FOCUS ON THE FAMILY and AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

September 30, 2014 and 2013

CAPINCROUSE LLP
Certified Public Accountants

FOCUS ON THE FAMILY and AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Focus on the Family and Affiliates
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of Focus on the Family and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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
Focus on the Family and Affiliates
Colorado Springs, Colorado

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Focus on the Family and Affiliates as of September 30, 2014 and 2013, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in the Reporting Entity

As discussed in Note 15 to the consolidated financial statements, CitizenLink is no longer included in the consolidated financial statements. Our opinion is not modified with respect to that matter.

Capin Crouse LLP

Colorado Springs, Colorado
January 8, 2015

FOCUS ON THE FAMILY and AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	September 30, 2014	September 30, 2013
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 10,122	$ 6,097
Investments	5,176	5,102
Accounts receivable–net	721	569
Inventory	315	289
Pledges receivable	814	2,877
Prepaid expenses	2,809	2,389
	19,957	17,323
Property and equipment–net	34,039	35,712
Film production costs–net	4,909	4,975
Other assets	6,211	6,000
Endowment assets	156	149
Total Assets	$ 65,272	$ 64,159
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 3,306	$ 3,585
Accrued expenses	3,486	3,689
Deferred revenue	2,556	2,300
Current portion of charitable gift annuities liability	402	420
	9,750	9,994
Long term liabilities	1,044	-
Charitable gift annuities liability–net of current portion	2,659	2,771
	13,453	12,765
Net assets:		
Unrestricted:		
Operations	15,947	12,050
Equity in property and equipment	34,039	35,712
	49,986	47,762
Temporarily restricted	1,742	3,541
Permanently restricted	91	91
	51,819	51,394
Total Liabilities and Net Assets	$ 65,272	$ 64,159

See notes to consolidated financial statements

FOCUS ON THE FAMILY and AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended September 30,							
	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	$ 69,650	$ 8,904	$ -	$ 78,554	$ 66,326	$ 15,658	$ -	$ 81,984
Sales	6,662	-	-	6,662	5,578	-	-	5,578
Royalty and licensing revenue	2,155	-	-	2,155	1,939	-	-	1,939
Institute income	134	-	-	134	309	-	-	309
Investment income	450	-	-	450	661	-	-	661
Event revenue	871	-	-	871	200	-	-	200
Other revenue	639	-	-	639	1,162	-	-	1,162
Total Support and Revenue	80,561	8,904	-	89,465	76,175	15,658	-	91,833
NET ASSETS RELEASED:								
Time restrictions	1,334	(1,334)	-	-	1,387	(1,387)	-	-
Purpose restrictions	9,369	(9,369)	-	-	11,982	(11,982)	-	-
Total Net Assets Released	10,703	(10,703)	-	-	13,369	(13,369)	-	-
EXPENSES:								
Program services:								
Marriage	17,865	-	-	17,865	21,082	-	-	21,082
Parenting	30,570	-	-	30,570	28,156	-	-	28,156
Evangelism and discipleship	17,032	-	-	17,032	16,171	-	-	16,171
Advocacy	6,346	-	-	6,346	7,218	-	-	7,218
Citizenship	4,171	-	-	4,171	6,340	-	-	6,340
	75,984	-	-	75,984	78,967	-	-	78,967
Supporting activities:								
General and administrative	7,218	-	-	7,218	8,451	-	-	8,451
Fund-raising	6,817	-	-	6,817	5,967	-	-	5,967
Total Expenses	90,019	-	-	90,019	93,385	-	-	93,385
Change in Net Assets from Operating Activities	1,245	(1,799)	-	(554)	(3,841)	2,289	-	(1,552)

(continued)

See notes to consolidated financial statements

FOCUS ON THE FAMILY and AFFILIATES

Consolidated Statements of Activities
(in thousands)

(continued)

	Year Ended September 30,							
	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Nonoperating contributions	980	-	-	980	-	-	-	-
Change in net assets	2,225	(1,799)	-	426	(3,841)	2,289	-	(1,552)
Net Assets, Beginning of Year, as previously stated	47,761	3,541	91	51,393	55,103	1,252	91	56,446
Change in reporting entity	-	-	-	-	(3,501)	-	-	(3,501)
Net Assets, Beginning of Year	47,761	3,541	91	51,393	51,602	1,252	91	52,945
Net Assets, End of Year	$ 49,986	$ 1,742	$ 91	$ 51,819	$ 47,761	$ 3,541	$ 91	$ 51,393

