,940) |

Net cash provided by financing activities 12,369,877

Net decrease in cash (1,222,039)

Cash, beginning of year 1,965,364

Cash, end of year \$ 743,325

See accompanying notes

NEW LIFE ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities and principles of consolidation

Andrew Wommack Ministries, Inc.'s mission is to teach the life-changing truths of the Gospel that the Lord has shown Andrew Wommack to the body of Christ with special emphasis on God's unconditional love and the balance between grace and faith. The ministry fulfills this mission by teaching people around the world at conferences, in churches, on radio and television, by training others at Charis Bible Colleges, and by developing ministry materials designed to help individuals solidify their relationship with the Lord. Currently, the daily television program, *The Gospel Truth*, is on 313 and 15 television stations in the United States and overseas, respectively. Due to the growth of **Andrew Wommack Ministries, Inc.** (AWMI), AWMI is in the process of corporate restructuring.

New Life Association, Inc. (NLA) was formed as the parent corporation of AWMI and the other newly created affiliates. NLA's affiliates include AWMI, **Charis Bible Colleges, Inc.**, **7M Ventures, Inc.**, **New Life Holding Corporation**, **Charis Enterprises, Inc.**, **Charis Food Services, LLC**, and **Charis Theatrical Productions, LLC**. During the year ended September 30, 2017, the only affiliates with activity are **Andrew Wommack Ministries, Inc.**, **New Life Holding Corporation**, and **Charis Food Services, LLC**.

New Life Holding Corporation (NLH) is a non-profit corporation organized and operated exclusively for the purpose of holding title to property, collecting income therefrom, and turning over the entire amount less expenses, to NLA.

Charis Food Services, LLC (CFS) is a for profit company that provides certain food services at the Charis Bible College campus in Woodland Park.

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of **New Life Association, Inc. and Affiliates** (the Organization) as described above. All significant intercompany transactions and balances have been eliminated. The Organization's headquarters and the primary Charis Bible College campus are located in Colorado Springs and Woodland Park, Colorado. Substantially all the revenue of the Organization is generated from the teachings of Andrew Wommack.

Basis of accounting

The accounts of **New Life Association, Inc.** are maintained, and the consolidated financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of presentation

Under U.S. generally accepted accounting principles (GAAP), the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, including permanently restricted endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all undesignated and unrestricted highly liquid investments with an original maturity of three months or less, except those amounts classified as investments, to be cash equivalents.

Accounts receivable

Accounts receivable is recorded at the amount the Organization expects to collect on balances outstanding at year-end. The Organization closely monitors outstanding balances and considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Promises to give, intentions to give, and contributions

Promises to give which are, in substance, unconditional, are recognized as revenue at net realizable value in the year the donor makes the promise to give.

The Organization's numerous donors sign up to make monthly gifts for an indefinite period of time to support the Organization and its programs. Such gifts can be rescinded by a donor at any time and it is not practicable to estimate the amount of future gifts at year end. The communication from a donor to provide future monthly support is therefore considered to be an intention to give, rather than an unconditional promise, and it is not recorded as a promise to give at year end. The Organization recognizes such gifts as revenue in the period the funds are received.

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. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donated assets are recorded at their fair market value on the date of donation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are carried at fair value. Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the income and gains are recognized. The majority of the Organization's investments consist of funds which are permanently restricted for endowment purposes. As a result, those investments are classified as long-term in the accompanying consolidated statement of financial position.

Inventory

Inventory consists of a variety of multi-media Christian outreach materials which are either sold or provided to the public in exchange for a voluntary contribution. Inventory is recorded at lower of average cost or market.

Property and equipment

Property and equipment is stated at cost or, if donated, at the estimated fair value at the date of donation. Depreciation and amortization is provided using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|------------|
| Buildings and improvements | 40 Years |
| Furniture and equipment | 5-10 Years |
| Vehicles | 5 Years |
| Software | 5 Years |

The Organization's policy is to capitalize acquisitions of property and equipment costing in excess of \$2,000 and having a useful life exceeding one year. Net gain or loss on the disposition of property and equipment is included in other program revenue in the consolidated statement of activities.

