

LEADING THE WAY WITH
DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017
AND
INDEPENDENT AUDITORS' REPORT

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
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Reed, Quinn & McClure, LLC

CERTIFIED PUBLIC ACCOUNTANTS

2055 North Brown Road, Suite 150
Lawrenceville, Georgia 30043
(770) 449-9144 Fax (770) 449-9201

Larry N. Reed, CPA
Daniel T. McClure, CPA
Pauline E. Shannon, CPA
www.rqmcpa.com

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Leading The Way with Dr. Michael Youssef and Affiliate
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of *Leading The Way with Dr. Michael Youssef, Inc. and Affiliate*, ("LTW") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk 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 *Leading The Way with Dr. Michael Youssef, Inc. and Affiliate* as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reed, Quinn & McClure LLC

Lawrenceville, Georgia
November 28, 2018

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 13,375,007	\$ 13,581,047
Accounts receivable	59,721	108,408
Prepaid expenses	924,810	600,786
Investments	5,652,433	5,323,087
Property, plant and equipment, net of accumulated depreciation	10,199,069	10,586,834
Projects in progress	-	117,442
Other assets	53,536	53,536
Total assets	\$ 30,264,576	\$ 30,371,140
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 495,624	\$ 583,045
Accrued expenses	217,522	25,078
Deferred revenues	27,203	9,615
Total liabilities	740,349	617,738
 Net Assets		
Unrestricted	29,524,227	29,446,379
Temporarily restricted	-	307,023
Total net assets	29,524,227	29,753,402
Total liabilities and net assets	\$ 30,264,576	\$ 30,371,140

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

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND SUPPORT						
Contributions	\$ 14,997,333	\$ 1,906,790	\$ 16,904,123	\$ 16,751,431	\$ 1,903,490	\$ 18,654,921
Product sales	114,582	-	114,582	150,188	-	150,188
Satellite partners	612,454	-	612,454	605,661	-	605,661
Investment income	90,815	-	90,815	40,743	-	40,743
Rental revenues	247,367	-	247,367	289,536	-	289,536
Miscellaneous	84,579	-	84,579	(10,637)	-	(10,637)
Total revenues and support	16,147,130	1,906,790	18,053,920	17,826,922	1,903,490	19,730,412
Net assets released from restrictions	2,213,813	(2,213,813)	-	2,190,508	(2,190,508)	-
Total revenues, gains and support	18,360,943	(307,023)	18,053,920	20,017,430	(287,018)	19,730,412
EXPENSES AND LOSSES						
Program services	16,363,599	-	16,363,599	15,104,893	-	15,104,893
Management and general	739,050	-	739,050	750,949	-	750,949
Fundraising	1,180,446	-	1,180,446	1,245,161	-	1,245,161
Total expenses and losses	18,283,095	-	18,283,095	17,101,003	-	17,101,003
INCREASE (DECREASE) IN NET ASSETS	77,848	(307,023)	(229,175)	2,916,427	(287,018)	2,629,409
NET ASSETS - BEGINNING OF YEAR	29,446,379	307,023	29,753,402	26,529,952	594,041	27,123,993
NET ASSETS - END OF YEAR	\$ 29,524,227	\$ -	\$ 29,524,227	\$ 29,446,379	\$ 307,023	\$ 29,753,402