See notes to consolidated financial statements

FOCUS ON THE FAMILY and AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30, 2014	2013
OPERATING ACTIVITIES:		
Change in net assets	$ 426	$ (1,552)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of property and equipment	4,334	5,148
Amortization of film production costs	1,684	306
Actuarial change in charitable gift annuities liability	(101)	(80)
Contribution of ministry net assets	(980)	-
Payments on charitable gift annuities	417	448
Realized (gain) loss on sale and disposal of assets	2	(25)
Net realized and unrealized (gain) loss on investments and endowment assets	106	(311)
Changes in operating assets:		
Accounts receivable	(152)	291
Inventory	(26)	26
Prepaid expenses	(420)	(41)
Pledges receivable	2,063	(2,155)
Other assets	(211)	(298)
Changes in operating liabilities:		
Accounts payable	765	420
Accrued expenses	(203)	1,208
Deferred revenue	256	(507)
Net Cash Provided by Operating Activities	7,960	2,878
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,665)	(2,049)
Purchases of investments	(808)	(471)
Proceeds from sales of investments	620	685
Proceeds from sales of property and equipment	2	50
Contribution of ministry net assets	980	-
Payments for film production	(1,618)	(3,752)
Net Cash Used by Investing Activities	(3,489)	(5,537)
FINANCING ACTIVITIES:		
Charitable gift annuity maturities	(29)	(25)
Payments on charitable gift annuities	(417)	(448)
Net Cash Used by Financing Activities	(446)	(473)
Net Change in Cash and Cash Equivalents	4,025	(3,132)
Cash and Cash Equivalents, Beginning of Year	6,097	9,229
Cash and Cash Equivalents, End of Year	$ 10,122	$ 6,097

See notes to consolidated financial statements

1. NATURE OF ORGANIZATIONS:

Focus on the Family (FOF) is a non-denominational religious organization whose primary objective is to spread the Gospel of Jesus Christ by helping to preserve traditional values and the institution of the family. The primary means of accomplishing these goals are radio broadcasts, periodicals, books, films, videos, internet, and events which share the message with constituents, schools, churches, and the public at large in the United States, as well as around the world. The primary sources of revenue are contributions from individuals, businesses, foundations, sales of books and audio-visual materials, and events.

FOF is organized as a nonprofit religious corporation under the laws of California and operates under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation under Section 509(a).

Pine Creek Entertainment, LLC (PCE) produces feature-length documentary films that explore and reveal God's design for the family. PCE produced the film Irreplaceable; the first in a planned series of feature-length documentaries that recover, renew and reclaim the conversation about the family. PCE was formed on March 11, 2011 under the laws of Colorado. PCE's legal year-end is December 31, however, for comparability the presentation in the consolidated financial statements reflects the balances and activities for the years ended September 30, 2014 and 2013.

RezilientKidz (RK) was organized on March 11, 2011, as a nonprofit educational corporation under the laws of Colorado and operates under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation under Section 509(a). The purpose of RK is to provide adoptive parents with training and instruction about how to begin the adoption process. RK raises awareness of the need for placing foster children in "forever homes." RK teaches children the fundamental character traits that embody a solid foundation of ethics and personal responsibility.

PCE and RK are legally recognized entities that FOF operates. RK had no material activity or balances during the years ended September 30, 2014 and 2013 that were included in the consolidated financial statements. PCE and RK have common board members and officers, as well as some common management with FOF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

FOF maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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 the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the consolidated financial resources and activities of FOF, PCE and RK which will be collectively referred to as Focus. All material transactions and balances between the entities have been eliminated in the consolidation.

On May 8, 2014, Focus acquired the assets and assumed the obligations of the National Institute of Marriage, a Christian marriage counseling ministry. The activities of this ministry were absorbed by Focus on the Family's National Institute of Marriage which provides Intensive Marriage Counseling Programs and Marriage Enrichment Retreats and Conferences.

