

# JONI AND FRIENDS

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2018 and 2017

# JONI AND FRIENDS

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Consolidated Statement of Functional Expenses	7
Notes to Consolidated Financial Statements	8
Supplementary Data	
Independent Auditors' Report on Supplementary Data	26
Consolidating Statements of Financial Position	27
Consolidating Statements of Activities	29

## 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, 2018 and 2017, and the related consolidated statements of activities, functional expenses 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, 2018 and 2017, 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.

***Emphasis of Matter***

Joni and Friends has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in note 2. This has had a material effect on the presentation of the December 31, 2018 and 2017, financial statements. Our opinion is not modified with respect to this matter.

*Capin Crouse LLP*

Tarzana, California  
May 9, 2019

# JONI AND FRIENDS

## Consolidated Statements of Financial Position

	December 31,	
	2018	2017
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 8,561,872	\$ 12,022,740
Prepaid expenses and other assets	373,123	264,783
Land and condominium held for sale	1,174,700	1,251,100
Inventory—wheelchairs	3,462,354	3,500,931
Inventory—books and materials	134,976	121,796
	13,707,025	17,161,350
Non-current assets:		
Cash reserved for area ministries	450,000	450,000
Cash reserved for endowment	117,607	92,607
Endowment investments	4,411,323	3,126,602
Intellectual property, net of amortization	511,944	-
Land, building, and equipment—at cost, net	20,700,138	10,630,866
	26,191,012	14,300,075
<b>Total Assets</b>	<b>\$ 39,898,037</b>	<b>\$ 31,461,425</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Current liabilities:		
Accounts payable	\$ 838,621	\$ 425,911
Accrued expenses	1,159,944	1,045,988
Capital lease—current portion	-	9,553
Long-term debt - current portion	310,688	-
	2,309,253	1,481,452
Long-term debt - net of current portion	6,019,197	-
	8,328,450	1,481,452
Net assets:		
Net assets without donor restrictions	20,312,567	19,721,788
Net assets with donor restrictions	11,257,020	10,258,185
	31,569,587	29,979,973
<b>Total Liabilities and Net Assets</b>	<b>\$ 39,898,037</b>	<b>\$ 31,461,425</b>

See notes to consolidated financial statements

# JONI AND FRIENDS

## Consolidated Statements of Activities

	Year Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Contributions	\$ 10,436,590	\$ 10,357,547	\$ 20,794,137	\$ 10,292,145	\$ 9,172,006	\$ 19,464,151
Contributions—estate	-	-	-	699,303	-	699,303
Sales of books and materials	489,739	-	489,739	552,716	-	552,716
Tuition and registration	2,622,744	-	2,622,744	2,502,630	-	2,502,630
Gift-in-kind land and condominium	-	-	-	76,400	-	76,400
Donated stock	291,638	-	291,638	44,848	-	44,848
Oil royalty income	612,672	-	612,672	438,995	-	438,995
Royalty partnership income (oil and gas)	281,402	-	281,402	294,234	-	294,234
Investment income (loss)	968,806	840,780	1,809,586	204,114	(45,200)	158,914
Other income	23,710	-	23,710	-	-	-
Contributed airtime, wheelchairs, services and materials	17,335,295	-	17,335,295	15,651,972	-	15,651,972
Net assets released from restrictions:						
Satisfaction of wheelchair ministry and other project restrictions	10,199,492	(10,199,492)	-	8,680,786	(8,680,786)	-
<b>Total Support, Revenue, and Reclassifications</b>	<b>43,262,088</b>	<b>998,835</b>	<b>44,260,923</b>	<b>39,438,143</b>	<b>446,020</b>	<b>39,884,163</b>

(continued)

See notes to consolidated financial statements

# JONI AND FRIENDS

## Consolidated Statements of Activities

(continued)

