



GRACE TO YOU

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016





REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Grace to You
Valencia, California

We have audited the accompanying financial statements of Grace to You ("the Ministry"), which comprise the statements of financial position as of June 30, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from 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 auditor's 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 Ministry'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 Ministry'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grace to You as of June 30, 2017 and 2016, 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.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
October 16, 2017

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GRACE TO YOU
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 7,600,328	\$ 5,166,076
Certificates of deposit	138,123	4,637,847
Investments	5,152,663	—
Inventories	1,097,781	1,113,914
Cash surrender value of life insurance	834,242	745,013
Other assets	1,328,997	1,108,404
Property and equipment, net	5,291,073	4,671,837
Total assets	\$ 21,443,207	\$ 17,443,091

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 961,936	\$ 1,127,910
Total liabilities	961,936	1,127,910
NET ASSETS		
Unrestricted	20,283,939	16,231,068
Temporarily restricted	197,332	84,113
Total net assets	20,481,271	16,315,181
Total liabilities and net assets	\$ 21,443,207	\$ 17,443,091

GRACE TO YOU
STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2017			For The Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Total	
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS				
Unrestricted contributions	\$ 20,340,504	\$ —	\$ 20,340,504	\$ 17,950,426
Temporarily restricted contributions	—	267,578	267,578	90,510
Ministry media sales	1,722,838	—	1,722,838	2,818,761
Other revenue	587,727	—	587,727	402,022
Net assets released from restrictions	<u>154,359</u>	<u>(154,359)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>22,805,428</u>	<u>113,219</u>	<u>22,918,647</u>	<u>21,261,719</u>
EXPENSES				
Program activities				
Ministry activities	<u>15,762,638</u>	<u>—</u>	<u>15,762,638</u>	<u>16,494,775</u>
Total program activities	<u>15,762,638</u>	<u>—</u>	<u>15,762,638</u>	<u>16,494,775</u>
Supporting activities				
General and administrative	2,538,869	—	2,538,869	2,559,918
Fundraising	<u>451,050</u>	<u>—</u>	<u>451,050</u>	<u>405,114</u>
Total supporting activities	<u>2,989,919</u>	<u>—</u>	<u>2,989,919</u>	<u>2,965,032</u>
Total expenses	<u>18,752,557</u>	<u>—</u>	<u>18,752,557</u>	<u>19,459,807</u>
Change in unrestricted net assets	4,052,871	—	4,052,871	2,263,910
Change in temporarily restricted net assets	<u>—</u>	<u>113,219</u>	<u>113,219</u>	<u>(461,998)</u>
CHANGE IN NET ASSETS	4,052,871	113,219	4,166,090	1,801,912
NET ASSETS - Beginning of year	<u>16,231,068</u>	<u>84,113</u>	<u>16,315,181</u>	<u>14,513,269</u>
NET ASSETS - End of year	<u>\$ 20,283,939</u>	<u>\$ 197,332</u>	<u>\$ 20,481,271</u>	<u>\$ 16,315,181</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

GRACE TO YOU
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	June 30,	
	2017	2016
OPERATING CASH FLOWS		
Change in net assets	\$ 4,166,090	\$ 1,801,912
Adjustments to reconcile change in net assets to net operating cash flows		
Depreciation	347,285	341,342
Amortization	139,527	85,973
Net investment gain	(181,643)	—
Change in inventories	16,133	(112,611)
Change in other assets	(203,160)	109,270
Change in accounts payable and accrued expenses	(165,974)	103,435
Net operating cash flows	4,118,258	2,329,321
INVESTING CASH FLOWS		
Net proceeds from maturities of certificates of deposit	4,499,724	999,724
Net purchases of investments	(4,971,020)	—
Net increase in cash surrender value of life insurance	(89,229)	(90,234)
Expenditures for website and Bible application development	(156,960)	(235,358)
Purchases of and improvements to property and equipment	(966,521)	(401,041)
Net investing cash flows	(1,684,006)	273,091
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,434,252	2,602,412
CASH AND CASH EQUIVALENTS - Beginning of year	5,166,076	2,563,664
CASH AND CASH EQUIVALENTS - End of year	\$ 7,600,328	\$ 5,166,076

