

JONI AND FRIENDS

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

JONI AND FRIENDS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Joni and Friends
Agoura Hills, California

We have audited the accompanying consolidated financial statements of Joni and Friends, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 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 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 auditor's 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.

Board of Directors
Joni and Friends
Agoura Hills, California

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Joni and Friends as of December 31, 2017 and 2016, 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, 2018

JONI AND FRIENDS

Consolidated Statements of Financial Position

	December 31,	
	2017	2016
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 12,022,740	\$ 10,219,210
Prepaid expenses and other assets	264,783	138,855
Land and condominium held for sale	1,251,100	1,174,700
Inventory—wheelchairs	3,500,931	2,859,934
Inventory—books and materials	121,796	127,882
	17,161,350	14,520,581
Cash reserved for area ministries	450,000	450,000
Cash reserved for endowment	92,607	17,607
Endowment investments	3,126,602	3,015,254
Land, building, and equipment—at cost, net	10,630,866	10,983,255
	14,300,075	14,466,116
Total Assets	\$ 31,461,425	\$ 28,986,697
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 425,911	\$ 423,645
Accrued expenses	1,045,988	757,547
Capital lease—current portion	9,553	20,475
	1,481,452	1,201,667
Capital lease—non-current portion	-	17,737
	1,481,452	1,219,404
Net assets:		
Unrestricted	19,721,788	17,955,128
Temporarily restricted	8,856,276	8,485,256
Permanently restricted	1,401,909	1,326,909
	29,979,973	27,767,293
Total Liabilities and Net Assets	\$ 31,461,425	\$ 28,986,697

See notes to consolidated financial statements

JONI AND FRIENDS

Consolidated Statements of Activities

	Year Ended December 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:								
Contributions	\$ 10,292,145	\$ 9,097,006	\$ 75,000	\$ 19,464,151	\$ 7,677,486	\$ 9,193,371	\$ -	\$ 16,870,857
Contributions—estate	699,303	-	-	699,303	588,000	-	-	588,000
Sales of books and materials	552,716	-	-	552,716	500,542	-	-	500,542
Tuition and registration	2,502,630	-	-	2,502,630	2,373,514	-	-	2,373,514
Gift-in-kind land and condominium	76,400	-	-	76,400	1,174,700	-	-	1,174,700
Donated stock	44,848	-	-	44,848	-	-	-	-
Oil royalty income	438,995	-	-	438,995	50,000	-	-	50,000
Royalty partnership income (oil and gas)	294,234	-	-	294,234	166,846	-	-	166,846
Investment and other income (loss)	204,114	(45,200)	-	158,914	(1,444,793)	(156,613)	-	(1,601,406)
Contributed airtime, wheelchairs, services and materials	15,651,972	-	-	15,651,972	14,157,698	-	-	14,157,698
Net assets released from restrictions:								
Satisfaction of wheelchair ministry and other project restrictions	8,680,786	(8,680,786)	-	-	8,069,787	(8,069,787)	-	-
Total Support, Revenue, and Reclassifications	39,438,143	371,020	75,000	39,884,163	33,313,780	966,971	-	34,280,751

(continued)

See notes to consolidated financial statements

JONI AND FRIENDS

Consolidated Statements of Activities

(continued)

	Year Ended December 31,							
	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services	31,848,090	-	-	31,848,090	29,541,368	-	-	29,541,368
Supporting activities:								
General and administrative	2,352,112	-	-	2,352,112	2,284,809	-	-	2,284,809
Fundraising	3,471,281	-	-	3,471,281	2,996,038	-	-	2,996,038
	5,823,393	-	-	5,823,393	5,280,847	-	-	5,280,847
Total Expenses	37,671,483	-	-	37,671,483	34,822,215	-	-	34,822,215
Change in Net Assets	1,766,660	371,020	75,000	2,212,680	(1,508,435)	966,971	-	(541,464)
Net Assets, Beginning 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
Net Assets, End of Year	\$ 19,721,788	\$ 8,856,276	\$ 1,401,909	\$ 29,979,973	\$ 17,955,128	\$ 8,485,256	\$ 1,326,909	\$ 27,767,293

