

JONI AND FRIENDS

Combined Financial Statements
With Independent Auditors' Report

December 31, 2016 and 2015

JONI AND FRIENDS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Joni and Friends
Agoura Hills, California

We have audited the accompanying combined financial statements of Joni and Friends, which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Joni and Friends
Agoura Hills, California

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Joni and Friends as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Tarzana, California
May 2, 2017

JONI AND FRIENDS

Combined Statements of Financial Position

	December 31,	
	2016	2015
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 10,669,210	\$ 10,256,483
Prepaid expenses and other assets	138,855	252,322
Land held for sale	1,174,700	-
Inventory-wheelchairs	2,859,934	2,721,736
Inventory-books and materials	127,882	103,691
	<u>14,970,581</u>	<u>13,334,232</u>
Television production costs - at cost, net	-	16,381
Cash reserved for endowment	17,607	17,607
Endowment investments	3,015,254	4,652,103
Land, building, and equipment - at cost, net	10,983,255	11,333,613
	<u>14,016,116</u>	<u>16,019,704</u>
Total Assets	<u>\$ 28,986,697</u>	<u>\$ 29,353,936</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 423,645	\$ 383,979
Accrued expenses	757,547	615,711
Capital lease - current portion	20,475	17,986
	<u>1,201,667</u>	<u>1,017,676</u>
Capital lease - non-current portion	17,737	27,503
	<u>1,219,404</u>	<u>1,045,179</u>
Net assets:		
Unrestricted	17,955,128	19,463,563
Temporarily restricted	8,485,256	7,518,285
Permanently restricted	1,326,909	1,326,909
	<u>27,767,293</u>	<u>28,308,757</u>
Total Liabilities and Net Assets	<u>\$ 28,986,697</u>	<u>\$ 29,353,936</u>

See notes to financial statements

JONI AND FRIENDS

Combined Statements of Activities

	Year Ended December 31,							
	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:								
Contributions	\$ 7,677,486	\$ 9,193,371	\$ -	\$ 16,870,857	\$ 10,398,181	\$ 6,613,726	\$ 432,764	\$ 17,444,671
Contributions - estate	588,000	-	-	588,000	-	-	-	-
Sales of books and materials	500,542	-	-	500,542	465,155	-	-	465,155
Tuition and registration	2,373,514	-	-	2,373,514	2,491,593	-	-	2,491,593
Grant income	-	-	-	-	151,087	-	-	151,087
Gift-in-kind land	1,174,700	-	-	1,174,700	-	-	-	-
Gift-in-kind royalty partnership (oil and gas)	-	-	-	-	2,536,551	-	-	2,536,551
Gift-in-kind investment in real property	-	-	-	-	-	197,314	-	197,314
Real property income	50,000	-	-	50,000	201,340	-	-	201,340
Royalty partnership income (oil and gas)	166,846	-	-	166,846	207,341	-	-	207,341
Investment and other income	(1,444,793)	(156,613)	-	(1,601,406)	(15,967)	655,867	-	639,900
Contributed airtime, wheelchairs, services and materials	14,157,698	-	-	14,157,698	13,954,243	-	-	13,954,243
Net assets released from restrictions:								
Satisfaction of wheelchair ministry and other project restrictions	8,069,787	(8,069,787)	-	-	6,785,811	(6,785,811)	-	-
Total Support, Revenue, and Reclassifications	33,313,780	966,971	-	34,280,751	37,175,335	681,096	432,764	38,289,195

(continued)

See notes to financial statements

JONI AND FRIENDS

Combined Statements of Activities

(continued)