In 1983, a related entity, Focus on the Family (Canada) Association, was formed under the nonprofit laws of Canada. In addition, FOF works with several other related organizations throughout the world. These related organizations are legally separate from FOF, and each organization is governed by an independent board of directors; therefore, the assets, liabilities, net assets, and results of their activities have not been included in this report.

CASH AND CASH EQUIVALENTS

Focus considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash includes demand deposit accounts, commercial paper, and money market accounts recorded at cost, which approximates fair value. These accounts may, at times, exceed federally insured limits. Focus has not experienced any losses in such accounts.

INVESTMENTS

Investments are carried at fair market value, with realized and unrealized gains and losses included as unrestricted revenue in the consolidated statements of activities. Donated investments are recorded at the fair market value on the date of donation and thereafter carried in accordance with the above provisions.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of receivables from events, licensees, trade sales, and related international organizations. Accounts receivable are net of an allowance for uncollectible accounts of $240,000 and $420,000 as of September 30, 2014 and 2013, respectively. The allowance for doubtful accounts is maintained at a level that, in management’s judgment, is adequate to absorb possible losses. The amount is based upon an analysis of overall trade receivables by management that includes, but is not limited to, the historical experience of payment patterns from the customer, financial condition of the customer, other known facts and circumstances and general economic conditions. This process is based on estimates, and ultimately losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. Receivables are written off when all methods of collection have been exhausted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVENTORY
Inventory consists of books, literature, and audio-visual materials, which are recorded at the lower of cost or market, using the weighted-average cost method (this method approximates the first-in first-out methodology).

PLEDGES RECEIVABLE
Pledges receivable are unconditional promises to give that are recognized as assets and support in the period made and are recorded at their estimated net present value. The recorded value includes an allowance for uncollectible amounts of $170,000 and $190,000 as of September 30, 2014 and 2013, respectively. This allowance is calculated based on the historical collectability of the related pledges.

FILM PRODUCTION COSTS
Film production costs are amortized over the estimated period during which the related income is expected to be earned (three to five years). At September 30, 2014 and 2013, accumulated amortization was $26,884,000 and $25,199,000, respectively. Focus periodically reviews film production costs for impairment, retirement, or abandonment. Upon impairment, retirement, or abandonment, the cost of the assets disposed of and the related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected.

PROPERTY AND EQUIPMENT–NET
Property and equipment are recorded on the basis of cost, or estimated fair value if donated. Focus capitalizes most purchases in excess of $2,500, with lesser amounts expensed in the year purchased. Software purchases are capitalized if the amount is in excess of $100,000. Upon retirement or sale, the cost of the assets disposed of and the related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in operations for the period. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives of the assets:

	Estimated Useful Lives
Land improvements	10 years
Buildings and building improvements	20-30 years
Furniture, equipment, and software	2-7 years
Website	3 years

OPERATING LINE OF CREDIT
In 2014, FOF renewed a line of credit with a bank for $13,932,624, which is renewable annually by the Lender and matures on June 1, 2015. Advances under the agreements bear interest at the Lender's Prime Rate (the "Index"), which was 4.0% as of September 30, 2014 and 2013. The line of credit is collateralized by real property. As of September 30, 2014 and 2013, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2014 and 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LETTER OF CREDIT

In 2013, FOF established a letter of credit with a bank for $1,067,376 for the benefit of the Colorado Department of Labor and Employment. If FOF were to fail to pay unemployment obligations, the bank could draw upon this letter of credit to pay the obligation. As of September 30, 2014 and 2013, there were no outstanding balances on the letter of credit and there were no draws during the fiscal years ended September 30, 2014 and 2013. The letter of credit expires on July 3, 2015.

DEFERRED INCOME

Deferred revenue is recorded for the unearned portion of subscriptions, event pre-registrations, tuition, advertising, and the advance royalties received on book and film resources. Revenue is recognized as earned; when the related products are fulfilled or events are held.

LONG TERM LIABILITIES

PCE has established an agreement where funding for film projects is not recognized as revenue until certain conditions have been met. If certain conditions are met, amounts will be returned to the funding party. These amounts have been reflected as long term liabilities on the consolidated statements of financial position in the amount of $1,043,595 as of September 30, 2014.