	Year Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES:						
Program services	35,676,483	-	35,676,483	31,848,090	-	31,848,090
Supporting activities:						
General and administrative	3,241,953	-	3,241,953	2,352,112	-	2,352,112
Fundraising	3,752,873	-	3,752,873	3,471,281	-	3,471,281
	6,994,826	-	6,994,826	5,823,393	-	5,823,393
Total Expenses	42,671,309	-	42,671,309	37,671,483	-	37,671,483
Change in Net Assets	590,779	998,835	1,589,614	1,766,660	446,020	2,212,680
Net Assets, Beginning of Year	19,721,788	10,258,185	29,979,973	17,955,128	9,812,165	27,767,293
Net Assets, End of Year	\$ 20,312,567	\$ 11,257,020	\$ 31,569,587	\$ 19,721,788	\$ 10,258,185	\$ 29,979,973

See notes to consolidated financial statements

# JONI AND FRIENDS

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,589,614	\$ 2,212,680
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	834,224	517,701
Amortization	4,163	-
Gain on sale of condominium	(23,500)	-
Unrealized gain on investments	(1,261,617)	(94,674)
Net investment income	(23,104)	(16,674)
Gifts-in-kind contributions	(17,335,295)	(15,651,972)
Gifts-in-kind used in operations	17,373,872	15,010,975
Gift-in-kind land and condominium	-	(76,400)
Net change in:		
Prepaid expenses and other assets	(108,340)	(125,928)
Inventory—books and materials	(13,180)	6,086
Accounts payable	412,710	2,266
Accrued expenses	113,956	288,441
Net Cash Provided by Operating Activities	1,563,503	2,072,501
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of condominium	99,900	-
Purchase of intellectual property	(150,000)	-
Capital expenditures	(4,803,496)	(165,312)
Net Cash Used in Investing Activities	(4,853,596)	(165,312)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease	(9,553)	(28,659)
Payments on long-term debt	(109,642)	-
Cash paid for loan fees	(26,580)	-
Net Cash Used in Financing Activities	(145,775)	(28,659)
Change in Cash and Cash Equivalents	(3,435,868)	1,878,530
Cash and Cash Equivalents, Beginning of Year	12,565,347	10,686,817
Cash and Cash Equivalents, End of Year	\$ 9,129,479	\$ 12,565,347

(continued)

See notes to consolidated financial statements



# JONI AND FRIENDS

## Consolidated Statements of Cash Flows

(continued)

	Year Ended December 31,	
	2018	2017
SUMMARY OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 8,561,872	\$ 12,022,740
Cash reserved for area ministries	450,000	450,000
Cash reserved for endowment	117,607	92,607
	<u>\$ 9,129,479</u>	<u>\$ 12,565,347</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	<u>\$ 173,268</u>	<u>\$ -</u>
Assets acquired with debt	<u>\$ 6,100,000</u>	<u>\$ -</u>
Intellectual property acquired with debt	<u>\$ 365,000</u>	<u>\$ -</u>
Fixed assets fully depreciated at disposal	<u>\$ 2,837,452</u>	<u>\$ -</u>

See notes to consolidated financial statements

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017

### 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, 2018 and 2017, JAF's cash balances exceeded federally insured limits by \$6,098,094 and \$10,832,630, respectively.

#### 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 during the year ending December 31, 2019. JAFF also received a condominium valued at \$76,400, which was sold in the year ended December 31, 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, 2018 and 2017

### 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:

*Net assets without donor restrictions* 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.

*Net assets with donor restrictions* are stipulated by donors for specific operating purposes or for long-term projects. As of December 31, 2018 and 2017, the net assets with donor restrictions consist primarily of the wheelchair ministry projects, area ministries, chapter ministries, investment in real property, 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, and unappropriated endowment income.

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 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 being with donor restrictions 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 net assets with donor restrictions 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 (note 11).

#### 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, 2018 and 2017.

#### 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, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### RECENTLY ADOPTED ACCOUNTING PRINCIPLES

In 2016 the Financial Accounting Standards Board (FASB) released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 enhances not-for-profit financial reporting by requiring entities to present two net asset classes (net assets with donor restrictions and net assets without donor restrictions) rather than three net asset classes (unrestricted, temporarily restricted, and permanently restricted), expands guidance on the reporting of all endowment funds, requires an analysis of expenses by function and nature to be presented in one location in the financial statements and requires entities to qualitatively describe information that is useful in assessing the liquidity of resources or the maturity of assets and liabilities among other requirements. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early application of the amendments permitted. The Organization adopted the ASU during the year ended December 31, 2018, and the financial statements and disclosures reflect these updates.