Bible colleges revenue

Revenue from student tuition is reported in the fiscal year when substantially earned. The prepaid portion of tuition which is to be recognized in future periods is reflected as deferred revenue in the consolidated statement of financial position.

Contributed services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. However, these services are not reflected in the consolidated financial statements since they do not meet the criteria for recognition as contributed services.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes

Andrew Wommack Ministries, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and comparable Colorado law as a charitable organization. In addition, AWMI has been classified as an entity that is not a private foundation within the meaning of Section 512(a)(1) and qualifies for deductible contributions. There was no unrelated business income for the year ended September 30, 2017.

New Life Association, Inc. submitted an application for a 501(c)(3) exemption and a church group exemption for its three affiliates to include ***Andrew Wommack Ministries, Inc., Charis Bible Colleges, Inc.,*** and ***7M Ventures, Inc.*** As of the date of the accompanying independent auditors' report, the application is pending approval by the Internal Revenue Service.

New Life Holding Corporation has been organized as a 501(c)(2) corporation which operates exclusively for the purpose of holding title to property for the benefit of another tax exempt organization. There was no unrelated business income for the year ended September 30, 2017.

Charis Enterprises, Inc., a Colorado C-corporation, accounts for income taxes in accordance with GAAP. GAAP requires a company to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. ***Charis Enterprises, Inc.*** had no deferred assets or liabilities as of September 30, 2017.

No provision for income taxes is shown in the consolidated financial statements for ***Charis Theatrical Productions, LLC*** and ***Charis Food Services, LLC*** because the entities are single member limited liability companies and, as such, they are disregarded entities for income tax purposes. ***Charis Theatrical Productions, LLC*** had no activity for the year ended September 30, 2017. ***Charis Enterprises, Inc.,*** the sole member of ***Charis Food Services, LLC***, will report the activity of ***Charis Food Services, LLC*** on its first corporate income tax return (Form 1120) for the year ended October 31, 2017. There are no income taxes due that relate to activity before September 30, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Presentation of sales tax

The Organization remits sales tax to sales tax jurisdictions in several states which impose sales tax on products and teaching materials sold through the Organization's website and on food sold at conferences organized by the Organization. Sales tax collected and remitted to the taxing agencies is included in revenue and expenses in the accompanying consolidated statement of activities.

Recently adopted accounting standards

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern*. The update, effective for annual periods ending after December 15, 2016 and interim periods thereafter provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as the related required disclosures. FASB ASU 2014-15 indicates, that when preparing the annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, and, if applicable, whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. The Organization has adopted this update for the year ended September 30, 2017. See Note 15 for more information regarding going concern.

2. AFFILIATED MINISTRIES

The Organization provides multi-media Christian outreach materials to ministries in countries around the world. These entities are incorporated in their countries of domicile and they account for their program, fundraising, and administrative activities separately from the Organization. Although the foreign affiliated entities and the Organization share certain board members, the Organization does not have control through a majority voting interest. During the year ended September 30, 2017, the Organization solicited donor contributions on behalf of the ministries located in Canada, Europe, Australia, and South Africa by providing donors the ability to contribute funds to the ministries through website links on the Organization's website. In accordance with GAAP, solicitation of contributions on behalf of another entity creates an economic interest. The Organization also exercises control over these related entities without a majority ownership, sole corporate membership, or majority voting interest. As such, consolidation with these foreign affiliated ministries is permitted but not required.