	Year Ended December 31,							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services	29,541,368	-	-	29,541,368	28,927,068	-	-	28,927,068
Supporting activities:								
General and administrative	2,284,809	-	-	2,284,809	1,855,029	-	-	1,855,029
Fundraising	2,996,038	-	-	2,996,038	3,028,180	-	-	3,028,180
	5,280,847	-	-	5,280,847	4,883,209	-	-	4,883,209
Total Expenses	34,822,215	-	-	34,822,215	33,810,277	-	-	33,810,277
Change in Net Assets	(1,508,435)	966,971	-	(541,464)	3,365,058	681,096	432,764	4,478,918
Net Assets, Beginning of Year	19,463,563	7,518,285	1,326,909	28,308,757	16,098,505	6,837,189	894,145	23,829,839
Net Assets, End of Year	\$ 17,955,128	\$ 8,485,256	\$ 1,326,909	\$ 27,767,293	\$ 19,463,563	\$ 7,518,285	\$ 1,326,909	\$ 28,308,757

See notes to financial statements

JONI AND FRIENDS

Combined Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (541,464)	\$ 4,478,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	527,606	473,158
Amortization	16,381	79,211
Unrealized (gain) loss on investments	1,654,729	(577,546)
Net investment income	(17,880)	(18,239)
Gifts-in-kind contributions	(14,157,698)	(13,954,243)
Gifts-in-kind used in operations	14,019,500	13,635,101
Gifts-in-kind contributions for Foundation endowment (see note 1)	-	(2,728,644)
Gift-in-kind land	(1,174,700)	-
Net change in:		
Prepaid expenses and other assets	113,467	266,979
Inventory-books and materials	(24,191)	(34,714)
Accounts payable	39,666	(133,439)
Accrued expenses	141,836	18,716
Net Cash Provided by Operating Activities	597,252	1,505,258
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	(575,802)
Change in cash reserved for endowment	-	143,038
Capital expenditures	(177,248)	(80,183)
Net Cash Used in Investing Activities	(177,248)	(512,947)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	(7,277)	(10,843)
Net Cash Used in Financing Activities	(7,277)	(10,843)
Change in Cash and Cash Equivalents	412,727	981,468
Cash and Cash Equivalents, Beginning of Year	10,256,483	9,275,015
Cash and Cash Equivalents, End of Year	\$ 10,669,210	\$ 10,256,483

See notes to financial statements

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

Joni and Friends (JAF) was incorporated in 1979 in California as a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from California state income taxes under Section 23701d of the California Revenue and Taxation Code. JAF has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code. Contributions by the public are deductible for income tax purposes.

JAF is a religious organization dedicated to accelerating Christian ministry in the disability community. Field and service programs promote a Biblical response toward disabilities, assisting individuals and churches through evangelism, training, encouragement, and practical service.

In April 2007, the Joni and Friends International Disability Center was opened in Agoura Hills, California as the permanent headquarters. In the same year, the Christian Institute on Disability was established to aggressively promote a Christ-centered, Biblical approach that protects human dignity and the sanctity of all human life, no matter what the disabling condition.

JAF has several chapters located in the United States of America. These chapters are controlled by JAF, and consequently, the financial position and results of operations of all chapters are included in JAF's combined financial statements.

In addition, JAF has agreements with several charters outside the United States of America. These charters are not controlled by JAF, and consequently, the financial position and results of operations of these charters are not included in JAF's combined financial statements.

In December 31, 2014, the Joni and Friends Foundation (JAFF or the Foundation), a 501 (c) (3) supporting organization, was created with the sole purpose of supporting Joni and Friends, the parent organization. Contributions to the Foundation are exempt from federal income taxes under Section 170 (c)(2) of the Internal Revenue Code. JAFF was created to receive, manage, and distribute complex assets, manage the Joni and Friends endowment fund, and assume other actions assisting the work of Joni and Friends as are consistent with Joni and Friends' purposes. Joni and Friends has an economic interest in the Joni and Friends Foundation through endowment agreements created to ultimately benefit Joni and Friends and allow Joni and Friends to receive more complex gifts. Joni and Friends also has a controlling interest in the Joni and Friends Foundation as Joni and Friends controls the Foundation's board. As a result, the financial statements of the Foundation have been combined with those of Joni and Friends.