See notes to consolidated financial statements

JONI AND FRIENDS

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,212,680	\$ (541,464)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	517,701	527,606
Amortization	-	16,381
Unrealized (gain) loss on investments	(94,674)	1,654,729
Net investment income	(16,674)	(17,880)
Gifts-in-kind contributions	(15,651,972)	(14,157,698)
Gifts-in-kind used in operations	15,010,975	14,019,500
Gift-in-kind land and condominium	(76,400)	(1,174,700)
Net change in:		
Prepaid expenses and other assets	(125,928)	113,467
Inventory—books and materials	6,086	(24,191)
Accounts payable	2,266	39,666
Accrued expenses	288,441	141,836
Net Cash Provided by Operating Activities	2,072,501	597,252
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash reserved for area ministries	-	(450,000)
Cash held for endowment	(75,000)	-
Capital expenditures	(165,312)	(177,248)
Net Cash Used in Investing Activities	(240,312)	(627,248)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	(28,659)	(7,277)
Net Cash Used in Financing Activities	(28,659)	(7,277)
Change in Cash and Cash Equivalents	1,803,530	(37,273)
Cash and Cash Equivalents, Beginning of Year	10,219,210	10,256,483
Cash and Cash Equivalents, End of Year	\$ 12,022,740	\$ 10,219,210
SUMMARY OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 12,022,740	\$ 10,219,210
Cash reserved for area ministries	450,000	450,000
Cash reserved for endowment	92,607	17,607
	\$ 12,565,347	\$ 10,686,817

See notes to consolidated financial statements

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATION:

Joni and Friends (JAF or the Organization) 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) and comparable state laws. However, the Organization is subject to federal income tax on any unrelated business taxable income. In addition, the Organization is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

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 area ministry offices located in the United States of America. These offices are controlled by JAF, and consequently, the financial position and results of operations of all offices are included in JAF's consolidated financial statements.

On 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 Foundation through endowment agreements created to ultimately benefit Joni and Friends. Joni and Friends also has a controlling interest in the Foundation as Joni and Friends controls the Foundation's board. As a result, the financial statements of the Foundation have been consolidated with those of Joni and Friends.

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

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Joni and Friends include the financial statements of Joni and Friends and the Joni and Friends Foundation. The consolidated 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 consolidated financial statements. A summary of significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

CASH AND CASH EQUIVALENTS

For the consolidated statements of financial position and consolidated cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. Cash on deposit may, at times, exceed federally insured limits. At December 31, 2017 and 2016, JAF's cash balances exceeded federally insured limits by \$10,832,630 and \$9,651,290, respectively. JAF does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

INVENTORY

Inventory consists of two components: premium supplies and books for sale stated at the lower of cost or net realizable value, 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 AND CONDOMINIUM 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 2018. JAFF also received a condominium valued at \$76,400 which is expected to be sold in 2018.

INVESTMENTS

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

The alternative investments include a 33% interest in oil royalty income and a 28.125% interest in a royalty partnership. These investments are reported at estimated fair value (see note 4).

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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 consolidated 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 consolidated 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, 2017 and 2016, the temporarily restricted amounts consist primarily of the wheelchair ministry projects, area ministries, chapter ministries, 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 Consolidated Financial Statements

December 31, 2017 and 2016

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 consolidated 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, 2017 and 2016.

RECLASSIFICATION

The December 31, 2016, Statement of Financial Position reflects a reclass of \$450,00 from cash and cash equivalents to cash reserved for area ministries to conform the presentation to the December 31, 2017, Statement of Financial Position.

USE OF ESTIMATES

The preparation of consolidated 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.

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

3. ENDOWMENT INVESTMENTS:

Endowment investments consist of:

	December 31,	
	2017	2016
Endowment investments:		
Cash and money markets	\$ 54,437	\$ 52,070
Equity securities	69,753	62,817
Multisector bonds	223,437	206,432
Exchange traded funds	273,930	272,986
Annuities	730,299	679,243
Investment in royalty stream (oil and gas)	1,033,562	955,322
Investment in mineral rights	741,184	786,384
	<u>\$ 3,126,602</u>	<u>\$ 3,015,254</u>

Investment and other income consists of:

	Year Ended December 31,	
	2017	2016
Unrealized gain (loss)	\$ 94,674	\$ (1,654,729)
Realized gain	16,674	17,880
Interest	26,887	31,359
Royalties and other income	20,679	4,084
	<u>\$ 158,914</u>	<u>\$ (1,601,406)</u>

Investment fees were \$6,095 and \$5,815 for the years ended December 31, 2017 and 2016, respectively.