CLASSES OF NET ASSETS

The net assets of Focus are reported in the following categories:

Unrestricted net assets consist of amounts currently available for use in the ministries of Focus and resources invested in property and equipment.

Temporarily restricted net assets consist of unexpended, donor-restricted contributions and pledges receivable for special projects and contributions with time restrictions attached.

Permanently restricted net assets consist of unexpended endowment funds subject to restriction of gift instruments requiring that the principal be invested in perpetuity.

The management of Focus has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, Focus classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Thus the permanently restricted net assets reflect the historical cost value of the endowment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

Focus has a policy consistent with the intent of the endowment agreement. The primary investment objective of endowment funds is to follow those policies that will preserve the principal value, provide predictable income and, to the extent possible with prudence, increase the principal to offset the long-term effects of inflation. Accordingly, over the long-term, Focus expects the current spending policy to allow its endowment to grow on an annual basis. Actual results in any given year may vary.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Focus, through media and various publications, offers ministry-related materials to the public. These materials are available whether or not a contribution is made; however, a suggested donation is requested. During the years ended September 30, 2014 and 2013, material costs of $450,000 and $550,000 were incurred, respectively, and are included in resources expense in the consolidated statements of activities.

Focus and Christian Book Distributors (CBD) operate under a strategic alliance agreement. Under the alliance agreement, CBD provides ministry resource fulfillment services for catalog, telephone and online orders for Focus constituents. In connection with the CBD alliance, Focus has changed to the sales model for ministry resource distribution which allows Focus to offer a wider range of ministry resources at competitive prices, while extending discounts, promotions and payment opportunities. Sales under the strategic alliance agreement are recorded net of cost as CBD owns the inventory, and are reflected accordingly on the consolidated statements of activities.

Sales consist primarily of books and audio-visual material made to Focus constituents, distributors, and institutions.

Event revenue consists of Focus ministry events, marriage counseling, marriage enrichment retreats and conferences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENDITURES

The cost of providing the various programs has been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

ADVERTISING, PROMOTION, AND CIRCULATION COSTS

Focus uses advertising, promotion, and circulation costs to distribute information regarding programs among the audiences served. These costs, expensed as incurred, are (in thousands):

	Year Ended September 30,	
	2014	2013
Advertising	$ 144	$ 341
Promotion	1,920	1,182
Circulation costs	256	471
	$ 2,320	$ 1,994

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of September 30, 2014, Focus had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Focus is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2011.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

3. FAIR VALUE MEASUREMENTS:

Focus uses appropriate valuation techniques to determine fair value based on inputs available. When available, Focus measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

Fair values of assets measured on a recurring basis at September 30, 2014 and 2013 are:

		Fair Value Measurements Using (in thousands):		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Fixed income securities:				
U.S. government bonds	$ 1,036	$ 1,036	$ -	$ -
Corporate bonds	789	789	-	-
Equities:				
Consumer discretionary	137	137	-	-
Consumer staples	214	214	-	-
Energy	160	160	-	-
Financials	218	218	-	-
Health care	139	139	-	-
Industrials	115	115	-	-
Information technology	179	179	-	-
Mutual funds:				
Small cap funds	284	284	-	-
Mid cap funds	644	644	-	-
Large cap funds	135	135	-	-
Fixed income	14	14	-	-
International funds	596	596	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Endowments:				
Fixed income securities:				
Corporate bonds	60	60	-	-
Mutual funds:				
Small cap funds	8	8	-	-
Mid cap funds	20	20	-	-
Large cap funds	37	37	-	-
International funds	22	22	-	-
Other assets:				
Cash surrender value of life insurance	6,185	-	6,185	-

		Fair Value Measurements Using (in thousands):		
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Fixed income securities:				
U.S. government bonds	$ 1,279	$ 1,279	$ -	$ -
Corporate bonds	772	772	-	-

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Notes to Consolidated Financial Statements