2. AFFILIATED MINISTRIES (continued)

AWMI Canada

The financial statements of AWMI Canada have not been consolidated with those of the Organization; however, a summary of their financial data (in Canadian dollars) obtained from their last year's unaudited financial statements, as provided by their management, is as follows:

At December 31, 2017:

| | |
|-------------------|--------------|
| Total assets | \$ 2,417,418 |
| Total liabilities | \$ 213,816 |
| Total net assets | \$ 2,203,602 |

For the year ended December 31, 2017:

| | |
|----------------|--------------|
| Total revenue | \$ 2,427,978 |
| Total expenses | \$ 1,843,283 |

During the year ended September 30, 2017, the Organization was reimbursed for Christian outreach materials totaling approximately \$23,000 from its affiliated ministry in Canada. At September 30, 2017, the balance of contributions solicited on behalf of AWMI Canada and payable from the Organization was approximately \$11,000.

AWMI Europe

The financial statements of AWMI Europe have not been consolidated with those of the Organization; however, a summary of their financial data (in British Pounds) obtained from their last year's audited financial statements, as provided by their management, is as follows:

At June 30, 2017:

| | |
|-------------------|-------------|
| Total assets | £ 1,944,998 |
| Total liabilities | £ 442,382 |
| Total net assets | £ 1,502,616 |

For the year ended June 30, 2017:

| | |
|----------------|-------------|
| Total revenue | £ 2,990,778 |
| Total expenses | £ 2,884,425 |

During the year ended September 30, 2017, the Organization was reimbursed for Christian outreach materials totaling approximately \$8,000 from its affiliated ministry in Europe. At September 30, 2017, the balance of contributions solicited on behalf of AWMI Europe and payable by the Organization was approximately \$29,000.

2. AFFILIATED MINISTRIES (continued)

AWMI Australia

The financial statements of AWMI Australia have not been consolidated with those of the Organization; however, a summary of their financial data (in Australian dollars) obtained from their last year's compiled financial statements, as provided by their management, is as follows:

At December 31, 2017:

| | |
|-------------------|------------|
| Total assets | \$ 309,243 |
| Total liabilities | \$ 8,845 |
| Total net assets | \$ 300,398 |

For the year ended December 31, 2017:

| | |
|----------------|--------------|
| Total revenue | \$ 1,242,262 |
| Total expenses | \$ 1,083,166 |

During the year ended September 30, 2017, the Organization was reimbursed for Christian outreach materials totaling approximately \$2,000 from its affiliated ministry in Australia. At September 30, 2017, there was no balance of reimbursements receivable from AWMI Australia and no contributions solicited on behalf of AWMI Australia payable by the Organization.

AWMI South Africa

The financial statements of AWMI South Africa have not been consolidated with those of the Organization; however, a summary of their financial data (in South African Rand) obtained from their last year's audited financial statements, as provided by their management, is as follows:

At February 28, 2017:

| | |
|-------------------|--------------|
| Total assets | R 35,159,380 |
| Total liabilities | R 6,870 |
| Total net assets | R 35,152,510 |

For the year ended February 28, 2017:

| | |
|----------------|--------------|
| Total revenue | R 20,262,994 |
| Total expenses | R 8,875,055 |

During the year ended September 30, 2017, the Organization was reimbursed for Christian outreach materials totaling approximately \$150,000 from its affiliated ministry in South Africa. At September 30, 2017, the balance of reimbursements receivable from AWMI South Africa was approximately \$150,000.

3. FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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 or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology include 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

- 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. For level 3 assets, the Organization's management which reports to the Boards, determines the fair value measurement valuation policies and procedures. Management determines, at least annually, if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements as needed.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Gold and silver coins: Valued at the closing price reported in the active market in which gold and silver is traded.

3. FAIR VALUE MEASUREMENTS (continued)

Jewelry: Valued by management using valuation inputs from the donor on the date of contribution to AWMI.

| | Total | Level 1 | Level 3 |
|--------------|------------------|------------------|-----------------|
| Mutual funds | \$ 66,167 | \$ 66,167 | \$ - |
| Gold coins | 1,294 | 1,294 | - |
| Jewelry | 4,940 | - | 4,940 |
| | <u>\$ 72,401</u> | <u>\$ 67,461</u> | <u>\$ 4,940</u> |

There were no changes in the fair value of the Organization's level 3 assets during the year ended September 30, 2017.