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS:

JAF uses appropriate valuation techniques to determine fair value based on inputs available. Level 1 investments are determined by observable inputs that reflect quoted market prices in active markets. Level 2 inputs are based on (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 3 investments are based on unobservable inputs and 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, 2017, 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:				
Equity securities	\$ 69,753	\$ 69,753	\$ -	\$ -
Multisector bonds	223,437	-	223,437	-
Exchange traded funds	273,930	-	273,930	-
Annuities	730,299	-	730,299	-
Investment in royalty stream (oil and gas)	1,033,562	-	-	1,033,562
Investment in mineral rights	741,184	-	-	741,184
Investment in mineral rights	741,184	-	-	741,184
Endowment investments at fair value	3,072,165	\$ 69,753	\$ 1,227,666	\$ 1,774,746
Investments at other than fair value:				
Cash and money markets	54,437			
Total endowment investments	\$ 3,126,602			

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS, continued:

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:				
Equity securities	\$ 62,817	\$ 62,817	\$ -	\$ -
Multisector bonds	206,432	206,432	-	-
Exchange traded funds	272,986	272,986	-	-
Annuities	679,243	-	679,243	-
Investment in royalty stream (oil and gas)	955,322	-	-	955,322
Real property	786,384	-	-	786,384
Endowment investments at fair value	2,963,184	\$ 542,235	\$ 679,243	\$ 1,741,706
Investments at other than fair value:				
Cash and money markets	52,070			
Total endowment investments	\$ 3,015,254			

The fair value of bonds is based on the present discounted value of likely future cash streams. The fair value for exchange traded funds is determined by reference to quoted prices for investments in public equity markets in the United States.

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 years ended December 31, 2017 and 2016, the fair value for the investment in oil and gas and the investment in mineral rights were 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% plus a depletion rate of 5% for both years. For both years, the valuation was performed by an independent appraisal commissioned by JAFF.

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

5. LAND, BUILDING, AND EQUIPMENT:

Land, building, and equipment consist of:

	December 31,	
	2017	2016
Land	\$ 3,400,000	\$ 3,400,000
Building and improvements	9,073,442	9,057,342
Furniture and equipment	3,084,251	2,935,039
Equipment acquired through capital lease	65,899	65,899
Automobiles	89,341	89,341
	15,712,933	15,547,621
Less accumulated depreciation and amortization	(5,082,067)	(4,564,366)
	10,630,866	10,983,255
Less capital lease secured by equipment	(9,553)	(38,212)
	\$ 10,621,313	\$ 10,945,043

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, 2017 and 2016, was \$0. The line of credit was terminated during the year ended December 31, 2017.

7. CAPITAL LEASE OBLIGATION:

Capital lease obligation related to equipment is as follows:

	December 31,	
	2017	2016
Total capital lease obligation	\$ 9,553	\$ 38,212
Less current portion	(9,553)	(20,475)
	\$ -	\$ 17,737

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

8. NET ASSETS:

Unrestricted net assets consist of:

	December 31,	
	2017	2016
Undesignated	\$ 7,990,763	\$ 6,056,920
Board designated investments for endowment fund (oil and gas)	1,109,712	953,165
Net investment in land, building, and equipment	10,621,313	10,945,043
	<u>\$ 19,721,788</u>	<u>\$ 17,955,128</u>

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2017	2016
Wheels for the World	\$ 7,043,114	\$6,686,951
Chapter ministries	582,695	541,647
Area ministries	450,000	444,172
Christian Fund for the Disabled	67,658	54,477
Unappropriated endowment income	707,587	752,787
Other	5,222	5,222
	<u>\$ 8,856,276</u>	<u>\$8,485,256</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 \$1,401,909 and \$1,326,909 for years ended December 31, 2017 and 2016, respectively.

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Notes to Consolidated Financial Statements

December 31, 2017 and 2016

9. ENDOWMENTS:

In August 2008, the Financial Accounting Standards Board issued a FASB Staff Position (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*. In the Staff Position, FASB 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). Also required are 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.