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

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Management and General	Fundraising	Total
	Domestic Program	Overseas Program	Total Program			
Salaries and benefits	\$ 1,958,342	661,922	\$ 2,620,264	\$ 458,976	\$ 764,204	\$ 3,843,444
Acknowledgments	23,825	-	23,825	-	-	23,825
Advertising	35,535	-	35,535	-	-	35,535
Appeal letter/Direct mail	-	-	-	-	87,718	87,718
Bank and credit card charges	-	-	-	15,891	-	15,891
Benevolence	592,462	625,556	1,218,018	-	-	1,218,018
Building maintenance	39,502	13,167	52,669	6,584	6,584	65,837
Building supplies	4,650	1,550	6,200	775	775	7,750
Computer expenses	357	119	476	59	59	594
Computer and software support	77,368	20,631	97,999	2,393	2,773	103,165
Consulting	51,309	6,800	58,109	2,887	59,403	120,399
Contracted services	130,211	1,200,499	1,330,710	58,971	17,719	1,407,400
Copier lease/maintenance	5,436	1,812	7,248	906	906	9,060
Credit card processing	128,002	-	128,002	-	-	128,002
Database management	60,535	28,754	89,289	11,891	7,700	108,880
Depreciation	570,967	190,322	761,289	95,161	95,161	951,611
Dues and subscriptions	18,230	-	18,230	-	-	18,230
Email blasts	14,484	3,621	18,105	-	-	18,105
Equipment rental/small purchases	19,950	7,408	27,358	1,377	1,280	30,015
Equipment repairs	76,801	52,421	129,222	10,854	3,005	143,081
Events	-	13,747	13,747	-	-	13,747
Follow up materials	-	10,896	10,896	-	-	10,896
Hospitality	6,339	837	7,176	1,703	11,583	20,462
Insurance	34,178	11,393	45,571	5,696	5,696	56,963
Internet broadcasting/Web site	231,871	139,119	370,990	1,675	-	372,665
Janitorial costs	19,111	6,370	25,481	3,185	3,185	31,851
Landscaping	9,887	3,296	13,183	1,648	1,648	16,479
Lease	5,062	1,687	6,749	844	844	8,437
Legal and professional	15,136	10,675	25,811	3,924	9,033	38,768
Management, writing & design	105,543	27,227	132,770	-	-	132,770
Miscellaneous	7,525	17,397	24,922	3,029	2,881	30,832
Monthly ministry letter/journal	359,103	104,471	463,574	-	-	463,574
Navigators	-	111,569	111,569	-	-	111,569
Office supplies	4,790	10,756	15,546	768	768	17,082
Packaging	4,477	-	4,477	-	-	4,477
Phone answering service	98,248	-	98,248	-	-	98,248
Postage	136,906	2,462	139,368	852	4,269	144,489
Printing	4,867	-	4,867	-	-	4,867
Production costs	226,903	557,425	784,328	689	-	785,017
Program airtime	5,597,775	293,264	5,891,039	-	-	5,891,039
Property tax	14,404	4,801	19,205	2,400	2,400	24,005
Resource materials	127,291	8,041	135,332	-	-	135,332
Satellite	-	546,975	546,975	-	-	546,975
Security	11,822	3,941	15,763	1,970	1,970	19,703
Storage	9,240	5,673	14,913	1,431	26	16,370
Supplies	1,570	7,357	8,927	1,616	2,368	12,911
Telephone	39,884	13,796	53,680	6,122	11,756	71,558
Training/conferences	8,299	2,999	11,298	1,273	357	12,928
Travel	189,194	475,185	664,379	23,467	64,342	752,188
Utilities	60,200	20,067	80,267	10,033	10,033	100,333
Total expenses	<u>\$ 11,137,591</u>	<u>\$ 5,226,008</u>	<u>\$ 16,363,599</u>	<u>\$ 739,050</u>	<u>\$ 1,180,446</u>	<u>\$ 18,283,095</u>