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GRACE TO YOU
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

Grace to You (“the Ministry”) is a not-for-profit California corporation, with headquarters in Valencia, California. The Ministry is dedicated to teaching Biblical truth with clarity. The Ministry uses media to expose John MacArthur’s teaching to as wide an audience as possible “for the equipping of the saints for the work of service, to the building up of the body of Christ; until we all attain to the unity of the faith, and of the knowledge of the Son of God, to a mature man, to the measure of the stature which belongs to the fullness of Christ” (Ephesians 4:12-13, New American Standard Bible).

The Ministry provides Biblically-based materials to protect believers from being “tossed here and there by waves, and carried about by every wind of doctrine, by the trickery of men, by craftiness in deceitful scheming” (Ephesians 4:14). The Ministry accepts the God-given responsibility of “speaking the truth in love” (Ephesians 4:15) and striving for the growth of the church and glory of the Lord, rather than the praise and honor of men.

The Ministry supports the local church’s ministry by providing additional resources for those hungering for the truth of God’s Word. The Ministry believes that media ministries can never substitute for involvement in a Biblical church, group Bible study, or interaction with a teacher. Yet there is the need for more in-depth resources, evidenced by the many Christians and Christian leaders worldwide who depend on this ministry to supplement their own study.

The Ministry distributes John MacArthur’s works through radio programs for broadcast, telecasts, web-based media, and other media. The Ministry also conducts conferences; sells books, audio, and video media; and publishes books and other media that advance the Ministry’s exempt religious and educational purposes. The Ministry produces and airs the following radio programs:

- “Grace to You,” a daily half-hour radio program featuring sermons preached by John MacArthur;
- “Grace to You Weekend,” a weekly radio program;
- “Portraits of Grace,” a daily one-minute program offering devotional content; and
- “Bible Q&A with John MacArthur,” a daily two-minute feature in which John MacArthur answers Bible questions.

These radio programs reach major metropolitan areas of the United States, as well as Australia and Canada, parts of Asia and Europe, and South Africa. Spanish versions of the broadcasts are also aired in various countries.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as “net assets released from restrictions.”

Cash and cash equivalents

The Ministry considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Certificates of deposit

Certificates of deposit generally carry one to three year terms with interest rates ranging from 0.20% to 0.50% per annum.

GRACE TO YOU
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist primarily of mutual funds and are stated at estimated fair value.

Inventories

Inventories consist primarily of audio and video media and books. Inventories are stated at the lower of cost or market using the first-in, first-out inventory cost-flow assumption.

Property and equipment

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

Temporarily restricted net assets

Temporarily restricted net assets as of June 30, 2017 consist of amounts restricted by donors for international outreach and a certain bequest receivable. Temporarily restricted net assets as of June 30, 2016 consist of amounts restricted by donors for international outreach. Net assets released from restrictions for the year ended June 30, 2016 amounted to \$552,508.

Income taxes

The Ministry is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Ministry is further classified as a public charity and not a private foundation for federal tax purposes. The Ministry has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements. The Ministry has not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from the estimates.

Donated services

No amounts have been reflected in the accompanying financial statements for donated services. The Ministry generally pays for services requiring specific expertise, and other donated services ordinarily do not meet the recognition criteria under accounting principles generally accepted in the United States of America ("GAAP"). However, many individuals volunteer their time and perform a variety of tasks that assist the Ministry with specific activities.

Reclassifications

Certain amounts included in the June 30, 2016 financial statements have been reclassified to conform to classifications adopted during the year ended June 30, 2017. The reclassifications had no material effect on the accompanying financial statements.

Subsequent events

The Ministry has evaluated for possible financial reporting and disclosure subsequent events through the date of the independent auditor's report, the date as of which the financial statements were available to be issued.