JAF's primary source of income consists of contributions and gifts-in-kind.

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF COMBINATION

The accompanying combined financial statements of Joni and Friends include the financial statements of Joni and Friends and the Joni and Friends Foundation. The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All material transactions and balances between JAF and JAFF have been eliminated in the combined financial statements. A summary of significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

CASH AND CASH EQUIVALENTS

For the combined statements of financial position and combined cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. These accounts may, at times, exceed federally insured limits. JAF has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

INVENTORY

Inventory consists of two components: premium supplies and books for sale stated at the lower of cost or market, using the weighted average method; and wheelchairs stated at estimated fair market value on the date of the gift. Donated parts are valued at fair market value. Donated labor used in refurbishment is expensed at estimated fair value of donated labor.

LAND HELD FOR SALE

During the year ended December 31, 2016, JAFF received a tract of land with various utilities including water and sewer. An independent appraiser valued the land at \$1,174,700. The land is expected to be sold in 2017.

INVESTMENTS

Investments in equity securities with readily determinable fair values are recorded at fair value with gains and losses reported in the combined statements of activities. Donated investments are recorded at fair value at the date of donation and are thereafter carried at fair value.

The organization's alternative investments include a 33% interest in real property (including timberland) and a 28.125% interest in a royalty stream. These investments are reported at estimated fair value (see note 4).

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS, continued

Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risks associated with certain investments, it is reasonably possible that changes in the value of those investments will occur in the near term and such changes could materially affect the amounts reported in the combined financial statements.

LAND, BUILDING, AND EQUIPMENT

Expenditures for land, building, and equipment greater than \$1,000 are capitalized at cost. Donated items are recorded at the fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets.

Estimated useful lives are:

Buildings and improvements	40 years
Furniture and equipment	3-7 years
Automobiles	5 years

NET ASSETS

The combined financial statements report amounts by class of net assets:

Unrestricted net assets are currently available at the discretion of the board for use in JAF's operations, and those resources invested in a board designated endowment fund, and property and equipment.

Temporarily restricted net assets are stipulated by donors for specific operating purposes or for long-term projects. As of December 31, 2016 and 2015, the temporarily restricted amounts consist primarily of the wheelchair ministry projects, area ministries, chapter ministries, and investment in real property and unappropriated endowment income.

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available for unrestricted purposes when appropriated for expenditure.

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received or ownership of donated assets is transferred to the ministry. JAF records contributions as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. JAF receives non-cash gifts which are recorded as support at the estimated fair market value on the date of the gift.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program and supporting activities.

ALLOCATION OF JOINT COSTS

All costs that contain any fundraising appeal are required to be allocated to fundraising unless all of the following three tests are met: purpose, audience, and content. Since all three tests were not met, all costs that contain a fundraising appeal have been allocated to fundraising for the years ended December 31, 2016 and 2015.

USE OF ESTIMATES

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the combined statements of activities. As of December 31, 2016 and 2015, JAF had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements. JAF files information tax returns in the U.S. and various states. JAF is subject to income tax examinations for the current year and certain prior years based on applicable laws and regulations.

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

3. INVESTMENTS:

Investments consist of:

	December 31,	
	2016	2015
Endowment investments:		
Cash and money markets	\$ 52,070	\$ 6,009
Mutual funds	269,249	294,339
Exchange traded funds	272,986	260,811
Annuities	679,243	671,478
Investment in royalty stream (oil and gas)	955,322	2,476,469
Investment in real property	786,384	942,997
	<u>\$ 3,015,254</u>	<u>\$ 4,652,103</u>

Investment and other income consists of:

	December 31,	
	2016	2015
Unrealized gain (loss)	\$ (1,654,729)	\$ 577,546
Realized gain	17,880	18,239
Interest	31,359	4,610
Royalties	4,084	39,505
	<u>\$ (1,601,406)</u>	<u>\$ 639,900</u>

Investment fees were \$5,815 and \$5,382 for the years ended December 31, 2016 and 2015, respectively.

