FOCUS ON THE FAMILY AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

September 30, 2016 and 2015

FOCUS ON THE FAMILY AND AFFILIATES

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CAPINCROUSE LLP

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, 2016 and 2015, 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.

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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, 2016 and 2015, 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.

Capin Crouse LLP

Colorado Springs, Colorado
January 13, 2017

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	September 30, 2016	September 30, 2015
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 4,374	$ 13,428
Restricted cash	4,000	4,000
Investments	6,412	5,808
Accounts receivable–net	739	756
Inventory	548	323
Pledges and estate receivable	3,932	588
Prepaid expenses	2,780	2,635
Property held for investment	530	530
	23,315	28,068
Property held for investment–net of current portion	1,822	1,822
Property and equipment–net	32,123	30,078
Film production costs–net	2,750	3,722
Other assets	1,500	427
Long-term investments	7,304	-
Endowment assets	165	151
Total Assets	$ 68,979	$ 64,268
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 3,773	$ 3,228
Accrued expenses	4,092	3,340
Deferred revenue	2,978	2,483
Current portion of charitable gift annuities liability	411	397
	11,254	9,448
Long term liabilities	1,044	1,044
Charitable gift annuities liability–net of current portion	2,523	2,549
	14,821	13,041
Net assets:		
Unrestricted:		
Operations	14,592	19,803
Equity in property and equipment	32,123	30,078
	46,715	49,881
Temporarily restricted	7,352	1,255
Permanently restricted	91	91
	54,158	51,227
Total Liabilities and Net Assets	$ 68,979	$ 64,268

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended September 30,							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	$ 60,656	$ 19,014	$ -	$ 79,670	$ 61,573	$ 13,193	$ -	$ 74,766
Sales	7,344	-	-	7,344	8,770	-	-	8,770
Royalty and licensing revenue	2,586	-	-	2,586	2,147	-	-	2,147
Investment income	455	-	-	455	180	-	-	180
Event revenue	2,635	-	-	2,635	2,143	-	-	2,143
Other revenue	788	-	-	788	542	-	-	542
Total Support and Revenue	74,464	19,014	-	93,478	75,355	13,193	-	88,548
NET ASSETS RELEASED:								
Time restrictions	640	(640)	-	-	3,327	(3,327)	-	-
Purpose restrictions	12,277	(12,277)	-	-	10,353	(10,353)	-	-
Total Net Assets Released	12,917	(12,917)	-	-	13,680	(13,680)	-	-
EXPENSES:								
Program services:								
Marriage	26,251	-	-	26,251	22,225	-	-	22,225
Parenting	23,610	-	-	23,610	26,873	-	-	26,873
Evangelism and discipleship	15,686	-	-	15,686	15,480	-	-	15,480
Advocacy	5,848	-	-	5,848	7,603	-	-	7,603
Citizenship	5,201	-	-	5,201	4,221	-	-	4,221
	76,596	-	-	76,596	76,402	-	-	76,402
Supporting activities:								
General and administrative	7,474	-	-	7,474	6,349	-	-	6,349
Fund-raising	6,477	-	-	6,477	6,389	-	-	6,389
Total Expenses	90,547	-	-	90,547	89,140	-	-	89,140
Change in Net Assets	(3,166)	6,097	-	2,931	(105)	(487)	-	(592)
Net Assets, Beginning of Year	49,881	1,255	91	51,227	49,986	1,742	91	51,819
Net Assets, End of Year	$ 46,715	$ 7,352	$ 91	$ 54,158	$ 49,881	$ 1,255	$ 91	$ 51,227