The following is a reconciliation of total investments per the consolidated statement of financial position to total assets measured at fair value at September 30, 2017:

| | |
|--|------------------|
| Investments | \$ 16,314 |
| Investments held for endowment | <u>66,167</u> |
| Total investments per the consolidated statement of financial position | 82,481 |
| Less investments in cash and cash equivalents not included in fair value table above | <u>10,080</u> |
| Total assets measured at fair value | <u>\$ 72,401</u> |

4. PROMISES TO GIVE AND THE STURMAN PROPERTY

At September 30, 2017, promises to give consists of unconditional pledges of future donations restricted by donors for the purchase of a 336-acre property adjacent to the Charis Bible College campus in Woodland Park, Colorado. This property, known as the Sturman property, has a 60,000-square-foot building on site which the Organization plans to use as its future headquarters. At September 30, 2017, promises to give restricted for the purchase of the Sturman property are as follows:

Amounts due in:

| | |
|--------------------|-------------------|
| Less than one year | \$ 30,670 |
| One to five years | <u>623,330</u> |
| | <u>\$ 654,000</u> |

During 2017, the Organization entered into a purchase option agreement for the Sturman property. Per the agreement, the Organization would pay a \$2,000,000 downpayment and \$133,333 per month for a period of two and a half years to purchase the property. At September 30, 2017, the consolidated statement of financial position includes a \$2,666,667 deposit which has already been paid by the Organization towards the purchase of the property.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2017:

| | |
|-------------------------------|----------------------------|
| Land | \$ 3,447,000 |
| Buildings and improvements | 51,004,483 |
| Furniture and equipment | 4,264,777 |
| Vehicles | 494,423 |
| Software | 708,112 |
| Construction in progress | <u>22,786,627</u> |
| | 82,705,422 |
| Less accumulated depreciation | <u>8,886,046</u> |
| | <u><u>\$73,819,376</u></u> |

At September 30, 2017, construction in progress consists of costs related to the construction of the Charis Bible College in Woodland Park, Colorado. The construction began in August 2012 and the first phase of the construction was completed in November, 2014. At September 30, 2017, the Organization is completing the second phase of the construction.

6. NOTES PAYABLE

Notes payable consist of the following at September 30, 2017:

| | |
|---|----------------------------|
| Note payable to First State Bank of Colorado Springs (First State Bank), described below | \$ 1,995,025 |
| Note payable to UMB Bank, N.A. (UMB Bank), described below | <u>1,515,676</u> |
| | 3,510,701 |
| Less current portion | <u>316,067</u> |
| | <u><u>\$ 3,194,634</u></u> |

Note payable First State Bank

The Organization had a \$2,500,000 million, \$800,000, and \$200,000 revolving lines of credit with First State Bank with monthly interest-only payments. Interest accrued at a fixed rate of 4.5%. In July 2017, the lines of credit were converted to a note payable which is repayable in monthly payments of principal and interest of \$12,725 until paid in full. The note matures on July 28, 2037. The note payable bears a fixed interest rate of 4.5% until July 28, 2020, at that time the interest rate will be equal to the Wall Street Journal Prime Rate plus 0.5%, with a floor of 4.5%. The note payable is secured by all current and future real property, improvements, and fixtures located at the Charis Bible College in Woodland Park, Colorado.

6. NOTES PAYABLE (continued)

Note payable UMB Bank

The Organization has a note payable to UMB Bank which is payable in 59 monthly payments of \$24,781, consisting of principal and interest, accruing at a fixed annual interest rate of 3.5%. All unpaid principal and accrued interest is due on January 31, 2020. The note is secured by the Organization's existing headquarters real estate located in Colorado Springs, Colorado. The note payable requires the Organization to meet certain financial and reporting covenants. For the year ended September 30, 2017, the Organization was out of compliance with certain reporting covenants and has received a waiver of compliance from UMB Bank, N.A.