### 3. LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position.

#### Financial assets:

Cash and cash equivalents	\$ 8,561,872
Cash reserved for area ministries	450,000
Cash reserved for endowment	117,607
Endowment investments	4,411,323
Financial Assets, at year-end	<u>13,540,802</u>

#### Less those not available for general expenditure within one year:

Cash reserved for area ministries	(450,000)
Board designated investments for endowment funds	(1,615,255)
Donor restricted net assets	(11,257,020)
Minimum liquid asset balance required under debt agreement	(5,000,000)
Financial assets not available for general expenditure within one year	<u>(18,322,275)</u>

Financial assets available for general expenditure within one year \$ (4,781,473)

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

4. ENDOWMENT INVESTMENTS:

Endowment investments consist of:

	December 31,	
	2018	2017
Endowment investments:		
Cash and money markets	\$ 10,862	\$ 54,437
Mutual funds	198,062	69,753
Multisector bonds	-	223,437
Exchange traded funds	391,204	273,930
Annuities	745,032	730,299
Investment in royalty stream (oil and gas)	1,484,199	1,033,562
Investment in real property	1,581,964	741,184
	\$ 4,411,323	\$ 3,126,602

Investment and other income consists of:

	Year Ended December 31,	
	2018	2017
Unrealized gain (loss)	\$ 1,261,617	\$ 94,674
Rent	498,280	-
Realized gain	-	16,674
Interest and dividends	31,370	26,887
Royalties and other income	18,319	20,679
	\$ 1,809,586	\$ 158,914

Investment fees were \$6,217 and \$6,095 for the years ended December 31, 2018 and 2017, respectively.

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

5. 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, 2018, are as follows:

	Total	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:				
Mutual funds	\$ 198,062	\$ 198,062	\$ -	\$ -
Exchange traded funds	391,204	-	391,204	-
Annuities	745,032	-	745,032	-
Investment in royalty stream (oil and gas)	1,484,199	-	-	1,484,199
Real property	1,581,964	-	-	1,581,964
Endowment investments at fair value	4,400,461	\$ 198,062	\$ 1,136,236	\$ 3,066,163
Investments at other than fair value:				
Cash and money markets	10,862			
Total endowment investments	\$ 4,411,323			



# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

5. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis on December 31, 2017, are as follows:

	Total	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:				
Mutual funds	\$ 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
Real property	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			

The fair value of bonds is based on the present discounted value of likely future cash streams. The fair value for mutual funds and 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, 2018 and 2017, the fair value for the investment in oil and gas and the investment in real property 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% minus 2% terminal growth rate 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, 2018 and 2017

5. FAIR VALUE MEASUREMENTS, continued:

The following table sets forth a reconciliation of beginning and ending balances for financial instruments designated as Level 3:

	Investment in Royalty Stream	Real Property	Total
Balance, December 31, 2016	\$ 955,322	\$ 786,384	\$ 1,741,706
Unrealized gain (loss)	78,240	(45,200)	33,040
Balance, December 31, 2017	1,033,562	741,184	1,774,746
Unrealized gain	450,637	840,780	1,291,417
Balance, December 31, 2018	\$ 1,484,199	\$ 1,581,964	\$ 3,066,163

6. LAND, BUILDING, AND EQUIPMENT:

Land, building, and equipment consist of:

	December 31,	
	2018	2017
Land	\$ 4,224,000	\$ 3,400,000
Building and improvements	19,039,549	9,073,442
Furniture and equipment	1,499,459	3,084,251
Equipment acquired through capital lease	-	65,899
Automobiles	-	89,341
	24,763,008	15,712,933
Less accumulated depreciation and amortization	(4,062,870)	(5,082,067)
	20,700,138	10,630,866
Less property and capital lease secured by assets	(5,990,358)	(9,553)
Plus unamortized loan fees	25,473	-
	\$ 14,735,253	\$ 10,621,313

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

7. LONG-TERM DEBT:

Long-term debt consists of:

	December 31,	
	2018	2017
Note payable to a bank, secured by real property, bearing interest at an initial rate of 3.74% through February 29, 2020, at which time the rate resets to the greater of 2.5% or the bank's prime rate minus 1.0%. Monthly principal and interest payments equal to \$31,513 through March 1, 2020, at which time the required monthly payment will be equal to the remaining principal balance divided by 300, plus interest. Balance is due March 1, 2023.	\$ 5,990,358	\$ -
Unsecured non-interest bearing note payable to founder. Interest imputed at 3.77%. Principal and interest payments of \$100,000 paid annually, due 2022.	365,000	-
Less current portion	(310,688)	-
Less prepaid loan costs, net of amortization	(25,473)	-
	\$ 6,019,197	\$ -

The future minimum payments are:

<u>Year Ending December 31,</u>	
2019	\$ 310,688
2020	308,629
2021	305,246
2022	302,390
2023	5,128,405
	\$ 6,355,358

### LOAN COVENANTS

In conjunction with the loan, JAF is required to comply with certain financial and reporting covenants, including maintaining liquid assets of not less than \$5,000,000 which is to be deposited in an account with the bank. As of December 31, 2018, JAF was in compliance with, or had received waivers for the covenants.

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

8. NET ASSETS:

Net assets without donor restrictions consists of:

	December 31,	
	2018	2017
Undesignated	\$ (1,037,941)	\$ 7,990,763
Board designated investments for endowment fund	1,615,255	1,171,314
Minimum liquid assets required under loan agreement	5,000,000	-
Net investment in land, building, and equipment	14,735,253	10,621,313
	<u>\$ 20,312,567</u>	<u>\$ 19,783,390</u>

Net assets with donor restrictions are available for the following purposes:

	December 31,	
	2018	2017
Wheels for the World	\$ 7,231,551	\$ 7,043,114
Area ministries	982,695	1,032,695
Christian Fund for the Disabled	67,658	67,658
Unappropriated endowment income	1,289,452	448,672
Donor restricted funds held in perpetuity	1,426,909	1,401,909
Other	258,755	264,137
	<u>\$ 11,257,020</u>	<u>\$ 10,258,185</u>

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017. The board has determined that certain of Joni and Friend's net assets with donor restrictions 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, JAF classifies as net assets with donor restrictions (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 are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, 2018.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment	\$ -	\$ 2,913,675	\$ 2,913,675
Board designated endowment	<u>1,615,255</u>	<u>-</u>	<u>1,615,255</u>
	<u>\$ 1,615,255</u>	<u>\$ 2,913,675</u>	<u>\$ 4,528,930</u>

Endowment composition and net asset classifications as of December 31, 2017.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment	\$ -	\$ 2,047,895	\$ 2,047,895
Board designated endowment	<u>1,171,314</u>	<u>-</u>	<u>1,171,314</u>
	<u>\$ 1,171,314</u>	<u>\$ 2,047,895</u>	<u>\$ 3,219,209</u>

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

9. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,171,314	\$ 2,047,895	\$ 3,219,209
Investment return:			
Net gains (losses)			
(realized and unrealized)	443,941	840,780	1,284,721
	443,941	840,780	1,284,721
Contributions	-	25,000	25,000
Endowment net assets, end of year	\$ 1,615,255	\$ 2,913,675	\$ 4,528,930

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,014,767	\$ 2,018,095	\$ 3,032,862
Investment return:			
Investment income	-	-	-
Net 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	\$ 1,171,314	\$ 2,047,895	\$ 3,219,209

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017.

### 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, 2018 and 2017, contributed airtime is valued at \$8.80 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, 2018 and 2017, 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, 2018 and 2017

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

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

	Year Ended December 31,	
	2018	2017
Contributed radio airtime	\$ 5,517,794	\$ 5,252,949
Contributed wheelchairs	5,276,363	5,077,979
Contributed services	6,428,705	5,291,564
Contributed materials	112,433	29,480
	\$ 17,335,295	\$ 15,651,972

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. FUNCTIONAL ALLOCATION OF EXPENSES:

The information below presents expenses by both their nature and their function:

	Year ended December 31, 2018,			
	Program Services	General and Administrative	Fundraising	Total
Gifts-in-kind	\$ 17,578,680	\$ -	\$ -	\$ 17,578,680
Personnel costs	9,045,610	1,589,094	1,589,094	12,223,798
Family retreat facility	2,163,477	-	-	2,163,477
Banquets and reception	774,817	-	-	774,817
Travel	1,463,312	13,435	52,453	1,529,200
Depreciation	667,379	166,845	-	834,224
Consultants	618,800	69,457	169,783	858,040
Postage/freight	465,067	29,652	415,121	909,840
Printing and production	165,127	4,767	450,206	620,100
Licenses, assessments	366,864	12,171	-	379,035
Professional and bank	-	304,207	-	304,207
Office, insurance	1,064,364	126,639	92,423	1,283,426
Other	1,302,986	925,686	983,793	3,212,465
	\$ 35,676,483	\$ 3,241,953	\$ 3,752,873	\$ 42,671,309

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

11. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

The information below presents the natural classification of expenses for the year ended December 31, 2017:

Gifts-in-kind	\$ 15,143,096
Personnel costs	11,170,439
Family retreat facility	2,028,723
Banquets and reception	764,379
Travel	1,778,163
Depreciation	517,701
Consultants	867,208
Postage/freight	718,116
Printing and production	825,487
Licenses, assessments	343,963
Professional and bank	185,132
Office, insurance	1,036,237
Other	2,292,839
	<u><u>\$ 37,671,483</u></u>

12. 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, 2018. For the years ended December 31, 2018 and 2017, JAF made contributions in the amount of \$292,756 and \$223,454 respectively.

# JONI AND FRIENDS

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

13. 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 \$45,912 and the storage and equipment leases have cumulative monthly payments of \$8,174. The leases expire at various times through 2023. The future minimum payments are:

<u>Year Ending December 31,</u>	
2019	\$ 428,349
2020	317,155
2021	143,501
2022	48,005
2023	<u>13,794</u>
	<u>\$ 950,804</u>

Lease expense under cancelable and noncancelable lease agreements for the years ended December 31, 2018 and 2017, was \$516,958 and \$460,877, respectively.

14. 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, 2018 and 2017, commissions paid to the brokerage firm were \$6,217 and \$6,095 respectively.

During the year ended December 31, 2018, JAF acquired certain intellectual property, including literary works, art works, and other intellectual property, from the Organization's founder. JAF paid \$150,000 during the year ended December 31, 2018, and committed to make four annual payments of \$100,000 each commencing in 2019.

During the year ended December 31, 2018, the board of directors, as a group, contributed approximately \$2,100,000 to JAF.

15. SUBSEQUENT EVENT:

Subsequent events were evaluated through May 9, 2019, 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, 2018 and 2017, and our report thereon dated May 9, 2019, 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 9, 2019

# JONI AND FRIENDS

## Consolidating Statement of Financial Position

December 31, 2018

	Joni and Friends	Joni and Friends Foundation	Total
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 8,289,477	\$ 272,395	\$ 8,561,872
Prepaid expenses and other assets	177,891	195,232	373,123
Land and condominium held for sale	-	1,174,700	1,174,700
Inventory–wheelchairs	3,462,354	-	3,462,354
Inventory–books and materials	134,976	-	134,976
	12,064,698	1,642,327	13,707,025
Non-current assets:			
Cash reserved for area ministries	450,000	-	450,000
Cash reserved for endowment	-	117,607	117,607
Endowment investments	-	4,411,323	4,411,323
Intellectual property, net of amortization	511,944	-	511,944
Land, building, and equipment–at cost, net	20,700,138	-	20,700,138
	20,700,138	-	20,700,138
<b>Total Assets</b>	<b>\$ 33,726,780</b>	<b>\$ 6,171,257</b>	<b>\$ 39,898,037</b>
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable	\$ 651,153	\$ 187,468	\$ 838,621
Accrued expenses	1,159,944	-	1,159,944
Long-term debt - current portion	310,688	-	310,688
	2,121,785	187,468	2,309,253
Long-term debt - net of current portion	6,019,197	-	6,019,197
	8,140,982	-	8,328,450
Net assets:			
Net assets without donor restrictions	17,242,453	3,070,114	20,312,567
Net assets with donor restrictions	8,343,345	2,913,675	11,257,020
	25,585,798	5,983,789	31,569,587
<b>Total Liabilities and Net Assets</b>	<b>\$ 33,726,780</b>	<b>\$ 6,171,257</b>	<b>\$ 39,898,037</b>