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

4. FAIR VALUE MEASUREMENTS:

JAF uses appropriate valuation techniques to determine fair value based on inputs available. When available, JAF measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis on December 31, 2016 are as follows:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Endowment investments:				
Cash and money markets	\$ 52,070	\$ 52,070	\$ -	\$ -
Mutual funds	269,249	269,249	-	-
Exchange traded funds	272,986	272,986	-	-
Annuities	679,243	-	679,243	-
Oil and gas	955,322	-	955,322	-
Real property	786,384	-	786,384	-
Total endowment investments	\$ 3,015,254	\$ 594,305	\$ 2,420,949	\$ -

Fair values of assets measured on a recurring basis on December 31, 2015 are as follows:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Endowment investments:				
Cash and money markets	\$ 6,009	\$ 6,009	\$ -	\$ -
Mutual funds	294,339	294,339	-	-
Exchange traded funds	260,811	260,811	-	-
Annuities	671,478	-	671,478	-
Oil and gas	2,476,469	-	2,476,469	-
Real property	942,997	-	942,997	-
Total investments	\$ 4,652,103	\$ 561,159	\$ 4,090,944	\$ -

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Notes to Combined Financial Statements

December 31, 2016 and 2015

4. FAIR VALUE MEASUREMENTS, continued:

The fair value for mutual funds and money market funds, exchange traded funds, equities and fixed income are determined by reference to quoted market prices and other relevant information generated by market transactions.

The fair value of annuities is determined by an index crediting strategy that credits interest annually based on the percentage change of the S&P 500. The index credit percentage is guaranteed to never exceed an annual cap declared annually and will never be less than zero. The minimum guaranteed rate is 1% and the maximum rate is 3.4%

For the year ended December 31, 2016, the fair value for the investment in oil and gas and the investment in real property was determined by the income approach method using historical data and commodities future prices. The terminal value was calculated based on an industry required rate of return of 18.2% plus a depletion rate of 5%. For the year ended December 31, 2015, the valuation for the investment in oil and gas and the investment in real property was determined by the present value of the average cash flow of the three most recent years over the remaining statutory life of 15 years. A discount rate of 20.4% was applied which represented the IRS statutory depletion rate of 15% plus 5.4%. For both years, the valuation was performed by an independent appraisal commissioned by JAFF. The change in estimate method used is not considered material to the financial statements.

5. LAND, BUILDING, AND EQUIPMENT:

Land, building, and equipment consist of:

	December 31,	
	2016	2015
Land	\$ 3,400,000	\$ 3,400,000
Building and improvements	9,057,342	9,026,560
Furniture and equipment	2,935,039	2,788,573
Equipment acquired through capital lease	65,899	65,899
Automobiles	89,341	89,341
	15,547,621	15,370,373
Less accumulated depreciation and amortization	(4,564,366)	(4,036,760)
	10,983,255	11,333,613
Less capital lease secured by equipment	(38,212)	(45,489)
	\$ 10,945,043	\$ 11,288,124

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

5. LAND, BUILDING, AND EQUIPMENT, continued:

Included in furniture and equipment above is equipment acquired under a capital lease. The initial capitalized cost as of December 31, 2016 and 2015, was \$93,567. Included in accumulated depreciation above is accumulated amortization as of December 31, 2016 and 2015, related to the equipment acquired under the capital lease, of \$63,628, and \$44,915, respectively.

6. LINE OF CREDIT:

JAF has a line of credit up to \$2,000,000 with a credit union, secured by real property located in Agoura Hills, California, interest paid monthly at 3.5%, expiring August 10, 2021. Interest expense for each of the years ended December 31, 2016 and 2015, was \$0. As of December 31, 2016 and 2015, there was no outstanding balance on the line of credit.