Joni and Friends has adopted the net asset classification provisions of for the years ending December 31, 2017 and 2016. The board has determined that Joni and Friend'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 Joni and Friends 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 Consolidated Financial Statements

December 31, 2017 and 2016

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, 2017.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	\$ -	\$ 707,587	\$ 1,401,909	\$ 2,109,496
Board designated endowment	1,109,712	-	-	1,109,712
	\$ 1,109,712	\$ 707,587	\$ 1,401,909	\$ 3,219,208

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

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

9. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 953,165	\$ 752,787	\$ 1,326,909	\$ 3,032,861
Investment return:				
Investment income	-	-	-	-
Net gains (losses) (realized and unrealized)	156,547	(45,200)	-	111,347
	156,547	(45,200)	-	111,347
Contributions	-	-	75,000	75,000
Endowment net assets, end of year	\$ 1,109,712	\$ 707,587	\$ 1,401,909	\$ 3,219,208

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)
	(1,480,235)	(156,614)	-	(1,636,849)
Endowment net assets, end of year	\$ 953,165	\$ 752,787	\$ 1,326,909	\$ 3,032,861

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016.

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 consolidated financial statements give monetary recognition to contributions of radio time received from various radio stations across the country. As of December 31, 2017 and 2016, contributed airtime is valued at \$8.80 and \$8.70, respectively, for each time the program is broadcast.

The consolidated 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, 2017 and 2016, 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 consolidated financial statements consist of equipment and supplies donated to JAF.

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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

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

	Year Ended December 31,	
	2017	2016
Contributed radio airtime	\$ 5,252,949	\$ 5,156,125
Contributed wheelchairs	5,077,979	4,658,043
Contributed services	5,291,564	4,294,965
Contributed materials	29,480	48,565
	\$ 15,651,972	\$ 14,157,698

The above airtime, wheelchairs, service, and materials expenses are included in program services on the consolidated statements of activities. The revenue is shown as contributed airtime, wheelchairs, services, and materials on the consolidated 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, 2017. For the years ended December 31, 2017 and 2016, JAF made contributions in the amount of \$223,454 and \$230,329 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 \$31,770 and the storage and equipment leases have cumulative monthly payments of \$8,036. The leases expire at various times through 2023. The future minimum payments are:

<u>Year Ending December 31,</u>	
2018	\$ 318,514
2019	223,485
2020	119,416
2021	57,740
2022	2,016
Thereafter	168
	\$ 721,339

JONI AND FRIENDS

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

12. LEASES, continued:

Lease expense under cancelable and noncancelable lease agreements for the years ended December 31, 2017 and 2016, was \$460,877 and \$512,046, respectively.

13. RELATED PARTY TRANSACTIONS:

JAF has an investment account with a brokerage firm whose president is a spouse of a board member. For the years ended December 31, 2017 and 2016, commissions paid to the brokerage firm were \$6,095 and \$5,815 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, 2017 and 2016, \$0 and \$59,428, respectively, was received on behalf of, and distributed to, the charters, respectively.

14. SUBSEQUENT EVENT:

Subsequent to year-end, JAF purchased a building next to the existing Disability Center for \$10,300,00 through cash payments and acquisition of debt. The debt acquired to finance the building equals \$6,100,000 and is secured by a deed of trust, assignment of rents and a security agreement covering certain real property. Monthly payments are \$31,153, payable over 25 years. The initial interest rate is fixed at 3.74% during the first three years. From March 1, 2020, and thereafter the interest rate will be the greater of 2.50% per annum or the bank prime rate minus 1%.

Subsequent events were evaluated through May 2, 2018, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY DATA

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA**

Board of Directors
Joni and Friends
Agoura Hills, California

We have audited the consolidated financial statements of Joni and Friends as of and for the years ended December 31, 2017 and 2016, and our report thereon dated May 2, 2018, which expresses an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis, rather than to present the consolidated financial position and consolidated results of operations of the individual ministries of Joni and Friends, and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Capin Crouse LLP

