

PRECEPT MINISTRIES OF REACH OUT, INC.

Chattanooga, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

Years Ended December 31, 2017 and 2016

JOHNSON, HICKEY & MURCHISON, P.C.

Certified Public Accountants
Chattanooga, Tennessee

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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of
Precept Ministries of Reach Out, Inc.**

We have audited the accompanying financial statements of Precept Ministries of Reach Out, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Precept Ministries of Reach Out, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 16 and 17 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Johnson, Wickey & Meucham, P.C.

March 29, 2018
Chattanooga, Tennessee

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,495,192	\$ 3,539,266
Certificates of deposit	1,981,180	2,479,835
Accounts receivable	18,737	13,157
Inventories	190,488	174,406
Investments	311,978	257,863
Other	<u>75,340</u>	<u>159,002</u>
Total current assets	<u>7,072,915</u>	<u>6,623,529</u>
PROPERTY AND EQUIPMENT, at cost		
Less accumulated depreciation	<u>10,361,491</u>	<u>10,330,793</u>
	<u>8,556,405</u>	<u>8,317,843</u>
	<u>1,805,086</u>	<u>2,012,950</u>
OTHER ASSETS		
Cash surrender value of life insurance	<u>-</u>	<u>63,549</u>
	<u>-</u>	<u>63,549</u>
	<u>\$ 8,878,001</u>	<u>\$ 8,700,028</u>

(The accompanying notes are an integral part of these statements.)

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable	\$ 230,059	\$ 265,577
Accrued payroll, withholdings and accruals	74,589	83,859
Deferred revenue	12,000	14,000
Other	<u>34,476</u>	<u>75,054</u>
Total current liabilities	<u>351,124</u>	<u>438,490</u>
NET ASSETS		
Unrestricted	8,510,534	8,116,318
Restricted	<u>16,343</u>	<u>145,220</u>
	<u>8,526,877</u>	<u>8,261,538</u>
	<u>\$ 8,878,001</u>	<u>\$ 8,700,028</u>

(The accompanying notes are an integral part of these statements.)

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SALES	\$ 4,338,315	\$ -	\$ 4,338,315
COST OF SALES	<u>1,067,771</u>	<u>-</u>	<u>1,067,771</u>
Gross profit	3,270,544	-	3,270,544
SUPPORT, OTHER REVENUE AND RECLASSIFICATIONS			
Workshops and conferences	430,246	-	430,246
Contributions	5,981,303	1,863,101	7,844,404
Royalties	144,248	-	144,248
Investment income	39,486	-	39,486
Other	267,051	-	267,051
Net assets released from restriction	<u>1,991,978</u>	<u>(1,991,978)</u>	<u>-</u>
Net sales, support, other revenue, and reclassifications	<u>12,124,856</u>	<u>(128,877)</u>	<u>11,995,979</u>
EXPENSES			
Program services	8,322,443	-	8,322,443
General and administrative	1,865,502	-	1,865,502
Fund-raising	<u>1,542,695</u>	<u>-</u>	<u>1,542,695</u>
	<u>11,730,640</u>	<u>-</u>	<u>11,730,640</u>
INCREASE (DECREASE) IN NET ASSETS	394,216	(128,877)	265,339
NET ASSETS			
Beginning	<u>8,116,318</u>	<u>145,220</u>	<u>8,261,538</u>
Ending	<u>\$ 8,510,534</u>	<u>\$ 16,343</u>	<u>\$ 8,526,877</u>

(The accompanying notes are an integral part of these statements.)