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30, 2016	Year Ended September 30, 2015
OPERATING ACTIVITIES:		
Change in net assets	$ 2,931	$ (592)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of property and equipment	3,356	3,404
Amortization of film production costs	1,485	2,410
Actuarial change in charitable gift annuities liability	(29)	(182)
Payments on charitable gift annuities	402	403
Realized (gain) loss on sale and disposal of assets	14	(13)
Net realized and unrealized (gain) loss on investments and endowment assets	(233)	277
Changes in operating assets:		
Accounts receivable	17	(35)
Inventory	(225)	(8)
Prepaid expenses	(145)	174
Pledges and estate receivable	(3,344)	226
Other assets	(1,073)	5,784
Changes in operating liabilities:		
Accounts payable	545	(78)
Accrued expenses	752	(146)
Deferred revenue	495	(73)
Net Cash Provided by Operating Activities	4,948	11,551
INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,733)	(2,228)
Purchases of investments	(8,536)	(1,001)
Proceeds from sales of investments	847	97
Proceeds from sales of property and equipment	17	90
Payments for film production	(212)	(867)
Net Cash Used by Investing Activities	(13,617)	(3,909)
FINANCING ACTIVITIES:		
Change in restricted cash	-	(4,000)
Charitable gift annuity maturities	17	67
Payments on charitable gift annuities	(402)	(403)
Net Cash Used by Financing Activities	(385)	(4,336)
Net Change in Cash and Cash Equivalents	(9,054)	3,306
Cash and Cash Equivalents, Beginning of Year	13,428	10,122
Cash and Cash Equivalents, End of Year	$ 4,374	$ 13,428

During the year ended September 30, 2015, property and equipment of $2,351,782 was reclassified to property held for investment.

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

1. NATURE OF ORGANIZATIONS:

   Focus on the Family (FOF) is a non-denominational religious organization whose primary objective is to cooperate with the Holy Spirit in sharing the Gospel of Jesus Christ with as many people as possible by nurturing and defending the God-ordained institution of the family and promoting Biblical truths worldwide. The mission of FOF is accomplished through many ministry activities that include radio broadcasts, periodicals, books, films, videos, internet, and events. These ministry activities share the Gospel of Jesus Christ 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 and 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). It has been recognized by the IRS as a public charity under Section 509(a)(2) and is a church under Section 170 (b)(1)(A)(i).

   Pine Creek Entertainment, LLC (PCE) produces feature-length documentary films that explore and reveal God's design for the family. PCE produced the films Irreplaceable and Dropbox; these are part of a planned series of feature-length documentaries that recover, renew, and reclaim the conversation about God's design for 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, 2016 and 2015.

   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. 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.

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.

RESTRICTED CASH
Restricted cash consists of amounts held as a compensating balance for the bank that established the line of credit and the letters of credit.

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. Certificates of deposit are recorded at cost. 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 $0 and $231,000 as of September 30, 2016 and 2015, 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 AND ESTATE 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 $134,000 and $147,000 as of September 30, 2016 and 2015, respectively. This allowance is calculated based on the historical collectability of the related pledges.

PROPERTY HELD FOR INVESTMENT

During the year ended September 30, 2015, management reclassified $2,351,782 from property and equipment to property held for investment. Of this amount, $529,692 was classified as a current asset as this property was expected be used to fund a future joint venture within twelve months. As of the year ended September 30, 2016, this property has not been used but is expected to used during the year ended September 30, 2017. The remaining $1,822,090 continues to be classified as a non-current asset. Property held for investment is held at the lower of cost or fair market value.

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, 2016 and 2015, accumulated amortization was $30,106,000 and $28,938,000, 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING LINE OF CREDIT

In 2016, FOF renewed a line of credit with a bank for $11,987,170, which is renewable annually by the Lender and matures on July 3, 2017. Advances under the agreements bear interest at the Lender's Prime Rate (the "Index"), which was 4.0% as of September 30, 2016. The line of credit is collateralized by real property. As of September 30, 2016, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal year ended September 30, 2016.

LETTER OF CREDIT

In 2016, FOF obtained a letter of credit in the amount of $3,012,030 for the benefit of the Magical Cruise Company. If FOF were to fail to pay its obligations to the Magical Cruise Company, the bank could draw upon this letter of credit to pay the obligations. As of September 30, 2016, there were no outstanding balances on the letter of credit and there were no draws during the fiscal year ended September 30, 2016. The letter of credit expires on January 16, 2018.

In 2015, FOF established a letter of credit with a bank for $801,522 for the benefit of the Colorado Department of Labor and Employment, Unemployment Insurance Operations. 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, 2016 and 2015, there were no outstanding balances on the letter of credit and there were no draws during the fiscal years ended September 30, 2016 and 2015. The letter of credit expires on July 3, 2017.