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

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Management and General	Fundraising	Total
	Domestic Program	Overseas Program	Total Program			
Salaries and benefits	\$ 1,485,883	\$ 673,245	\$ 2,159,128	\$ 452,866	\$ 772,011	\$ 3,384,005
Acknowledgments	18,006	-	18,006	-	-	18,006
Advertising	1,986	-	1,986	-	-	1,986
Appeal letter/Direct mail	-	51	51	-	93,228	93,279
Bank and credit card charges	121,876	-	121,876	16,320	-	138,196
Benevolence	2,000	843,776	845,776	-	-	845,776
Building maintenance	38,710	12,903	51,613	6,452	6,452	64,517
Building supplies	7,380	2,460	9,840	1,230	1,230	12,300
Computer expenses	58,254	15,702	73,956	2,255	2,364	78,575
Consulting	104,079	29,864	133,943	3,850	40,167	177,960
Contracted services	219,357	877,215	1,096,572	76,261	31,877	1,204,710
Copier lease/maintenance	6,560	2,187	8,747	1,093	1,093	10,933
Database management	88,434	5,310	93,744	11,923	29,997	135,664
Depreciation	551,186	183,729	734,915	91,865	91,864	918,644
Dues and subscriptions	26,098	-	26,098	-	-	26,098
Email blasts	39,129	9,782	48,911	-	-	48,911
Equipment rental/small purchases	25,644	9,938	35,582	2,100	2,302	39,984
Equipment repairs	80,069	52,586	132,655	10,473	2,615	145,743
Events	-	31,216	31,216	-	26,234	57,450
Follow up materials	-	15,060	15,060	-	-	15,060
Hospitality	5,389	1,265	6,654	1,318	11,684	19,656
Insurance	36,991	12,330	49,321	6,165	6,166	61,652
Internet broadcasting/Web site	272,554	121,888	394,442	4,445	-	398,887
Janitorial costs	18,362	6,121	24,483	3,060	3,060	30,603
Landscape	7,453	2,484	9,937	1,242	1,243	12,422
Lease	5,155	1,718	6,873	860	859	8,592
Legal and professional	7,455	10,065	17,520	3,025	6,888	27,433
Management, writing & design	89,956	21,426	111,382	-	-	111,382
Miscellaneous	10,838	3,933	14,771	1,488	6,275	22,534
Monthly ministry letter/journal	321,015	96,406	417,421	-	-	417,421
Navigators	-	41,051	41,051	-	-	41,051
Office management	-	12,023	12,023	-	-	12,023
Packaging	10,826	-	10,826	-	-	10,826
Phone answering service	118,925	-	118,925	-	-	118,925
Postage	206,403	2,643	209,046	548	5,731	215,325
Printing	2,673	-	2,673	-	-	2,673
Production costs	194,784	658,340	853,124	-	-	853,124
Program airtime	5,199,331	601,451	5,800,782	-	-	5,800,782
Property tax	14,526	4,842	19,368	2,421	2,421	24,210
Resource materials	23,625	8,543	32,168	-	-	32,168
Satellite	-	544,577	544,577	-	-	544,577
Security	26,891	8,964	35,855	4,482	4,482	44,819
Storage	11,575	5,261	16,836	1,328	26	18,190
Supplies	10,115	10,111	20,226	2,832	3,905	26,963
Telephone	44,304	16,998	61,302	7,430	12,548	81,280
Training/conferences	1,383	37,699	39,082	9,352	712	49,146
Travel	134,338	384,701	519,039	14,826	68,289	602,154
Utilities	56,633	18,878	75,511	9,439	9,438	94,388
Total expenses	<u>\$ 9,706,151</u>	<u>\$ 5,398,742</u>	<u>\$ 15,104,893</u>	<u>\$ 750,949</u>	<u>\$ 1,245,161</u>	<u>\$ 17,101,003</u>

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

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017
Increase (Decrease) in Cash

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (229,175)	\$ 2,629,409
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Non-cash contributions	-	(52,500)
Depreciation	951,611	918,644
(Gain) loss on investments	(13,164)	14,837
Loss on disposal of property and equipment	-	13,619
Accounts receivable	48,687	(45,367)
Prepaid expenses	(324,024)	(233,999)
Other assets	-	48,692
Accounts payable	(87,421)	(275,585)
Accrued expenses	192,444	(10,807)
Deferred rent	17,588	(1,500)
Net cash provided (used) by operating activities	<u>556,546</u>	<u>3,005,443</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of contributed property	-	42,905
Purchase of fixed assets	(446,404)	(577,425)
Purchase of investments	(2,326,264)	(3,119,407)
Proceeds from sale and maturity of investments	<u>2,010,082</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(762,586)</u>	<u>(3,653,927)</u>
INCREASE (DECREASE) IN CASH	(206,040)	(648,484)
Cash - beginning of the year	<u>13,581,047</u>	<u>14,229,531</u>
Cash - end of year	<u>\$ 13,375,007</u>	<u>\$ 13,581,047</u>
SUPPLEMENTAL DISCLOSURES		
Non-cash activities:		
Fair value of donated property	\$ -	\$ 52,500
Fair value of donated equities	\$ 950,293	\$ 646,727

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

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of *Leading The Way with Dr. Michael Youssef, Inc.* (“LTW”), and *McMichael Communications Group, Inc.* (“MCG”). All material inter-organization transactions have been eliminated.

Leading The Way with Dr. Michael Youssef, Inc. is a global ministry committed to sharing the Gospel with the lost and equipping believers to grow into a deeper walk with Christ. LTW’s television and radio programs are broadcast in 25 languages, reaching six continents. LTW also produces DVDs, CDs, books, a monthly devotional magazine, solar-powered *Navigator* devices, and daily e-devotionals to spread the light of Christ. In 2009, the ministry launched THE KINGDOM SAT satellite television channel to broadcast Biblical Truth in the Muslim World in English, Arabic, Indonesian, and French and to respond to and disciple viewers through on-the-ground follow-up teams. Committed to encouraging Christians who are taking a stand for the faith, LTW also provides vital aid to persecuted believers through its *Help The Persecuted* ministry.

McMichael Communications Group, Inc. is a non-profit organization, which was established to serve as a supporting organization to LTW. MCG purchases airtime on radio and television stations throughout the world on behalf of LTW. LTW pays MCG for the cost of the airtime and provides MCG with office space and administrative services at no charge.