September 30, 2014 and 2013

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities:				
Consumer discretionary	274	274	-	-
Consumer staples	168	168	-	-
Energy	133	133	-	-
Financials	248	248	-	-
Health care	166	166	-	-
Industrials	82	82	-	-
Information technology	183	183	-	-
Materials	22	22	-	-
Utilities	35	35	-	-
Mutual funds:				
Small cap funds	255	255	-	-
Mid cap funds	233	233	-	-
Large cap funds	340	340	-	-
Fixed income	120	120	-	-
International funds	635	635	-	-
Endowments:				
Fixed income securities:				
Corporate bonds	62	62	-	-
Mutual funds:				
Small cap funds	6	6	-	-
Mid cap funds	6	6	-	-
Large cap funds	30	30	-	-
International funds	14	14	-	-
Other assets:				
Cash surrender value of life insurance	5,896	-	5,896	-

3. <u>FAIR VALUE MEASUREMENTS, continued:</u>

Valuation techniques : Fair value for equities, fixed income securities, and mutual funds are based on quoted prices in active markets. The fair value of the cash surrender value of life insurance is based on observable inputs other than the quoted prices included in Level 1 and thus are based on yields for securities and assets of comparable maturity, quality, and type as obtained from market makers.

4. <u>INVESTMENTS:</u>

Investments at estimated fair value consist of (in thousands):

	September 30, 2014	September 30, 2013
National gift annuities:		
Fixed income securities	$ 1,541	$ 1,791
Mutual funds	1,344	1,270
Equities	1,341	1,312
Money market accounts	265	37
	4,491	4,410
California gift annuities:		
Mutual funds	325	194
Fixed income securities	180	259
Money market accounts	57	117
	562	570
Wisconsin gift annuities:		
Fixed income securities	118	120
Money market accounts	5	2
	123	122
	$ 5,176	$ 5,102

4. INVESTMENTS, continued:

Investment income including return from endowment assets, consists of (in thousands):

	Year Ended September 30,	
	2014	2013
Interest and dividends	$ 756	$ 350
Realized and unrealized gains (losses)	(306)	311
	$ 450	$ 661

5. PLEDGES RECEIVABLE:

Pledges receivable consist of (in thousands):

	September 30,	
	2014	2013
Due in less than one year	$ 984	$ 3,067
Less allowance for uncollectible amounts	(170)	(190)
	$ 814	$ 2,877

6. PROPERTY AND EQUIPMENT–NET:

Property and equipment-net consists of (in thousands):

	September 30,	
	2014	2013
Land	$ 8,390	$ 8,239
Land improvements	3,914	3,873
Buildings and building improvements	55,841	54,687
Furniture, equipment, and software	34,516	35,008
Website	4,529	4,267
	107,190	106,074
Accumulated depreciation and amortization	(73,478)	(70,718)
	33,712	35,356
Projects in progress	327	356
	$ 34,039	$ 35,712

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Notes to Consolidated Financial Statements

September 30, 2014 and 2013

7. OTHER ASSETS:

Other assets consist of (in thousands):

	September 30, 2014	September 30, 2013
Cash surrender value of life insurance policy	$ 6,185	$ 5,896
Deferred expenses	26	104
	$ 6,211	$ 6,000

8. ENDOWMENT ASSETS:

Endowment assets consist of (in thousands):

	September 30, 2014	September 30, 2013
Mutual funds	$ 87	$ 57
Fixed income securities	60	62
Money market funds	9	30
	$ 156	$ 149

9. CHARITABLE GIFT ANNUITIES:

Upon receipt of charitable gift annuities, the actuarially computed present value of future payments is recognized as a liability, and the difference between the liability and the face value of the annuity is recognized as an unrestricted contribution. Subsequently, annuities payable are revalued annually using the federal mortality rates and discount factors applied at inception. Assets funding charitable gift annuities are included in investments.

9. CHARITABLE GIFT ANNUITIES, continued:

Change in value of charitable gift annuities consists of (in thousands):

	Year Ended September 30, 2014	Year Ended September 30, 2013
Payments on charitable gift annuities	$ (417)	$ (448)
Actuarial change in charitable gift annuity liability	101	80
Charitable gift annuity maturities	29	25
	$ (287)	$ (343)

10. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following (in thousands):

	September 30, 2014	September 30, 2013
Pledges receivable	$ 744	$ 2,877
Reserve for annuities	402	420
Marriage	300	-
Film series programs	281	244
Parenting	15	-
	$ 1,742	$ 3,541

11. RETIREMENT PLAN:

FOF sponsors a defined contribution retirement plan under section 403(b) of the Internal Revenue Code covering substantially all regular, full-time employees meeting certain eligibility requirements. FOF provides a matching discretionary contribution of 3% to 6% of participant compensation, depending on years of service. It is FOF's policy to fund the retirement plan costs. Total contributions for the years ended September 30, 2014 and 2013, were $1,133,000 and $1,122,000, respectively.