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 not 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, 2016 and 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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 consolidated 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, 2016 and 2015, material costs of $436,000 and $430,000 were incurred, respectively, and are included in resources expense in the consolidated statements of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

During the majority of the year ended September 30, 2016 and the entirety of the year ended September 30, 2015, Focus and Christian Book Distributors (CBD) operated under a strategic alliance agreement. Under the alliance agreement, CBD provided ministry resource fulfillment services for catalog, telephone and online orders for Focus constituents. In connection with the CBD alliance, Focus had changed to the sales model for ministry resource distribution which allowed 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 were recorded net of cost as CBD owned the inventory, and were reflected accordingly on the consolidated statements of activities. During the fourth quarter of the year ended September 30, 2016, this agreement expired and the fulfillment services were brought in-house.

Sales consist primarily of film revenue and 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.

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,	
	2016	2015
Advertising	$ 100	$ 1,111
Promotion	2,228	1,812
Circulation costs	305	276
	$ 2,633	$ 3,199

FOCUS ON THE FAMILY AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2016, Focus had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Focus and RK are generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

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, 2016 and 2015 are:

		Fair Value Measurements Using (in thousands):		
	September 30, 2016	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:				
US Treasuries	$ 182	$ 182	$ -	$ -
Mortgage Pools	392	-	392	-
Mortgage Obligations	70	-	70	-
Multisector bonds	570	570	-	-
Corporate bonds	808	808	-	-

FOCUS ON THE FAMILY AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds and exchange traded funds:				
Small cap value	288	288	-	-
Small cap growth	278	278	-	-
Large cap value	711	711	-	-
Large cap blend	500	500	-	-
Large cap growth	726	726	-	-
Real estate	263	263	-	-
International funds	242	242	-	-
Fixed income	269	269	-	-
Endowments:				
Fixed income securities:				
Multisector bonds	65	65	-	-
Mutual funds:				
Small cap value	7	7	-	-
Small cap growth	8	8	-	-
Large cap value	19	19	-	-
Large cap blend	16	16	-	-
Large cap growth	19	19	-	-
Real estate	8	8	-	-
International funds	7	7	-	-

FOCUS ON THE FAMILY AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2015	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:				
US Treasuries	$ 363	$ 363	$ -	$ -
Mortgage Pools	349	-	349	-
Mortgage Obligations	63	-	63	-
Agency Securities	77	77	-	-
Multisector bonds	551	551	-	-
Corporate bonds	669	669	-	-
Mutual funds and exchange traded funds:				
Small cap value	231	231	-	-
Small cap growth	235	235	-	-
Large cap value	650	650	-	-
Large cap blend	428	428	-	-
Large cap growth	632	632	-	-
Real estate	228	228	-	-
International funds	232	232	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2015	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:				
Multisector bonds	65	65	-	-
Mutual funds:				
Small cap value	7	7	-	-
Small cap growth	7	7		
Large cap value	19	19	-	-
Large cap blend	15	15		
Large cap growth	19	19	-	-
Real estate	8	8		
International funds	7	7	-	-

Valuation techniques: Fair value for equities, fixed income securities, mutual funds, and exchange traded funds are based on quoted prices in active markets. Level 2 investments consist of observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

4. INVESTMENTS:

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

	September 30, 2016	September 30, 2015
National gift annuities:		
Mutual funds	$ 2,761	$ 2,394
Fixed income securities	2,022	1,814
Money market accounts	327	329
	5,110	4,537
California gift annuities:		
Mutual funds and exchange traded funds	518	242
Money market accounts	6	23
Fixed income securities	-	259
	524	524
Corporate bonds	4,082	-
Certificates of deposit	4,000	747
	$ 13,716	$ 5,808

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

	Year Ended September 30, 2016	Year Ended September 30, 2015
Interest and dividends	$ 222	$ 457
Realized and unrealized gains (losses)	233	(277)
	$ 455	$ 180

5. PLEDGES AND ESTATE RECEIVABLE:

Pledges receivable consist of (in thousands):

	September 30, 2016	September 30, 2015
Due in less than one year	$ 4,066	$ 735
Less allowance for uncollectible amounts	(134)	(147)
	$ 3,932	$ 588