7. CAPITAL LEASE OBLIGATION:

Capital lease obligation related to equipment is as follows:

	December 31,	
	2016	2015
Total capital lease obligation	\$ 38,212	\$ 45,489
Less current portion	(20,475)	(17,986)
	<u>\$ 17,737</u>	<u>\$ 27,503</u>

8. NET ASSETS:

Unrestricted net assets consist of:

	December 31,	
	2016	2015
Undesignated	\$ 6,056,920	\$ 5,698,970
Board designated investments for endowment fund (oil and gas)	953,165	2,476,469
Net investment in land, building, and equipment	10,945,043	11,288,124
	<u>\$ 17,955,128</u>	<u>\$ 19,463,563</u>

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

8. NET ASSETS, continued:

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2016	2015
Wheels for the World	\$ 6,686,951	\$ 6,043,750
Chapter ministries	541,647	455,237
Area ministries	444,172	-
Christian Fund for the Disabled	54,477	104,676
Real property reserved for operations	-	197,314
Unappropriated endowment income	752,787	717,308
Other	5,222	-
	<u>\$ 8,485,256</u>	<u>\$ 7,518,285</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is unrestricted. The endowment corpus for JAF operations invested in perpetuity was \$1,326,909 for years ended December 31, 2016 and 2015, respectively.

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Notes to Combined Financial Statements

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9. ENDOWMENTS:

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1 (now included in the FASB Accounting Standards Codification in sub-topic 958-205), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. JAF has adopted the net asset classification provisions of FSP FAS 117-1 for the years ending December 31, 2016 and 2015. The Board has determined that JAF's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

Joni and Friend's endowment includes both donor-restricted endowment funds established to fund ministry operations and funds designated by the board to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of JAF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the JAF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

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Notes to Combined Financial Statements

December 31, 2016 and 2015

9. ENDOWMENTS, continued:

In accordance with SPMIFA, JAF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of JAF and the specific donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of JAF
- The investment policies of JAF

The following table presents the endowment composition and net asset classifications as of December 31, 2016.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	\$ -	\$ 752,787	\$ 1,326,909	\$ 2,079,696
Board designated endowment	953,165	-	-	953,165
	\$ 953,165	\$ 752,787	\$ 1,326,909	\$ 3,032,861

Endowment composition and net asset classifications as of December 31, 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	\$ (43,069)	\$ 909,401	\$ 1,326,909	\$ 2,193,241
Board designated endowment	2,476,469	-	-	2,476,469
	\$ 2,433,400	\$ 909,401	\$ 1,326,909	\$ 4,669,710

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Notes to Combined Financial Statements

December 31, 2016 and 2015

9. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,433,400	\$ 909,401	\$ 1,326,909	\$ 4,669,710
Investment return:				
Investment income	-	-	-	-
Net losses (realized and unrealized)	(1,480,235)	(156,614)	-	(1,636,849)
Total investment return	(1,480,235)	(156,614)	-	(1,636,849)
Endowment net assets, end of year	\$ 953,165	\$ 752,787	\$ 1,326,909	\$ 3,032,861

Changes in Endowment Net Assets for the Fiscal Year December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (42,908)	\$ 61,441	\$ 894,145	\$ 912,678
Investment return:				
Investment income				
Net gains (losses) (realized and unrealized)	-	-	-	-
	(60,082)	650,646	-	590,564
Total investment return	(60,082)	650,646	-	590,564
Contributions	2,536,551	197,314	432,764	3,166,629
Other	(161)	-	-	(161)
Endowment net assets, end of year	\$ 2,433,400	\$ 909,401	\$ 1,326,909	\$ 4,669,710

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

9. ENDOWMENTS, continued:

RETURN OBJECTIVES AND RISK PARAMETERS

JAF, through the Foundation, has adopted investment and spending policies for donor-restricted endowment assets that attempt to provide funding for long-term needs in accordance with the Joni and Friends Foundation Investment Policy. Under these policies, the endowment assets are invested in a manner consistent with Christian principles and values, and consistent with the convictions of Joni and Friends. The primary goal is cash preservation, and the secondary goal is to achieve intermediate and long-term investment goals. The board's strategy is to minimize risk in the financial performance of the endowment fund.