Tarzana, California
May 2, 2018

JONI AND FRIENDS

Consolidating Statement of Financial Position

December 31, 2017

	<u>Joni and Friends</u>	<u>Joni and Friends Foundation</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 11,214,238	\$ 808,502	\$ 12,022,740
Prepaid expenses and other assets	160,127	104,656	264,783
Land and condominium held for sale	-	1,251,100	1,251,100
Inventory–wheelchairs	3,500,931	-	3,500,931
Inventory–books and materials	121,796	-	121,796
	<u>14,997,092</u>	<u>2,164,258</u>	<u>17,161,350</u>
Cash reserved for area ministries	450,000	-	450,000
Cash reserved for endowment	-	92,607	92,607
Endowment investments	-	3,126,602	3,126,602
Land, building, and equipment–at cost, net	10,630,866	-	10,630,866
	<u>26,077,958</u>	<u>5,383,467</u>	<u>31,461,425</u>
Total Assets	\$ 26,077,958	\$ 5,383,467	\$ 31,461,425
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 391,026	\$ 34,885	\$ 425,911
Accrued expenses	1,045,988	-	1,045,988
Capital lease–current portion	9,553	-	9,553
	<u>1,446,567</u>	<u>34,885</u>	<u>1,481,452</u>
Net assets:			
Unrestricted	16,421,101	3,300,687	19,721,788
Temporarily restricted	8,210,290	645,986	8,856,276
Permanently restricted	-	1,401,909	1,401,909
	<u>24,631,391</u>	<u>5,348,582</u>	<u>29,979,973</u>
Total Liabilities and Net Assets	\$ 26,077,958	\$ 5,383,467	\$ 31,461,425

JONI AND FRIENDS

Consolidating Statement of Financial Position

December 31, 2016

	Joni and Friends	Joni and Friends Foundation	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 10,028,271	\$ 190,939	\$ 10,219,210
Prepaid expenses and other assets	138,855	-	138,855
Land and condominium 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
	13,154,942	1,365,639	14,520,581
Cash reserved for area ministries	450,000	-	450,000
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
	13,154,942	1,365,639	14,520,581
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	67,489	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

Consolidating Statement of Activities

Year Ended December 31, 2017

	Joni and Friends	Joni and Friends Foundation	Eliminations	Total
SUPPORT AND REVENUE:				
Contributions	\$ 20,069,311	\$ 79,991	\$ (685,151)	\$ 19,464,151
Contributions-estate	-	699,303	-	699,303
Sales of books and materials	552,716	-	-	552,716
Tuition and registration	2,502,630	-	-	2,502,630
Gift-in-kind land and condominium	-	76,400	-	76,400
Donated stock	-	44,848	-	44,848
Oil royalty income	-	438,995	-	438,995
Royalty partnership income (oil and gas)	-	294,234	-	294,234
Investment and other income	47,567	111,347	-	158,914
Contributed airtime, wheelchairs, services and materials	15,651,972	-	-	15,651,972
Total Support and Revenue	38,824,196	1,745,118	(685,151)	39,884,163
EXPENSES:				
Salaries and benefits	11,170,439	-	-	11,170,439
Gifts-in-kind	15,143,096	-	-	15,143,096
Depreciation and amortization	517,701	-	-	517,701
Rent	346,130	-	-	346,130
Consultants and honorarium	786,843	3,860	-	790,703
Grant expense	-	685,151	(685,151)	-
Family retreats facility	2,028,723	-	-	2,028,723
Events, conferences and training	1,121,265	-	-	1,121,265
Travel	1,404,245	-	-	1,404,245
Resource materials	261,798	-	-	261,798
Printing and postage	1,145,943	-	-	1,145,943
Production and syndication costs	147,304	-	-	147,304
Shipping	298,760	-	-	298,760
Professional, permit, taxes and fees	531,153	34,200	-	565,353
Insurance	163,223	4,336	-	167,559
Maintenance, repairs and cleaning	73,734	-	-	73,734
Utilities	101,378	-	-	101,378
Telephone and internet	138,522	-	-	138,522
Other operational expenses	2,248,930	-	-	2,248,930
Total Expenses	37,629,187	727,547	(685,151)	37,671,583
Change in Net Assets	1,195,009	1,017,571	-	2,212,580
Net Assets, Beginning of Year	23,436,382	4,331,011	-	27,767,393
Net Assets, End of Year	\$ 24,631,391	\$ 5,348,582	\$ -	\$ 29,979,973

JONI AND FRIENDS

Consolidating 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 and condominium	-	1,174,700	-	1,174,700
Gift-in-kind royalty partnership (oil and gas)	-	-	-	-
Gift-in-kind investment in real property	-	-	-	-
Oil royalty 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
Distributions to JAF and other beneficiary	-	-	-	-
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