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SALES	\$ 4,440,319	\$ -	\$ 4,440,319
COST OF SALES	<u>1,104,864</u>	<u>-</u>	<u>1,104,864</u>
Gross profit	3,335,455	-	3,335,455
SUPPORT, OTHER REVENUE AND RECLASSIFICATIONS			
Workshops and conferences	527,510	-	527,510
Contributions	6,437,594	972,648	7,410,242
Royalties	163,236	-	163,236
Investment income	36,878	-	36,878
Other	241,469	-	241,469
Net assets released from restriction	<u>845,338</u>	<u>(845,338)</u>	<u>-</u>
Net sales, support, other revenue, and reclassifications	<u>11,587,480</u>	<u>127,310</u>	<u>11,714,790</u>
EXPENSES			
Program services	10,025,991	-	10,025,991
General and administrative	2,123,530	-	2,123,530
Fund-raising	<u>1,485,214</u>	<u>-</u>	<u>1,485,214</u>
	<u>13,634,735</u>	<u>-</u>	<u>13,634,735</u>
INCREASE (DECREASE) IN NET ASSETS	(2,047,255)	127,310	(1,919,945)
NET ASSETS			
Beginning	<u>10,163,573</u>	<u>17,910</u>	<u>10,181,483</u>
Ending	<u>\$ 8,116,318</u>	<u>\$ 145,220</u>	<u>\$ 8,261,538</u>

(The accompanying notes are an integral part of these statements.)

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 265,339	\$ (1,919,945)
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities		
Depreciation	238,562	272,313
Loss on disposal of property and equipment	-	4,930
Investments donated	(279,753)	(467,368)
Loss on investments	493	684
Net (increase) decrease in operating assets		
Accounts receivable	(5,580)	(6,209)
Inventories	(16,082)	27,856
Other	147,211	(73,895)
Net increase (decrease) in operating liabilities		
Accounts payable	(35,518)	(1,005)
Accrued payroll, withholdings and accruals	(9,270)	(3,497)
Deferred revenue	(2,000)	14,000
Other	(40,578)	(68,986)
	<u>262,824</u>	<u>(2,221,122)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(30,698)	(166,512)
Net change in certificates of deposit	498,655	1,971,060
Proceeds from sale of investments	225,145	461,298
	<u>693,102</u>	<u>2,265,846</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	955,926	44,724
Beginning	<u>3,539,266</u>	<u>3,494,542</u>
Ending	<u>\$ 4,495,192</u>	<u>\$ 3,539,266</u>

(The accompanying notes are an integral part of these statements.)

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Organization operates under the name of Precept Ministries International and conducts Bible study conferences and tours, trains individuals to conduct Bible studies, and produces and sells Bible study materials. The Organization grants credit to customers throughout the United States.

Organization

The Organization is a not-for-profit corporation exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Accounting

The financial statements of Precept Ministries of Reach Out, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2017 and 2016, the Organization had no permanently restricted net assets.

Accounts receivable

In connection with the sale of its Bible study materials, the Organization grants credit to individuals, churches, and other organizations only on a limited basis at the discretion of management. Receivables are recorded at sales price when items are shipped. The Organization uses the direct write-off method to determine uncollectible accounts receivable. Individual accounts are written off only when they are determined to be uncollectible.

Property, equipment and depreciation

The Organization capitalizes significant purchases of property and equipment, including computers and related software, which are recorded at cost. Depreciation is provided over the estimated useful lives of individual assets using either the straight-line or an accelerated method. Depreciation expense of \$238,562 and \$272,313 was charged to operations for the years ended December 31, 2017 and 2016, respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Cash equivalents

For purposes of these financial statements, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated assets

Donated property, investments, and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Advertising costs

Advertising costs consist primarily of brochures and other promotional materials, which are expensed as incurred. For the years ended December 31, 2017 and 2016, respectively, advertising costs were \$17,183 and \$31,399.

Uncertain tax positions

The Organization follows the requirements of professional literature in accounting for uncertain tax positions. Under this guidance, an Organization must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination with taxing authorities. The Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for uncertain tax positions. For the year ended December 31, 2017, there were no interest or penalties recorded or included in its financial statements. The federal information returns for the years of 2014 and beyond remain subject to examination.

(2) INVENTORIES

Inventories consist primarily of finished goods, including Precept materials, published books, CDs and DVDs, and other miscellaneous items for resale.