# 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>
<b>ASSETS:</b>			
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	<u>10,630,866</u>	<u>-</u>	<u>10,630,866</u>
<b>Total Assets</b>	<u><u>\$ 26,077,958</u></u>	<u><u>\$ 5,383,467</u></u>	<u><u>\$ 31,461,425</u></u>
<b>LIABILITIES AND NET ASSETS:</b>			
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:			
Net assets without donor restrictions	16,421,101	3,300,687	19,721,788
Net assets with donor restrictions	8,210,290	2,047,895	10,258,185
	<u>24,631,391</u>	<u>5,348,582</u>	<u>29,979,973</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 26,077,958</u></u>	<u><u>\$ 5,383,467</u></u>	<u><u>\$ 31,461,425</u></u>

# JONI AND FRIENDS

## Consolidating Statement of Activities

Year Ended December 31, 2018

	Joni and Friends	Joni and Friends Foundation	Eliminations	Total
<b>SUPPORT AND REVENUE:</b>				
Contributions	\$ 22,123,353	\$ 54,737	\$ (1,383,953)	\$ 20,794,137
Sales of books and materials	489,739	-	-	489,739
Tuition and registration	2,622,744	-	-	2,622,744
Donated stock	-	291,638	-	291,638
Oil royalty income	-	612,672	-	612,672
Royalty partnership income (oil and gas)	-	281,402	-	281,402
Investment income	524,865	1,284,721	-	1,809,586
Other income	-	23,710	-	23,710
Contributed airtime, wheelchairs, services and materials	17,335,295	-	-	17,335,295
<b>Total Support and Revenue</b>	<b>43,095,996</b>	<b>2,548,880</b>	<b>(1,383,953)</b>	<b>44,260,923</b>
<b>EXPENSES:</b>				
Salaries and benefits	12,223,798	-	-	12,223,798
Gifts-in-kind	17,578,680	-	-	17,578,680
Depreciation and amortization	838,387	-	-	838,387
Rent	410,151	-	-	410,151
Consultants and honorarium	771,743	10,501	-	782,244
Grant expense	-	1,863,873	(1,383,953)	479,920
Family retreats facility	2,163,477	-	-	2,163,477
Events, conferences and training	1,167,122	-	-	1,167,122
Travel	1,342,125	-	-	1,342,125
Resource materials	215,703	-	-	215,703
Printing and postage	1,120,297	-	-	1,120,297
Production and syndication costs	143,411	-	-	143,411
Shipping	316,809	-	-	316,809
Professional, permit, taxes and fees	721,291	29,531	-	750,822
Insurance	146,011	4,371	-	150,382
Interest	173,268	-	-	173,268
Maintenance, repairs and cleaning	31,256	4,984	-	36,240
Utilities	124,517	413	-	124,930
Telephone and internet	137,367	-	-	137,367
Other operational expenses	2,516,176	-	-	2,516,176
<b>Total Expenses</b>	<b>42,141,589</b>	<b>1,913,673</b>	<b>(1,383,953)</b>	<b>42,671,309</b>
Change in Net Assets	954,407	635,207	-	1,589,614
Net Assets, Beginning of Year	24,631,391	5,348,582	-	29,979,973
Net Assets, End of Year	\$ 25,585,798	\$ 5,983,789	\$ -	\$ 31,569,587



# JONI AND FRIENDS

## Consolidating Statement of Activities

Year Ended December 31, 2017

	Joni and Friends	Joni and Friends Foundation	Eliminations	Total
<b>SUPPORT AND REVENUE:</b>				
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
<b>Total Support and Revenue</b>	<b>38,824,196</b>	<b>1,745,118</b>	<b>(685,151)</b>	<b>39,884,163</b>
<b>EXPENSES:</b>				
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
<b>Total Expenses</b>	<b>37,629,187</b>	<b>727,547</b>	<b>(685,151)</b>	<b>37,671,583</b>
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