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires JAF to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016 and 2015.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, JAF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). JAF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

10. CONTRIBUTED AIRTIME, WHEELCHAIRS, SERVICES, AND MATERIALS:

The combined financial statements give monetary recognition to contributions of radio time received from various radio stations across the country. As of December 31, 2016 and 2015, contributed airtime is valued at \$8.70 for each time the program is broadcast.

The combined financial statements also include the value of used wheelchairs donated to JAF to be refurbished and provided as needed to people and organizations in other countries. During the years ended December 31, 2016 and 2015, wheelchair values were assigned based on the type and condition of each wheelchair.

Contributed services consist of the value of the labor involved in refurbishing the wheelchairs. The contributed materials included in the combined financial statements consist of equipment and supplies donated to JAF.

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

10. CONTRIBUTED AIRTIME, WHEELCHAIRS, SERVICES, AND MATERIALS, continued:

The value of contributed airtime, wheelchairs, services, and materials is:

	December 31,	
	2016	2015
Contributed radio airtime	\$ 5,156,125	\$ 5,275,940
Contributed wheelchairs	4,658,043	4,377,652
Contributed services	4,294,965	4,268,113
Contributed materials	48,565	32,538
	<u>\$ 14,157,698</u>	<u>\$ 13,954,243</u>

The above airtime, wheelchairs, service, and materials expenses are included in program services on the combined statements of activities. The revenue is shown as contributed airtime, wheelchairs, services, and materials on the combined statements of activities.

11. RETIREMENT PLAN:

JAF has a 403(b) Employee Savings Plan, covering substantially all employees over 18 years of age effective upon employment. After three years of employment, employees receive up to a maximum 5% salary increase, which can be used as additional compensation or as a contribution to their 403(b) Employee Savings Plan account. Employees were able to make a maximum tax-deferred contribution of \$18,000 for the year ended December 31, 2016. For the years ended December 31, 2016 and 2015, JAF made contributions in the amount of \$230,329 and \$223,454, respectively.

12. LEASES:

JAF has entered into various noncancelable operating lease agreements for office space, storage, and equipment use. The office space leases have cumulative monthly payments of \$37,756 and the storage and equipment leases have cumulative monthly payments of \$21,236. The leases expire at various times through 2021. The future minimum payments are:

<u>Year Ending December 31,</u>	
2017	\$ 417,418
2018	245,632
2019	186,212
2020	74,111
2021	14,936
	<u>\$ 938,309</u>

JONI AND FRIENDS

Notes to Combined Financial Statements

December 31, 2016 and 2015

12. LEASES, continued:

Lease expense under cancelable and noncancelable lease agreements for the years ended December 31, 2016 and 2015, was \$512,046 and \$403,573, respectively.

13. RELATED PARTY TRANSACTIONS:

JAF has an investment account with a brokerage firm whose president is a board member. For the years ended December 31, 2016 and 2015, commissions paid to the brokerage firm were \$5,815 and \$5,832, respectively.

JAF receives gifts for various international charters for which JAF acts as an agent, transferring the funds to the charters on behalf of the donor. During the years ended December 31, 2016 and 2015, \$59,428 and \$30,546 was received on behalf of, and distributed to, the charters, respectively.

