PRECEPT MINISTRIES OF REACH OUT, INC.

Chattanooga, Tennessee

FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA

Years Ended December 31, 2014 and 2013

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, 2014 and 2013, 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.

JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

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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, 2014 and 2013, 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 State 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 19 and 20 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, Hickey & Murchison, P.C.

March 26, 2015

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,123,502	$ 9,508,733
Accounts receivable	23,729	14,702
Inventories	250,753	294,208
Investments	8,631	22,687
Other	159,871	298,990
Total current assets	9,566,486	10,139,320
PROPERTY AND EQUIPMENT, at cost:	10,302,789	10,205,004
Less accumulated depreciation	7,767,811	7,609,474
	2,534,978	2,595,530
OTHER ASSETS:		
Cash surrender value of life insurance	58,521	56,326
	58,521	56,326
	$ 12,159,985	$ 12,791,176

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

LIABILITIES AND NET ASSETS

		2014		2013
CURRENT LIABILITIES:				
Accounts payable	$	522,198	$	230,664
Accrued payroll, withholdings and accruals		207,025		205,771
Deferred revenue		-		69,775
Other		63,234		59,593
Total current liabilities		792,457		565,803
NET ASSETS:				
Unrestricted		11,268,659		12,134,343
Restricted		98,869		91,030
		11,367,528		12,225,373
	$	12,159,985	$	12,791,176

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

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
SALES	$ 4,930,451	$ -	$ 4,930,451
COST OF SALES	1,243,128	-	1,243,128
Gross profit	3,687,323	-	3,687,323
SUPPORT, OTHER REVENUE AND RECLASSIFICATIONS:			
Workshops and conferences	654,548	-	654,548
Contributions	8,559,966	608,026	9,167,992
Royalties	209,818	-	209,818
Investment income	16,632	-	16,632
Other	272,849	-	272,849
Net assets released from restriction	600,187	(600,187)	-
Net sales, support, other revenue, and reclassifications	14,001,323	7,839	14,009,162
EXPENSES:			
Program services	9,714,895	-	9,714,895
General and administrative	1,987,199	-	1,987,199
Fund-raising	3,164,913	-	3,164,913
	14,867,007	-	14,867,007
INCREASE (DECREASE) IN NET ASSETS	(865,684)	7,839	(857,845)
NET ASSETS:			
Beginning	12,134,343	91,030	12,225,373
Ending	$ 11,268,659	$ 98,869	$ 11,367,528

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

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
SALES	$ 5,473,523	$ -	$ 5,473,523
COST OF SALES	1,533,919	-	1,533,919
Gross profit	3,939,604	-	3,939,604
SUPPORT, OTHER REVENUE AND RECLASSIFICATIONS:			
Workshops and conferences	689,919	-	689,919
Contributions	9,373,176	619,273	9,992,449
Royalties	203,918	-	203,918
Investment income	17,718	-	17,718
Other	241,991	-	241,991
Net assets released from restriction	737,465	(737,465)	-
Net sales, support, other revenue, and reclassifications	15,203,791	(118,192)	15,085,599
EXPENSES:			
Program services	9,344,272	-	9,344,272
General and administrative	2,015,399	-	2,015,399
Fund-raising	2,557,501	-	2,557,501
	13,917,172	-	13,917,172
INCREASE (DECREASE) IN NET ASSETS	1,286,619	(118,192)	1,168,427
NET ASSETS:			
Beginning	10,847,724	209,222	11,056,946
Ending	$ 12,134,343	$ 91,030	$ 12,225,373

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

PRECEPT MINISTRIES OF REACH OUT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (857,845)	$ 1,168,427
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities -		
Depreciation	405,558	388,921
Investments donated	(428,795)	(298,940)
(Gain) loss on investments	2,114	(1,841)
Net (increase) decrease in operating assets -		
Accounts receivable	(9,027)	14,957
Inventories	43,455	(10,409)
Other	136,925	8,495
Net increase (decrease) in operating liabilities -		
Accounts payable	291,534	(336,971)
Accrued payroll, withholdings and accruals	1,254	27,574
Deferred revenue	(69,775)	51,316
Other	3,641	(15,714)
Net cash provided (used) by operating activities	(480,961)	995,815
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(345,007)	(101,615)
Proceeds from sale of investments	440,737	297,099
Net cash provided by investing activities	95,730	195,484
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (385,231)	$ 1,191,299

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

	2014	2013
CASH AND CASH EQUIVALENTS:		
Beginning	$ 9,508,733	$ 8,317,434
Net increase (decrease) in cash and cash equivalents	(385,231)	1,191,299
Ending	$ 9,123,502	$ 9,508,733

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

(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 -

In accordance with the Financial Accounting Standards Board's *Accounting Standards Codification 958-210*, 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, 2014 and 2013, 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 $405,558 and $388,921 was charged to operations for the years ended December 31, 2014 and 2013, 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.

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, 2014 and 2013, respectively, advertising costs were $83,326 and $63,498.

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, 2014, there were no interest or penalties recorded or included in its financial statements. The federal information returns for the years of 2011 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 cost, which approximates fair market value, and consist of the following -

	2014	2013
Other – annuity trust	$ 8,631	$ 22,687

Investment income is as follows –

	2014	2013
Interest and dividends	$ 18,746	$ 15,877
Realized gains (losses)	(2,114)	(1,801)
Unrealized gains (losses)	-	3,642
	$ 16,632	$ 17,718

In addition to these investments, approximately 46% of the Organization's cash reserves at December 31, 2014, 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.