GRACE TO YOU
NOTES TO FINANCIAL STATEMENTS

NOTE C – CONCENTRATIONS

The Ministry maintains its cash and cash equivalents and certificates of deposit in deposit or investment accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Ministry has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents and certificates of deposit.

As of June 30, 2017, all of the Ministry’s investments were held by one custodian.

NOTE D – FAIR VALUE MEASUREMENTS

GAAP defines fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of “inputs” an organization may use in determining or estimating fair value. The inputs are categorized into “levels” that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – unadjusted quoted market prices in active markets for identical items

Level 2 – other significant observable inputs (such as quoted prices for similar items)

Level 3 – significant unobservable inputs

Estimated fair value of assets measured on a recurring basis as of June 30, 2017, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Fixed income	\$ 2,088,192	\$ 2,088,192	\$ —	\$ —
Developed international	1,656,463	1,656,463	—	—
U.S. large cap	1,043,180	1,043,180	—	—
Other equity	294,056	294,056	—	—
U.S. small cap	<u>70,772</u>	<u>70,772</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 5,152,663</u>	<u>\$ 5,152,663</u>	<u>\$ —</u>	<u>\$ —</u>

GRACE TO YOU
NOTES TO FINANCIAL STATEMENTS

NOTE E - OTHER ASSETS

Other assets consisted of the following:

Category	June 30.	
	2017	2016
Prepaid expenses	\$ 587,104	\$ 571,967
Website and Bible application development costs, net	399,163	381,730
Bequest receivable	193,000	—
Other receivables	142,117	147,094
Irrevocable life estate	7,613	7,613
Total other assets	\$ 1,328,997	\$ 1,108,404

The estimated useful life of website and Bible application development costs is three years. Amortization expense related to website and Bible application development costs amounted to \$139,527 and \$85,973 during the years ended June 30, 2017 and 2016, respectively.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	June 30.	
	2017	2016
Land	\$ 1,309,249	\$ 1,309,249
Buildings and improvements	5,059,623	4,979,489
Furniture and equipment	2,003,058	3,082,237
Construction in progress	655,481	—
Total property and equipment	9,027,411	9,370,975
Less: Accumulated depreciation	(3,736,338)	(4,699,138)
Net property and equipment	\$ 5,291,073	\$ 4,671,837

Depreciation expense related to property and equipment amounted to \$347,285 and \$341,342 during the years ended June 30, 2017 and 2016, respectively.

During the year ended June 30, 2017, fully depreciated property and equipment with a cost and accumulated depreciation of approximately \$1,315,000 were written off.

NOTE G - RETIREMENT PLAN

The Ministry maintains a 403(b) retirement plan (“the Plan”) for the benefit of its employees. Eligible employees may make elective deferral contributions to the Plan. Employer contributions to the Plan are discretionary. The Ministry contributed approximately \$253,000 and \$235,000 to the Plan during the years ended June 30, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE H – JOINT COST ALLOCATION

During the years ended June 30, 2017 and 2016, the Ministry incurred joint costs in the approximate amounts of \$6,619,000 and \$6,379,000, respectively, for Bible teaching activities that included fundraising appeals in connection with the Ministry's exempt purposes. Of those costs, approximately \$6,167,000 and \$5,958,000 were allocated to "ministry activities" expense, \$168,000 and \$152,000, were allocated to "general and administrative" expense, and \$284,000 and \$269,000, respectively, were allocated to "fundraising" expense in the accompanying statements of activities.

NOTE I – RELATED PARTY TRANSACTIONS

The intellectual property used and sold by the Ministry is licensed to the Ministry by its president for such use pursuant to agreements, the terms of which do not require the Ministry to pay royalties or other licensing fees to its president.

During the years ended June 30, 2017 and 2016, the Ministry paid approximately \$794,000 and \$791,000, respectively, for video production and artwork services to entities controlled by certain of the president's family members.

NOTE I – TRANSACTIONS WITH COOPERATING MINISTRIES

The Ministry cooperates with other entities for which the president of the Ministry serves as president or a director. During the years ended June 30, 2017 and 2016, the Ministry made grants of \$15,000 and \$665,000, respectively, to such entities.