(3) INVESTMENTS

Investments are recorded at fair market value and consist of the following:

	2017	2016
Equities	\$ 304,929	\$ 251,750
Other – annuity trust	7,049	6,113
	\$ 311,978	\$ 257,863

Investment income is as follows:

Interest and dividends	\$ 39,979	\$ 37,562
Realized gains (losses)	(493)	(684)
	\$ 39,486	\$ 36,878

In addition to these investments, approximately 31% of the Organization's cash reserves at December 31, 2017, are maintained in a pooled fund of certificates of deposit at seventeen separate financial institutions. This pooled CD fund is managed by one financial advisory firm.

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(4) FAIR VALUE MEASUREMENTS

Current accounting guidelines establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets and for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2

Inputs to the valuation methodology include (1)quoted prices for similar assets or liabilities in active markets; (2)quoted prices for identical or similar assets or liabilities in inactive markets; (3)inputs other than quoted market prices that are observable for the asset or liability; (4)inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual)term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value:

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below were measured at fair value during the year ended December 31, 2017, using the market approach.

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(4) FAIR VALUE MEASUREMENTS (continued)

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies and assumptions to determine fair value of certain instruments could result in different fair value measurement at the reporting date.

As required by fair value measurement guidelines, at December 31, 2017, the Organization's investment portfolio was classified as follows, based on fair values:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Certificates of deposit	\$ 1,981,180	\$ -	\$ -	\$ 1,981,180
Equities and annuity trust	<u>311,978</u>	<u>-</u>	<u>-</u>	<u>311,978</u>
	<u>\$ 2,293,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,293,158</u>

(5) PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 560,290	\$ 538,786
Buildings and improvements	6,255,763	6,252,702
Data processing equipment and software	880,803	874,670
Audio and video equipment	2,230,686	2,230,686
Furniture and equipment	<u>433,949</u>	<u>433,949</u>
	<u>\$ 10,361,491</u>	<u>\$ 10,330,793</u>

(6) LIABILITY FOR SELF-INSURANCE

The Organization sponsors an employee comprehensive health and life insurance plan. The plan is administered by a third party under the terms of the plan. Included in other current liabilities at December 31, 2017 and 2016, is \$27,427 and \$68,941 respectively, which is management's estimate of unprocessed claims.

Because of inherent uncertainties in estimating health insurance claims, it is at least reasonably possible that the estimate used will change within the near term. However, the maximum unrecorded liability at December 31, 2017 and 2016, based upon the Organization's excess liability policies, is \$35,000 per covered individual, with a maximum aggregate liability of approximately \$1,000,000 and \$919,000, respectively.

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(7) NET ASSETS

Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes. Such contributions are reported as temporarily restricted net assets and are reclassified to unrestricted net assets when the restrictions have been satisfied. Temporarily restricted net assets are available to be used for the following:

	2017	2016
International work	\$ 16,343	\$ 145,220

(8) COMPENSATED ABSENCES

Vacation leave

Employees earn ten days annually after one year of service plus one day a year for each additional year of service, to a maximum of 20 days a year of non-cumulative, compensated vacation which is non-vesting.

Sick leave

Employees earn one day of cumulative, non-vesting sick leave for each month of service. Each full-time employee may accumulate a maximum of 20 days.

The Organization's obligation for these employee benefits is not susceptible to a reasonable estimate and therefore is not reflected in the financial statements.

(9) DEFINED CONTRIBUTION PLAN

The Organization has adopted a 403(b) contribution plan. Employees working 20 hours or more per week may elect to contribute a percentage of their salary on a pre-tax or Roth basis. The Organization matches contributions equal to a dollar for dollar match of the first 5% of deferral contributions. Expenses under the above-described plan totaled \$120,727 and \$154,172 for the years ended December 31, 2017 and 2016, respectively.