14. SUBSEQUENT EVENT:

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY DATA

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA**

Board of Directors
Joni and Friends
Agoura Hills, California

We have audited the combined financial statements of Joni and Friends as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 2, 2017, which expresses an unmodified opinion on those combined financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental statements of combined financial position and combined statements of activities are presented for purposes of additional analysis, rather than to present the combined financial position and combined results of operations of the individual ministries of the Organization, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Capin Crouse LLP

Tarzana, California
May 2, 2017

JONI AND FRIENDS

Combined Supplemental Statement of Financial Position

December 31, 2016

	Joni and Friends	Joni and Friends Foundation	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 10,478,271	\$ 190,939	\$ 10,669,210
Prepaid expenses and other assets	138,855	-	138,855
Land held for sale	-	1,174,700	1,174,700
Inventory-wheelchairs	2,859,934	-	2,859,934
Inventory-books and materials	127,882	-	127,882
	13,604,942	1,365,639	14,970,581
Cash reserved for endowment	-	17,607	17,607
Endowment investments	-	3,015,254	3,015,254
Land, building, and equipment - at cost, net	10,983,255	-	10,983,255
	-	-	-
Total Assets	\$ 24,588,197	\$ 4,398,500	\$ 28,986,697
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 356,156	\$ 67,489	\$ 423,645
Accrued expenses	757,547	-	757,547
Capital lease - current portion	20,475	-	20,475
	1,134,178	67,489	1,201,667
Capital lease - non-current portion	17,737	-	17,737
	1,151,915	-	1,219,404
Net assets:			
Unrestricted	15,642,212	2,312,916	17,955,128
Temporarily restricted	7,794,070	691,186	8,485,256
Permanently restricted	-	1,326,909	1,326,909
	23,436,282	4,331,011	27,767,293
Total Liabilities and Net Assets	\$ 24,588,197	\$ 4,398,500	\$ 28,986,697

JONI AND FRIENDS

Combined Supplemental Statement of Financial Position

December 31, 2015

	Joni and Friends	Joni and Friends Foundation	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 10,176,949	\$ 79,534	\$ 10,256,483
Prepaid expenses and other assets	124,299	128,023	252,322
Land held for sale	-	-	-
Inventory-wheelchairs	2,721,736	-	2,721,736
Inventory-books and materials	103,691	-	103,691
	13,126,675	207,557	13,334,232
Cash reserved for endowment	-	17,607	17,607
Television production costs - at cost, net	16,381	-	16,381
Endowment investments	-	4,652,103	4,652,103
Land, building, and equipment - at cost, net	11,333,613	-	11,333,613
	11,333,613	-	11,333,613
Total Assets	\$ 24,476,669	\$ 4,877,267	\$ 29,353,936
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 351,098	\$ 32,881	\$ 383,979
Accrued expenses	615,711	-	615,711
Capital lease - current portion	17,986	-	17,986
	984,795	32,881	1,017,676
Capital lease - non-current portion	27,503	-	27,503
	1,012,298	-	1,045,179
Net assets:			
Unrestricted	16,855,487	2,608,076	19,463,563
Temporarily restricted	6,608,884	909,401	7,518,285
Permanently restricted	-	1,326,909	1,326,909
	23,464,371	4,844,386	28,308,757
Total Liabilities and Net Assets	\$ 24,476,669	\$ 4,877,267	\$ 29,353,936