The following schedule outlines principal amounts due on the two notes payable at September 30, 2017:

| | |
|------------|----------------------------|
| 2018 | \$ 316,067 |
| 2019 | 324,380 |
| 2020 | 1,076,925 |
| 2021 | 73,502 |
| 2022 | 76,879 |
| Thereafter | <u>1,642,948</u> |
| | <u><u>\$ 3,510,701</u></u> |

7. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2017, temporarily restricted net assets were available for the following purposes:

| | |
|--------------------------------------|----------------------------|
| Capital additions - Woodland Park | \$ 1,042,278 |
| Capital additions - Sturman property | 1,087,500 |
| Time restricted | 654,000 |
| Programs | <u>944,106</u> |
| | <u><u>\$ 3,727,884</u></u> |

During the year ended September 30, 2017, temporarily restricted net assets restricted for programs were released from restrictions in the amount of \$138,802.

8. CHARIS BIBLE COLLEGE ENDOWMENT

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). The Act provides statutory guidance for management, investment, and expenditures of endowment funds held by nonprofit organizations. Amongst other provisions, the Act eliminates the "historical dollar value" rule for endowment funds, in favor of guidelines regarding what constitutes prudent spending and explicitly requires consideration of the following factors (if relevant):

8. CHARIS BIBLE COLLEGE ENDOWMENT (continued)

1. The duration and preservation of the endowment fund
2. The purposes of the organization and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The Organization has the Charis Bible College Endowment (the Fund) to further the religious and educational purposes of Charis Bible Colleges. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's Boards of Directors have interpreted the State of Colorado's UPMIFA as permitting preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies the original value of a donor's gift donated to the permanent endowment, as permanently restricted net assets unless the original value is decreased based on the spending policy of the Fund. Each year the Organization may expend the greater of: (1) the total return over the historic dollar value of the Fund, defined as the total net principal amount contributed to the Fund, or (2) 5% of the value of the assets of the Fund as of the end of the previous fiscal year. Once funds are appropriated for expenditure, they are classified as unrestricted net assets.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment. Under the endowment fund policies, the endowment assets are invested in a manner that is intended to produce the highest possible rate of return consistent with stated risk tolerances. To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on diversified equity-based investments to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of September 30, 2017.

8. CHARIS BIBLE COLLEGE ENDOWMENT (continued)

Changes in the Charis Bible College Endowment net assets for the year ended September 30, 2017 are as follows:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|------------------|
| Endowment net assets, beginning of year | \$ 956 | \$ 33,065 | \$ 34,021 |
| Contributions | - | 54,518 | 54,518 |
| Net appreciation of investments (realized and unrealized) | - | 1,269 | 1,269 |
| Investment fees | - | (249) | (249) |
| Appropriation of endowment assets for expenditure | <u>1,020</u> | <u>(1,020)</u> | <u>-</u> |
| Endowment net assets, end of year | <u>\$ 1,976</u> | <u>\$ 87,583</u> | <u>\$ 89,559</u> |

9. LEASES

The Organization leases Bible college classroom and office space as well as various office equipment under long-term operating leases.

The following is a schedule of future minimum rental payments required under the Organization's long-term operating leases as of September 30, 2017:

| | |
|------|---------------------|
| 2018 | \$ 891,734 |
| 2019 | 521,982 |
| 2020 | 299,420 |
| 2021 | 168,063 |
| 2022 | <u>115,679</u> |
| | <u>\$ 1,996,878</u> |

Total rent expense under long term operating leases was approximately \$765,000 for the year ended September 30, 2017.

10. RETIREMENT PLAN

AWMI sponsors a 403(b) retirement plan covering eligible employees which allows participants to make elective salary deferral contributions. Participant contributions vest immediately. AWMI did not make any contributions to the 403(b) retirement plan during the year ended September 30, 2017.