(10) PROMOTIONAL AND FUND-RAISING EXPENSES

The Organization produces correspondence and newsletters that are mailed monthly to individuals requesting to receive them. These materials are intended to minister to those receiving them by discussing a topic on a personal level including references to Scripture. Particular financial needs are highlighted that are needed to further the ministry's efforts discussed in the newsletters. In accordance with generally accepted accounting principles, the total cost of producing and mailing these materials is considered fund-raising expense.

Other donor development expense and all expenses associated with stewardship development are also recorded as fund-raising expense.

PRECEPT MINISTRIES OF REACH OUT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(11) CONCENTRATION OF CREDIT RISK

At December 31, 2017, the Organization had cash and cash equivalents on deposit at a financial institution with an uninsured balance of approximately \$950,000.

(12) LIFE ESTATE

During the year ended December 31, 2010, the Organization created a life estate for the benefit of the founding officer of the Organization. Under this agreement, the officer is given the exclusive right to live in, use and enjoy certain residential property located on the grounds of the Organization for the remainder of their life. At that time, the property reverts back to unconditional use of the Organization. Included in property and equipment is \$21,054 net book value related to this residence.

(13) OPERATING RESERVE

Board policy requires that the Organization maintain a specific operating reserve. The mandate is a 90 day supply of cash on hand to meet operating expenses. The amount available is total cash less capital expenditures and restricted cash. For the year ended December 31, 2017, the Organization is in compliance with this policy.

(14) RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 29, 2018, the date which these financial statements were available for issue.

SUPPLEMENTAL DATA

PRECEPT MINISTRIES OF REACH OUT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Development	\$ 17,392	\$ 2,304	\$ 28,355	\$ 48,051
Depreciation	133,901	74,336	30,325	238,562
Event facilities	223,616	-	1,854	225,470
Insurance	-	158,594	-	158,594
International support and start-up	2,049,170	-	-	2,049,170
Miscellaneous	20,989	11,838	93	32,920
Operating and program supplies	469,087	75,966	51,015	596,068
Outside services and professional fees	653,813	191,396	453,314	1,298,523
Postage and shipping	119,014	33,529	144,961	297,504
Printing and reproduction	447,224	-	83,773	530,997
Production cost and air time	60,927	-	-	60,927
Rental fees	24,945	19,427	-	44,372
Repairs, maintenance and repair supplies	77,181	18,657	-	95,838
Salaries and benefits	3,312,493	1,187,504	611,821	5,111,818
Taxes and licenses	4	16,708	7,112	23,824
Telephone	36,784	4,093	6,588	47,465
Utilities	167,123	-	-	167,123
Travel	508,780	71,150	123,484	703,414
	<u>\$ 8,322,443</u>	<u>\$ 1,865,502</u>	<u>\$ 1,542,695</u>	<u>\$ 11,730,640</u>

PRECEPT MINISTRIES OF REACH OUT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Development	\$ 46,215	\$ 1,799	\$ 3,429	\$ 51,443
Depreciation	175,576	90,034	6,703	272,313
Event facilities	234,282	-	1,014	235,296
Insurance	-	158,348	-	158,348
International support and start-up	2,289,278	-	-	2,289,278
Miscellaneous	28,627	12,610	12,675	53,912
Operating and program supplies	288,127	39,187	58,091	385,405
Outside services and professional fees	1,249,115	181,583	443,675	1,874,373
Postage and shipping	193,791	319	134,351	328,461
Printing and reproduction	397,708	7,308	163,188	568,204
Production cost and air time	91,346	-	-	91,346
Rental fees	25,332	16,618	-	41,950
Repairs, maintenance and repair supplies	157,018	7,404	-	164,422
Salaries and benefits	4,106,720	1,509,893	552,237	6,168,850
Taxes and licenses	1	17,804	4,004	21,809
Telephone	61,404	5,033	8,655	75,092
Utilities	187,768	-	-	187,768
Travel	493,683	75,590	97,192	666,465
	<u>\$ 10,025,991</u>	<u>\$ 2,123,530</u>	<u>\$ 1,485,214</u>	<u>\$ 13,634,735</u>