JONI AND FRIENDS

Combined Supplemental Statement of Activities

Year Ended December 31, 2016

	Joni and Friends	Joni and Friends Foundation	Eliminations	Total
SUPPORT AND REVENUE:				
Contributions	\$ 17,553,894	\$ 1,000	\$ (684,037)	\$ 16,870,857
Contributions - estate	-	588,000	-	588,000
Sales of books and materials	500,542	-	-	500,542
Tuition and registration	2,373,514	-	-	2,373,514
Gift-in-kind land	-	1,174,700	-	1,174,700
Real property income	-	50,000	-	50,000
Royalty partnership income (oil and gas)	-	166,846	-	166,846
Investment and other income	35,442	(1,636,848)	-	(1,601,406)
Contributed airtime, wheelchairs, services and materials	14,157,698	-	-	14,157,698
Total Support and Revenue	34,621,090	343,698	(684,037)	34,280,751
EXPENSES:				
Salaries and benefits	10,286,037	-	-	10,286,037
Gifts-in-kind	14,101,315	-	-	14,101,315
Depreciation and amortization	543,987	-	-	543,987
Rent	345,633	-	-	345,633
Consultants and honorarium	732,602	750	-	733,352
Grant expense	225	801,314	(684,037)	117,502
Family retreats facility	1,980,634	-	-	1,980,634
Events, conferences and training	812,801	-	-	812,801
Travel	1,182,063	-	-	1,182,063
Resource materials	418,652	-	-	418,652
Printing and postage	948,613	-	-	948,613
Production and syndication costs	131,766	-	-	131,766
Shipping	300,356	-	-	300,356
Professional, permit, taxes and fees	585,273	42,556	-	627,829
Insurance	161,363	4,336	-	165,699
Maintenance, repairs and cleaning	56,209	6,713	-	62,922
Utilities	86,407	293	-	86,700
Telephone and internet	128,027	-	-	128,027
Other operational expenses	1,847,216	1,111	-	1,848,327
Total Expenses	34,649,179	857,073	(684,037)	34,822,215
Change in Net Assets	(28,089)	(513,375)	-	(541,464)
Net Assets, Beginning of Year	23,464,471	4,844,386	-	28,308,857
Net Assets, End of Year	\$ 23,436,382	\$ 4,331,011	\$ -	\$ 27,767,393

JONI AND FRIENDS

Combined Supplemental Statement of Activities

Year Ended December 31, 2015

	Joni and Friends	Joni and Friends Foundation	Eliminations	Total
SUPPORT AND REVENUE:				
Contributions	\$ 17,627,064	\$ 432,764	\$ (615,157)	\$ 17,444,671
Sales of books and materials	465,155	-	-	465,155
Tuition and registration	2,491,593	-	-	2,491,593
Grant income	-	1,063,765	(912,678)	151,087
Gift-in-kind royalty partnership (oil and gas)	-	2,536,551	-	2,536,551
Gift-in-kind investment in real property	-	197,314	-	197,314
Real property income	-	201,340	-	201,340
Royalty partnership income (oil and gas)	-	207,341	-	207,341
Investment and other income	44,115	595,785	-	639,900
Contributed airtime, wheelchairs, services and materials	13,954,243	-	-	13,954,243
Total Support and Revenue	34,582,170	5,234,860	(1,527,835)	38,289,195
EXPENSES:				
Salaries and benefits	9,370,484	-	-	9,370,484
Gifts-in-kind	13,607,027	-	-	13,607,027
Depreciation and amortization	552,369	-	-	552,369
Rent	290,477	-	-	290,477
Consultants and honorarium	1,270,333	-	-	1,270,333
Grant expense	1,327,835	-	(1,327,835)	-
Family retreats facility	1,916,319	-	-	1,916,319
Events, conferences and training	1,055,542	-	-	1,055,542
Travel	1,408,065	-	-	1,408,065
Resource materials	506,653	-	-	506,653
Printing and postage	960,158	43	-	960,201
Production and syndication costs	206,692	-	-	206,692
Shipping	297,909	-	-	297,909
Professional, permit, taxes and fees	288,766	22,616	-	311,382
Distributions to JAF and other beneficiary	-	362,754	(200,000)	162,754
Insurance	155,654	1,601	-	157,255
Maintenance, repairs and cleaning	61,260	3,224	-	64,484
Utilities	96,537	236	-	96,773
Telephone and internet	126,862	-	-	126,862
Other operational expenses	1,448,696	-	-	1,448,696
Total Expenses	34,947,638	390,474	(1,527,835)	33,810,277
Change in Net Assets	(365,468)	4,844,386	-	4,478,918
Net Assets, Beginning of Year	23,829,839	-	-	23,829,839
Net Assets, End of Year	\$ 23,464,371	\$ 4,844,386	\$ -	\$ 28,308,757