12. ALLOCATION OF JOINT COSTS:

During the years ended September 30, 2014 and 2013, Focus incurred joint costs for informational materials and activities that included fund-raising appeals. These programs include various newsletters, magazines, and constituent relations. Costs associated with the various programs have been allocated in the consolidated statements of activities according to their functional classification as follows (in thousands):

	Year Ended September 30, 2014	Year Ended September 30, 2013
Program services:		
Marriage	$ 961	$ 1,311
Parenting	5,673	6,088
Evangelism and discipleship	832	407
Advocacy	355	738
Citizenship	1,025	1,372
	8,846	9,916
Fund-raising	1,278	1,325
	$ 10,124	$ 11,241

13. COMMITMENTS:

In addition, Focus has entered into various service agreements with unrelated third party vendors. Future minimum payments required under these agreements in effect at September 30, 2014, are (in thousands):

Year Ending September 30,	
2015	$ 4,985
2016	260
2017	101
2018	30
	$ 5,376

14. OPERATING AND NONOPERATING ACTIVITIES:

The activity of Focus has been reported in the consolidated statements of activities in the following two categories: operating and nonoperating. Operating includes the core activities of Focus. Nonoperating includes other activates that are not considered to be "core". For the year ended September 30, 2014, Focus acquired the assets and assumed the obligations of the National Institute of Marriage at fair market value. The difference between fair market value of the assets and liabilities and their carrying value is reflected as nonoperating contributions on the consolidated statements of activities. These activities may be reoccurring or one time events and management does not rely on or budget for these nonoperating activities.

15. CHANGE IN REPORTING ENTITY:

CitizenLink (CL) previously had common board members and officers as FOF and was consolidated in the consolidated financial statements. During the year ended September 30, 2014, FOF recognized the governing body of CL and created a separate and independent board of directors. As FOF does not control the appointing of a majority of CL board of directors. CL is not consolidated with FOF, and all activities and balances have been removed as of and for the years ended September 30, 2014 and 2013. This change in reporting entity reduced unrestricted net assets as of October 1, 2012 by $3,500,822 and increased the change in unrestricted net assets by approximately $433,000 and $1,729,000 for the years ended September 30, 2014 and 2013, respectively.

16. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. No subsequent events or disclosures were identified. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Focus on the Family and Affiliates
Colorado Springs, Colorado

We have audited the consolidated financial statements of Focus on the Family and Affiliates as of and for the years ended September 30, 2014 and 2013, and our report thereon dated January 8, 2015, which expressed 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 information on pages 23-28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and it is 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 consolidating 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

Colorado Springs, Colorado
January 8, 2015

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Financial Position

September 30, 2014

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 9,781,218	$ 340,303	$ -	$ 10,121,521
Investments	5,176,213	-	-	5,176,213
Accounts receivable–net	760,659	24,238	(63,654)	721,243
Inventory	314,698	-	-	314,698
Pledges receivable	814,427	-	-	814,427
Prepaid expenses	2,809,268	-	-	2,809,268
	19,656,483	364,541	(63,654)	19,957,370
Property and equipment–net	34,038,690	-	-	34,038,690
Film production costs–net	4,096,753	812,351	-	4,909,104
Other assets	6,211,022	-	-	6,211,022
Investment in subsidiaries	(2,114)	-	2,114	-
Endowment assets	156,505	-	-	156,505
Total Assets	$ 64,157,339	$ 1,176,892	$ (61,540)	$ 65,272,691
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 3,259,910	$ 109,411	$ (63,654)	$ 3,305,667
Accrued expenses	3,460,129	26,000	-	3,486,129
Deferred revenue	2,556,497	-	-	2,556,497
Current portion of charitable gift annuities liability	402,208	-	-	402,208
	9,678,744	135,411	(63,654)	9,750,501
Long term liabilities	-	1,043,595	-	1,043,595
Charitable gift annuities liability–net of current portion	2,658,938	-	-	2,658,938
	12,337,682	1,179,006	(63,654)	13,453,034