6. PROPERTY AND EQUIPMENT–NET:

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

	September 30, 2016	September 30, 2015
Land	$ 6,038	$ 6,038
Land improvements	3,997	3,919
Buildings and building improvements	59,086	56,238
Furniture, equipment, and software	34,108	33,480
Website	6,065	4,808
	109,294	104,483
Accumulated depreciation and amortization	(77,484)	(74,522)
	31,810	29,961
Projects in progress	313	117
	$ 32,123	$ 30,078

7. OTHER ASSETS:

Other assets consist of (in thousands):

	September 30, 2016	September 30, 2015
Deferred expenses	$ 1,248	$ 227
Advance on predevelopment fees	200	200
Deferred rent asset	52	-
	$ 1,500	$ 427

8. ENDOWMENT ASSETS:

Endowment assets consist of (in thousands):

	September 30, 2016	September 30, 2015
Mutual funds	$ 86	$ 80
Fixed income securities	65	65
Money market funds	14	6
	$ 165	$ 151

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.

Change in value of charitable gift annuities, recorded in other revenue on the consolidated statements of activities, consists of (in thousands):

	Year Ended September 30, 2016	Year Ended September 30, 2015
Payments on charitable gift annuities	$ (402)	$ (403)
Actuarial change in charitable gift annuity liability	(12)	120
Charitable gift annuity maturities	17	67
	$ (397)	$ (216)

10. TEMPORARILY RESTRICTED NET ASSETS:

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

	September 30, 2016	September 30, 2015
Marriage	$ 6,340	$ 212
Pledges receivable	432	588
Reserve for annuities	411	397
Parenting	129	-
Evangelism	40	6
Film series programs	-	52
	$ 7,352	$ 1,255

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, 2016 and 2015, were $1,160,000 and $1,142,000, respectively.

12. ALLOCATION OF JOINT COSTS:

During the years ended September 30, 2016 and 2015, 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):

12. ALLOCATION OF JOINT COSTS, continued:

	Year Ended September 30, 2016	Year Ended September 30, 2015
Program services:		
Parenting	$ 4,180	$ 4,643
Marriage	1,825	1,701
Citizenship	926	931
Evangelism and discipleship	808	536
Advocacy	130	183
	7,869	7,994
Fund-raising	1,146	1,164
	$ 9,015	$ 9,158

13. COMMITMENTS:

Focus has entered into various service agreements with unrelated third party vendors. Lease expenses for the years ended September 30, 2016 and 2015 were $118,000 and $98,0000 respectively. Future minimum payments required under lease agreements and other contractual obligations as of the year ended September 30, 2016, are (in thousands):

Year Ending September 30,	
2017	$ 3,239
2018	466
2019	215
2020	120
2021	112
	$ 4,152

14. FUTURE LEASE INCOME:

Focus has entered into various lease agreements with unrelated third party tenants. Lease income for the year ended September 30, 2016 was approximately $154,000. Future minimum lease income under these agreements in effect as of the year ended September 30, 2016, are (in thousands):

Year Ending September 30,		
2017	$	736
2018		824
2019		824
2020		824
2021		675
Thereafter		152
	$	4,035

15. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the consolidated 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

CAPINCROUSE LLP

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, 2016 and 2015, and our report thereon dated January 13, 2017, 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 24-29 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 13, 2017

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FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2016

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 3,387,806	$ 986,070	$ -	$ 4,373,876
Restricted cash	4,000,000	-	-	4,000,000
Investments	6,412,494	-	-	6,412,494
Accounts receivable–net	802,674	8,289	(71,845)	739,118
Inventory	507,361	40,554	-	547,915
Pledges and estate receivable	3,931,647	-	-	3,931,647
Prepaid expenses	2,780,200	-	-	2,780,200
Property held for investment	529,692	-	-	529,692
	22,351,874	1,034,913	(71,845)	23,314,942
Property held for investment– net of current portion	1,822,090	-	-	1,822,090
Property and equipment–net	32,123,098	-	-	32,123,098
Film production costs–net	2,669,279	81,166	-	2,750,445
Other assets	1,500,444	-	-	1,500,444
Long-term investments	7,303,881	-	-	7,303,881
Investment in subsidiaries	(10,565)	-	10,565	-
Endowment assets	164,575	-	-	164,575
Total Assets	$ 67,924,676	$ 1,116,079	$ (61,280)	$ 68,979,475
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 3,772,943	$ 72,343	$ (71,845)	$ 3,773,441
Accrued expenses	4,081,261	10,706	-	4,091,967
Deferred revenue	2,978,069	-	-	2,978,069
Current portion of charitable gift annuities liability	410,811	-	-	410,811
	11,243,084	83,049	(71,845)	11,254,288
Long term liabilities	-	1,043,595	-	1,043,595
Charitable gift annuities liability– net of current portion	2,523,073	-	-	2,523,073
	13,766,157	1,126,644	(71,845)	14,820,956