LTW is funded primarily through contributions from the general public, The Church of The Apostles of Atlanta, satellite partners, and rental revenues.

Financial Statement Presentation

LTW is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, LTW is required to present a statement of cash flows. Assets on the statement of financial position are listed in order of decreasing liquidity. Liabilities are listed according to nearness of maturity.

Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels used to measure fair value are as follows:

- Level 1 Quoted prices in an active market for identical assets or liabilities;
- Level 2 Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; this includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value of Financial Instruments - continued

Cash and cash equivalents and accounts payable are stated at cost, which approximates fair value due to their short-term maturity. Collections of art donated to the organization are valued at Level 3 fair values.

Contributions

All contributions and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction and reported on the statement of activities as net assets released from restrictions. When the donor restrictions are satisfied within the same reporting period as the temporarily restricted contribution is made, the temporarily restricted contribution is reported as temporarily restricted and as assets released from restriction.

Donated Services and Non-Monetary Assets

Contributions of nonmonetary assets are recorded at fair value at the date of receipt, contributions of services that can be a) measured by the creation or enhancement of a nonfinancial asset or b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed property was recognized in the statement of activities for the year ending June 30, 2017 for \$52,500. No amounts have been reflected in the financial statements for contributed services.

Revenues from Lease agreements

Lease revenues are recognized over the term of the lease on a straight-line basis. Amounts recognized in excess of amounts received are included on the statement of financial position in accounts receivable. See Note 9 for further details.

Functional allocation of expenses

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

Income Taxes

LTW and MCG are qualified as tax-exempt organizations under Internal Revenue Code Section 501(c)(3). The IRS has determined that neither organization is a private foundation. Accordingly, no provision for income taxes is necessary.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, cash and cash equivalents include cash, certificates of deposit and investments with an initial maturity of three months or less.

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments

Investments are reported at fair value. Unrealized gains and losses arising from changes in the fair value of the investments are reported in the statements of activities as increases or decreases in net assets as appropriate. Investment fees are reported as a reduction of investment income.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair market value at date of donation. Repairs and maintenance are expensed as incurred, and any betterments that extend the useful life of an asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the asset as follows:

<u>Asset Category</u>	<u>Useful Life</u>
Building	39 years
Building improvements	15 years
Equipment	3 - 5 years
Furniture and fixtures	7 years
Intangibles	3 - 5 years

Estimates

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, LTW has evaluated events and transactions for potential recognition or disclosure through November 28, 2018, the date the financial statements were available to be issued.

2. CONCENTRATIONS

Credit risk

LTW maintains its cash balances in high credit quality institutions. These balances are insured by the FDIC up to \$250,000 for interest bearing accounts, per financial institution. At June 30, 2018 and 2017, LTW had balances in excess of the FDIC insured limits of approximately \$13,743,333 and \$13,129,452, respectively.

LTW maintains investments in a brokerage account that is a member of the Securities Investor Protection Corporation (SIPC) which protects against the loss of cash and securities in the event of insolvency and liquidation. SIPC coverage is limited to \$500,000 per customer, including up to \$250,00 for cash. In addition, there is insurance coverage which becomes available if SIPC limit is exhausted and provides additional protection up to \$1 billion, including \$1.9 million for cash per customer. SIPC does not insure the quality of investments or protect against market losses.

LEADING THE WAY WITH DR. MICHAEL YOUSSEF, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018 and 2017

3. INVESTMENTS

The three levels used to measure fair value are as follows:

- Level 1 Quoted prices in an active market for identical assets or liabilities;
- Level 2 Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; this includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Investments consist of the following at June 30:

<u>2018</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 1,005,785	\$ 1,005,785	\$ -	\$ -
Fixed income funds	2,252,656	-	2,252,656	-
Fixed indexed annuity	1,685,068	-	-	1,685,068
Limited partnership	12,399	-	-	12,399
Money market funds	671,505	671,505	-	-
Mutual funds	25,020	25,020	-	-
	<u>\$ 5,652,433</u>	<u>\$ 1,702,310</u>	<u>\$ 2,252,656</u>	<u>\$ 1,697,467</u>

<u>2017</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -
Fixed index annuity	1,631,157	-	-	1,631,157
Limited partnership	1,315	-	-	1,314
Money market funds	670,699	670,699	-	-
Mutual funds	19,916	19,916	-	-
	<u>\$ 5,323,087</u>	<u>\$ 3,690,615</u>	<u>\$ -</u>	<u>\$ 1,632,471</u>

Investments using Level 2 inputs consist of U.S. treasury bonds. The fixed income securities are priced using the outside pricing vendor. In determining the fair value of these investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield and other terms and conditions of each security.