(continued)

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Financial Position

September 30, 2014

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	15,948,330	(8,047)	8,047	15,948,330
Equity in property and equipment	34,038,690	-	-	34,038,690
	49,987,020	(8,047)	8,047	49,987,020
Temporarily restricted	1,741,637	-	-	1,741,637
Permanently restricted	91,000	-	-	91,000
	51,819,657	(8,047)	8,047	51,819,657
Stockholders' equity	-	(744,067)	744,067	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 64,157,339	$ 1,176,892	$ (69,587)	$ 65,272,691

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Financial Position

September 30, 2013

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 6,092,745	$ 4,471	$ -	$ 6,097,216
Investments	5,102,572	-	-	5,102,572
Accounts receivable–net	1,582,853	-	(1,014,214)	568,639
Inventory	288,976	-	-	288,976
Pledges receivable	2,877,255	-	-	2,877,255
Prepaid expenses	2,389,058	-	-	2,389,058
	18,333,459	4,471	(1,014,214)	17,323,716
Property and equipment–net	35,711,770	-	-	35,711,770
Film production costs–net	4,230,330	744,308	-	4,974,638
Other assets	5,999,901	-	-	5,999,901
Investment in subsidiaries	(265,435)	-	265,435	-
Endowment assets	149,273	-	-	149,273
Total Assets	$ 64,159,298	$ 748,779	$ (748,779)	$ 64,159,298
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 3,585,534	$ 1,014,214	$ (1,014,214)	$ 3,585,534
Accrued expenses	3,689,063	-	-	3,689,063
Deferred revenue	2,299,830	-	-	2,299,830
Current portion of charitable gift annuities liability	420,156	-	-	420,156
	9,994,583	1,014,214	(1,014,214)	9,994,583
Charitable gift annuities liability–net of current portion	2,771,095	-	-	2,771,095
	12,765,678	1,014,214	(1,014,214)	12,765,678

(continued)

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Financial Position

September 30, 2013

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	12,050,267	4,399	(4,399)	12,050,267
Equity in property and equipment	35,711,770	-	-	35,711,770
	47,762,037	4,399	(4,399)	47,762,037
Temporarily restricted	3,540,583	-	-	3,540,583
Permanently restricted	91,000	-	-	91,000
	51,393,620	4,399	(4,399)	51,393,620
Stockholders' equity, net	-	(269,834)	269,834	-
Total Liabilities and Net Assets	$ 64,159,298	$ 748,779	$ (748,779)	$ 64,159,298