11. JOINT COSTS

For the year ended September 30, 2017, the Organization has allocated joint costs (for broadcasting and informational materials that include fundraising appeals) among program, general and administrative, and fundraising as follows:

| | Program | General and Administrative | Fundraising | Total |
|---------------------------|---------------------|----------------------------|---------------------|---------------------|
| Broadcast air time | \$11,408,661 | \$ - | \$ 1,148,113 | \$12,556,774 |
| Printing and publications | 1,241,604 | - | 197,018 | 1,438,622 |
| Postage and shipping | 1,012,850 | 6,129 | 183,659 | 1,202,638 |
| | <u>\$13,663,115</u> | <u>\$ 6,129</u> | <u>\$ 1,528,790</u> | <u>\$15,198,034</u> |

12. CONCENTRATION OF CREDIT RISK

Cash balances held at financial institutions exceed federally insured limits. The Organization has not experienced any losses in its cash accounts and management believes the Organization is not exposed to any significant credit risk on cash.

13. CASH FLOW STATEMENT DISCLOSURES

Supplemental disclosures of cash flow information:

During the year ended September 30, 2017, the Organization paid \$133,198 of interest related to its notes payable and lines of credit, all of which was capitalized.

The Organization paid no income taxes for the year ended September 30, 2017.

Supplemental disclosure of noncash investing and financing activities:

The Organization has funded \$1,974,106 of additions to property and equipment through the assumption of accounts payable and accrued expenses at September 30, 2017.

14. COMMITMENTS AND CONTINGENCIES

The Organization has radio and television airtime contracts extending through the next fiscal year. These contracts may be terminated with a four week notification. The average monthly cost of these contracts was approximately \$1,047,000 during the year ended September 30, 2017.

Since the beginning of the construction of the Charis Bible College in Woodland Park, Colorado in October 2012, the Organization has entered into several construction contracts. As of September 30, 2017, the Organization has committed to a guaranteed maximum construction cost of approximately \$59,145,000 related to these contracts. At September 30, 2017, the remaining commitment under these construction contracts is approximately \$2,739,500.

As disclosed in Note 4, in May 2017, the Organization entered into a purchase option agreement to acquire a property located near its Woodland Park, Colorado campus. The purchase agreement requires the Organization to pay a downpayment of \$2,000,000 and \$133,333 per month until October 31, 2019 or until the option purchase price of \$6,000,000 is paid in full.

14. COMMITMENTS AND CONTINGENCIES (continued)

As of September 30, 2017, the Organization has paid \$2,666,667 towards the option purchase price. If the event the Organization does not exercise the option to purchase the property on or before October 31, 2019, it will forfeit the option price paid up to that date. If the Organization elects to exercise the option to purchase the property, the option purchase price paid up to that date will be credited against the purchase price of the property which is estimated to be approximately \$21,000,000. As of the date of the accompanying independent auditors' report, management intends to exercise the aforementioned purchase option.

15. GOING CONCERN

At September 30, 2017, the Organization's consolidated statement of financial position reflected an excess of current liabilities over current assets of approximately \$6,000,000 and the Organization had negative cash flows from operating activities, totaling approximately \$3,700,000 during the year ended September 30, 2017. This financial condition was a result of both large capital additions and rapid personnel growth necessary to accommodate the Organization's expanding activities. In addition to making capital additions at its Woodland Park campus, the Organization also entered into a purchase option to buy the Sturman property (see Note 14). The working capital deficiencies are also the result of a significant amount of donation funds being solicited for and restricted for capital additions, rather than being available for general operations.

Management of the Organization has evaluated these conditions and concluded that the ongoing operations of the Organization are dependent upon being successful in its efforts to grow donation revenue for both general operations and capital additions in response to Andrew Wommack's teaching, as well as the Organization's ability to secure debt financing during the construction phase of planned capital projects. Management has concluded that the Organization has an excellent history of continual growth of its donor base as a result of Andrew Wommack's outreach efforts which have historically resulted in generating substantial donation revenues and profits. This has given the Organization the ability to access additional sources of capital. As disclosed in Note 16, the Organization has secured a new banking line of credit, as well as initiated a private note offering to raise more funds for completion of planned capital projects. Management believes these factors indicate that there will be sufficient working capital to enable the Organization to meet its financial obligations and thus support the Organization's ability to continue as a going concern.