Investments using Level 3 inputs consist of two fixed income annuity instruments. The earnings are bench-marked to the S&P 500 index value rather than the interest rate. At June 30, 2018, the performance rate was 3.1.

Also included in Level 3 inputs is a limited partnership. The fair value is equal to LTW's capital account balances reported on the investees' financial statements. The investees have adjusted the capital accounts on their financial statements to reflect the fair market value of the underlying investment.

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3. INVESTMENTS – Continued

The following is a reconciliation of the beginning and ending balances for Level 2 and Level 3 investments measured at fair value on a recurring basis for the year ended June 30,

<u>2018</u>	<u>Level 2</u>	<u>Level 3</u>
Beginning balances	\$ -	\$ 1,632,471
Purchases	2,250,000	-
Sales/redemption	-	-
Earnings	2,656	64,996
Ending balance	<u>\$ 2,252,656</u>	<u>\$ 1,697,467</u>
<u>2017</u>	<u>Level 2</u>	<u>Level 3</u>
Beginning balances	\$ -	\$ 1,596,371
Purchases	-	-
Sales/redemption	-	-
Earnings	-	36,100
Ending balance	<u>\$ -</u>	<u>\$ 1,632,471</u>

Investment income consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 77,651	\$ 55,580
Unrealized gains/(losses)	13,164	(14,837)
Total investment income (loss)	<u>\$ 90,815</u>	<u>\$ 40,743</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 10,557,934	\$ 10,557,934
Equipment	3,601,733	3,144,525
Furniture and fixtures	552,713	547,502
Artwork	365,050	365,050
Intangibles	870,095	784,461
Total	<u>15,947,525</u>	<u>15,399,472</u>
Less: Accumulated depreciation	<u>(5,748,456)</u>	<u>(4,812,638)</u>
	<u>\$ 10,199,069</u>	<u>\$ 10,586,834</u>
Depreciation expense	<u>\$ 951,611</u>	<u>\$ 918,644</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. QUASI ENDOWMENT FUND

The Board of Directors has established an endowment fund for payment of administrative costs of LTW. Net assets allocated to the endowment fund consist solely of amounts designated by the Board. There are no donor restrictions on the use of these funds. Subsequent Boards may use these assets for any purpose they deem appropriate.

6. RELATED PARTY TRANSACTIONS

Certain individuals serve on the boards of Leading The Way with Dr. Michael Youssef, Inc., the Foundation of the Holy Apostles, and the Vestry of the Church of The Apostles of Atlanta, Inc. The Church contributed approximately \$1,851,565 and \$1,925,025, to LTW for the years ended June 30, 2018 and 2017, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	2018	2017
Help the Persecuted	\$ -	\$ 284,127
Navigators	-	22,896
	\$ -	\$ 307,023

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2018	2017
Help the Persecuted	\$ 1,446,466	\$ 983,471
Muslim World Outreach	606,799	812,858
International Evangelism and Outreach	99,848	353,128
Domestic Evangelism and Outreach	29,804	-
Navigators	22,896	41,051
JJ&P	8,000	-
	\$ 2,213,813	\$ 2,190,508

8. RETIREMENT PLAN

LTW maintains a defined contribution retirement plan for its employees. It makes discretionary contributions to all eligible employees. Employees are fully vested in employer discretionary contributions after 5 years of service. Employees may also make elective salary deferrals to the plan. LTW contributed \$249,405 and \$192,437, to the plan during the years ended June 30, 2018 and 2017, respectively.

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9. RENT INCOME

LTW rents office space to unrelated parties. There are two annual leases and one multi-year lease which calls for annual increases and rent abatement at certain months of the lease term. Lease revenue is recognized on a straight-line basis over the term of the lease.

Amounts recognized as rental income for all leases for the years ending June 30, 2018 and June 30, 2017, were \$265,410 and \$289,536, respectively. At June 30, 2018 and 2017, the difference in the amount received and the amount recognized is included in accounts receivable for \$14,033 and \$11,893, respectively.

Future amounts to be received on the multi year lease agreement are as follows:

2019	\$	101,676
2020		114,154
2021		<u>67,908</u>
	\$	<u><u>283,738</u></u>

10. RECLASSIFICATIONS

Certain items presented on the previously issued 2017 financial statements may have been reclassified for comparison purposes on these financial statements. These reclassifications did not change the previously reported net assets or changes in net assets for 2017.