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Activities

Year Ended September 30, 2014

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 69,647,128	$ 8,904,155	$ -	$ 78,551,283	$ 117,444	$ -	$ -	$ 117,444	$ (114,743)	$ 78,553,984
Sales	6,082,338	-	-	6,082,338	581,863	-	-	581,863	(2,100)	6,662,101
Royalty and licensing revenue	2,154,719	-	-	2,154,719	-	-	-	-	-	2,154,719
Institute income	133,935	-	-	133,935	-	-	-	-	-	133,935
Investment income	450,669	-	-	450,669	-	-	-	-	-	450,669
Event revenue	870,597	-	-	870,597	-	-	-	-	-	870,597
Earnings of subsidiaries	(486,679)	-	-	(486,679)	-	-	-	-	486,679	-
Other revenue	639,213	-	-	639,213	-	-	-	-	-	639,213
Total Support and Revenue	79,491,920	8,904,155	-	88,396,075	699,307	-	-	699,307	369,836	89,465,218
NET ASSETS RELEASED:										
Time restrictions	1,334,360	(1,334,360)	-	-	-	-	-	-	-	-
Purpose restrictions	9,368,741	(9,368,741)	-	-	-	-	-	-	-	-
Total Net Assets Released	10,703,101	(10,703,101)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	16,921,587	-	-	16,921,587	945,173	-	-	945,173	(2,100)	17,864,660
Parenting	30,527,693	-	-	30,527,693	156,834	-	-	156,834	(114,743)	30,569,784
Evangelism and discipleship	17,032,155	-	-	17,032,155	-	-	-	-	-	17,032,155
Advocacy	6,303,944	-	-	6,303,944	42,230	-	-	42,230	-	6,346,174
Citizenship	4,171,289	-	-	4,171,289	-	-	-	-	-	4,171,289
	74,956,668	-	-	74,956,668	1,144,237	-	-	1,144,237	(116,843)	75,984,062
Supporting activities:										
General and administrative	7,176,725	-	-	7,176,725	41,749	-	-	41,749	-	7,218,474
Fund-raising	6,816,661	-	-	6,816,661	-	-	-	-	-	6,816,661
Total Expenses	88,950,054	-	-	88,950,054	1,185,986	-	-	1,185,986	(116,843)	90,019,197
Change in Net Assets from Operating Activities	1,244,967	(1,798,946)	-	(553,979)	(486,679)	-	-	(486,679)	486,679	(553,979)
Nonoperating Contributions	980,016	-	-	980,016	750,000	-	-	750,000	(750,000)	980,016
Net Assets, Beginning of Year	47,762,037	3,540,583	91,000	51,393,620	(265,435)	-	-	(265,435)	265,435	51,393,620
Net Assets, End of Year	$ 49,987,020	$ 1,741,637	$ 91,000	$ 51,819,657	$ (2,114)	$ -	$ -	$ (2,114)	$ 2,114	$ 51,819,657

FOCUS ON THE FAMILY and AFFILIATES

Consolidating Statement of Activities

Year Ended September 30, 2013

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 66,325,795	$ 15,657,522	$ -	$ 81,983,317	$ -	$ -	$ -	$ -	$ -	$ 81,983,317
Sales	5,577,946	-	-	5,577,946	-	-	-	-	-	5,577,946
Royalty and licensing revenue	1,939,303	-	-	1,939,303	-	-	-	-	-	1,939,303
Institute income	308,837	-	-	308,837	-	-	-	-	-	308,837
Investment income	661,436	-	-	661,436	-	-	-	-	-	661,436
Event revenue	199,607	-	-	199,607	-	-	-	-	-	199,607
Earnings of subsidiaries	(272,958)			(272,958)					272,958	-
Other revenue	1,162,488	-	-	1,162,488	-	-	-	-	-	1,162,488
Total Support and Revenue	75,902,454	15,657,522	-	91,559,976	-	-	-	-	272,958	91,832,934
NET ASSETS RELEASED:										
Time restrictions	1,386,515	(1,386,515)	-	-	-	-	-	-	-	-
Purpose restrictions	11,982,237	(11,982,237)	-	-	-	-	-	-	-	-
Total Net Assets Released	13,368,752	(13,368,752)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	21,081,519	-	-	21,081,519	-	-	-	-	-	21,081,519
Parenting	28,155,841	-	-	28,155,841	-	-	-	-	-	28,155,841
Evangelism and discipleship	15,996,890	-	-	15,996,890	173,617	-	-	173,617	-	16,170,507
Advocacy	7,218,195	-	-	7,218,195	-	-	-	-	-	7,218,195
Citizenship	6,339,547	-	-	6,339,547	-	-	-	-	-	6,339,547
	78,791,992	-	-	78,791,992	173,617	-	-	173,617	-	78,965,609
Supporting activities:										
General and administrative	8,352,092	-	-	8,352,092	99,341	-	-	99,341	-	8,451,433
Fund-raising	5,968,882	-	-	5,968,882	-	-	-	-	-	5,968,882
Total Expenses	93,112,966	-	-	93,112,966	272,958	-	-	272,958	-	93,385,924
Change in Net Assets	(3,841,760)	2,288,770	-	(1,552,990)	(272,958)	-	-	(272,958)	272,958	(1,552,990)
Net Assets, Beginning of Year	51,603,797	1,251,813	91,000	52,946,610	7,523	-	-	7,523	(7,523)	52,946,610
Net Assets, End of Year	$ 47,762,037	$ 3,540,583	$ 91,000	$ 51,393,620	$ (265,435)	$ -	$ -	$ (265,435)	$ 265,435	$ 51,393,620