(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.

(4) FAIR VALUE MEASUREMENTS (Continued):

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, 2014, using the market approach.

(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, 2014, the Organization's investment portfolio was classified as follows, based on fair values –

	Level 1	Level 2	Level 3	Fair Value
Annuity trust	$ 8,631	$ -	$ -	$ 8,631

(5) PROPERTY AND EQUIPMENT:

A summary of property and equipment is as follows -

	2014	2013
Land and land improvements	$ 494,999	$ 494,999
Buildings and improvements	6,225,730	6,195,455
Data processing equipment and software	779,509	912,683
Audio and video equipment	2,188,816	2,188,816
Furniture and equipment	410,941	413,051
Software in development	202,794	-
	$10,302,789	$10,205,004

(6) LINE OF CREDIT:

The Organization maintains a line of credit with maximum borrowings of $1,000,000 with SunTrust Bank. The line has been renewed for 2015 and is secured by real estate, equipment and furniture. At December 31, 2014, the Organization did not have an outstanding balance on this line.

(7) 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, 2014 and 2013, is $54,603 and $36,906 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, 2014 and 2013, based upon the Organization's excess liability policies, is $35,000 per covered individual, with a maximum aggregate liability of approximately $1,060,334 and $909,903, respectively.

(8) 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 -

	2014	2013
International work	$ 81,192	$ 80,866
Student ministry	17,677	10,164
	$ 98,869	$ 91,030

(9) 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.

(10) DEFINED CONTRIBUTION PLAN:

As of January 1, 2013, the Organization 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 3% of deferral contributions, plus 0.50 match on the next 2% of deferral contributions. Expenses under the above-described plan totaled $145,194 and $137,318 for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2013, the Organization contributed to individually-owned simplified employee pension accounts, on a discretionary basis, for its full-time employees. For the year ended December 31, 2013, the contributions of approximately $247,848 were based on 5% of eligible earnings, respectively. This plan was no longer in place as of the end of 2013.

(11) 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.

(12) CONCENTRATION OF CREDIT RISK:

At December 31, 2014, the Organization had cash and cash equivalents on deposit at a financial institution with an uninsured balance of approximately $300,000.

(13) COMMITMENTS:

The Organization has contractual commitments with service providers totaling $938,200. As of December 31, 2014, the remaining balance on these commitments totaled $308,107.

(14) LIFE ESTATE:

During the year ended December 31, 2010, the Organization created a life estate for the benefit of the founding officers of the Organization. Under this agreement, the officers are 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 lives. At that time, the property reverts back to unconditional use of the Organization. Included in property and equipment is $30,169 net book value related to this residence.

(15) SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 26, 2015, the date which this financial statement was available for issue.

SUPPLEMENTAL DATA

PRECEPT MINISTRIES OF REACH OUT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	General and Administrative	Fund-raising	Total
Development	$ 82,020	$ 2,562	$ 2,963	$ 87,545
Depreciation	299,363	74,849	31,346	405,558
Event facilities	219,517	-	-	219,517
Insurance	1,315	136,375	-	137,690
International support and start-up	2,256,671	-	-	2,256,671
Miscellaneous	52,774	31,064	499	84,337
Operating and program supplies	188,918	43,856	28,822	261,596
Outside services and professional fees	1,166,487	249,474	2,061,883	3,477,844
Postage and shipping	157,109	186	149,694	306,989
Printing and reproduction	226,379	29,746	173,979	430,104
Production cost and air time	110,068	-	-	110,068
Rental fees	22,202	11,130	-	33,332
Repairs, maintenance and repair supplies	47,545	756	-	48,301
Salaries and benefits	4,069,804	1,332,808	601,144	6,003,756
Taxes and licenses	5,885	18,929	7,237	32,051
Telephone	70,729	1,547	10,844	83,120
Utilities	204,890	-	-	204,890
Travel	533,219	53,917	96,502	683,638
	$ 9,714,895	$ 1,987,199	$ 3,164,913	$ 14,867,007

PRECEPT MINISTRIES OF REACH OUT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services	General and Administrative	Fund-raising	Total
Development	$ 72,920	$ 7,182	$ -	$ 80,102
Depreciation	297,364	60,296	31,261	388,921
Event facilities	279,440	150	-	279,590
Insurance	1,315	122,313	-	123,628
International support and start-up	2,089,855	-	-	2,089,855
Miscellaneous	38,800	9,067	454	48,321
Operating and program supplies	243,593	27,801	28,719	300,113
Outside services and professional fees	988,217	343,384	1,427,692	2,759,293
Postage and shipping	108,913	438	200,019	309,370
Printing and reproduction	255,860	-	193,890	449,750
Production cost and air time	123,608	-	-	123,608
Rental fees	37,071	4,730	2,040	43,841
Repairs, maintenance and repair supplies	44,060	9,839	-	53,899
Salaries and benefits	4,037,696	1,391,610	578,464	6,007,770
Taxes and licenses	35	17,929	2,780	20,744
Telephone	94,596	180	14,771	109,547
Utilities	176,377	-	-	176,377
Travel	454,552	20,480	77,411	552,443
	$ 9,344,272	$ 2,015,399	$ 2,557,501	$ 13,917,172