16. SUBSEQUENT EVENTS

In February 2018, the NLA Board of Directors approved a resolution to set up a rabbi trust, a deferred compensation arrangement.

In March 2018, the Organization obtained an additional \$4,000,000 revolving line of credit with UMB Bank. The line of credit is payable on demand. If no demand is made by the lender, the line of credit matures on March 16, 2019. The line of credit bears interest at a variable interest rate based on the UMB Bank's Prime Rate. The index rate was 4.5% when the Organization obtained the line of credit. Payments of accrued interest are due monthly. The line of credit is secured by a deed of trust on the Organization's real property located in Colorado Springs, Colorado.

16. SUBSEQUENT EVENTS (continued)

Subsequent to year end, the Organization's headquarters building and related land located in Colorado Springs, Colorado has been made available for sale. Management has begun to relocate all of its Colorado operations to the Woodland Park Bible College campus and plans to establish new headquarters at the Sturman property (see Note 4). At September 30, 2017, the net carrying value of the real estate, which became available for sale after year end, was approximately \$5,622,000 and consisted of land in the amount of \$1,047,000 and buildings and improvements with a combined cost of \$6,826,000 and accumulated depreciation of \$2,251,000. The property has not sold as of the date of the accompanying independent auditors' report date. When this property is sold, the sales proceeds will be used to repay the revolving line of credit with UMB Bank.

In June 2018, the Organization obtained a \$5 million note payable with First State Bank. The note payable had a fixed interest rate of 6% and payments of accrued interest were due monthly. The note was set to mature on June 26, 2019 and was secured by a deed of trust on real property located in Woodland Park as well as any security agreements given to the lender. The note was paid off in August 2018 when the Organization entered into a \$23,000,000 line of credit agreement with First State Bank which matures in August 2029. The line of credit is repayable in 12 monthly consecutive interest-only payments at an annual rate of 6%, followed by 119 payments of interest and principal in the amount of \$250,542 beginning in September 2019. At that time, the interest rate will be variable, based on the Wall Street Journal Prime Rate (currently 5%), plus 0.5%. The final payment of interest and principal in the amount of \$251,081 is due in August 2029.

Additionally, subsequent to year end, the Organization entered into two equipment financing agreements with UMB Bank, for a total amount of approximately \$400,000. The financing agreements require the Organization to make monthly payments of principal and interest of \$10,887 and \$1,077, bear an interest rate ranging from 5% to 5.25%, and have a three-year repayment schedule.

In June 2018, the Organization also began a private note offering to raise capital for the construction of student housing in Woodland Park. Through this offering, the Organization seeks to borrow funds by issuing unsecured promissory notes to individuals or institutional lenders. The principal amount of the notes will be paid in 12 years from the issuance date. Each note will pay interest at 4.5% either quarterly or lenders may choose to let interest accrue through maturity. The Organization hopes to raise approximately \$6,000,000 for the student housing through this offering. The notes are intended to be loans from individuals and institutions who have a charitable interest in supporting the Organization.

Subsequent to year end, the Organization entered into a contract to remodel the Sturman property (see Note 4), the future site of its headquarters. This contract has an estimated cost of approximately \$2,100,000. Construction work has also started on a \$21,000,000 parking garage facility in Woodland Park.

Subsequent to year end, the Organization discovered a leak in a dam which is located on its property in Woodland Park. The State of Colorado requires the Organization to repair the leak. The repair work is expected to begin in the spring or summer of 2019 and is estimated to cost approximately \$500,000 to complete.

16. SUBSEQUENT EVENTS (continued)

Management has evaluated subsequent events through the date of the attached independent auditors' report, the date which the consolidated financial statements were available to be issued. Management believes there have been no significant subsequent events other than the matters described in the paragraphs above.