(continued)

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2016

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	14,592,219	44,467	(44,467)	14,592,219
Equity in property and equipment	32,123,098	-	-	32,123,098
	46,715,317	44,467	(44,467)	46,715,317
Temporarily restricted	7,352,202	-	-	7,352,202
Permanently restricted	91,000	-	-	91,000
	54,158,519	44,467	(44,467)	54,158,519
Stockholders' equity	-	(805,032)	805,032	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 67,924,676	$ 1,116,079	$ (61,280)	$ 68,979,475

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2015

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 12,467,382	$ 960,897	$ -	$ 13,428,279
Restricted cash	4,000,000	-	-	4,000,000
Investments	5,808,040	-	-	5,808,040
Accounts receivable–net	801,064	49,175	(94,372)	755,867
Inventory	323,092	-	-	323,092
Pledges receivable	587,778	-	-	587,778
Prepaid expenses	2,634,662	-	-	2,634,662
Property held for investment	529,692	-	-	529,692
	27,151,710	1,010,072	(94,372)	28,067,410
Property held for investment– net of current portion	1,822,090	-	-	1,822,090
Property and equipment–net	30,078,020	-	-	30,078,020
Film production costs–net	3,439,402	282,373	-	3,721,775
Other assets	426,559	-	-	426,559
Investment in subsidiaries	115,999	-	(115,999)	-
Endowment assets	152,367	-	-	152,367
Total Assets	$ 63,186,147	$ 1,292,445	$ (210,371)	$ 64,268,221
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 3,224,326	$ 98,504	$ (94,372)	$ 3,228,458
Accrued expenses	3,305,163	34,347	-	3,339,510
Deferred revenue	2,483,087	-	-	2,483,087
Current portion of charitable gift annuities liability	396,669	-	-	396,669
	9,409,245	132,851	(94,372)	9,447,724
Long term liabilities	-	1,043,595	-	1,043,595
Charitable gift annuities liability– net of current portion	2,548,839	-	-	2,548,839
	11,958,084	1,176,446	(94,372)	13,040,158

(continued)

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2015

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	19,804,148	44,181	(44,181)	19,804,148
Equity in property and equipment	30,078,020	-	-	30,078,020
	49,882,168	44,181	(44,181)	49,882,168
Temporarily restricted	1,254,895	-	-	1,254,895
Permanently restricted	91,000	-	-	91,000
	51,228,063	44,181	(44,181)	51,228,063
Stockholders' equity, net	-	(678,182)	678,182	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 63,186,147	$ 1,292,445	$ (210,371)	$ 64,268,221

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Activities

Year Ended September 30, 2016

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 60,593,255	$ 19,014,760	$ -	$ 79,608,015	$ 62,000	$ -	$ -	$ 62,000	$ -	$ 79,670,015
Sales	7,282,808	-	-	7,282,808	61,325	-	-	61,325	-	7,344,133
Royalty and licensing revenue	2,427,732	-	-	2,427,732	156,595	-	-	156,595	-	2,584,327
Investment income	455,086	-	-	455,086	-	-	-	-	-	455,086
Event revenue	2,634,957	-	-	2,634,957	-	-	-	-	-	2,634,957
Earnings of subsidiaries	(126,564)	-	-	(126,564)	-	-	-	-	126,564	-
Other revenue	788,166	-	-	788,166	-	-	-	-	-	788,166
Total Support and Revenue	74,055,440	19,014,760	-	93,070,200	279,920	-	-	279,920	126,564	93,476,684
NET ASSETS RELEASED:										
Time restrictions	640,042	(640,042)	-	-	-	-	-	-	-	-
Purpose restrictions	12,277,411	(12,277,411)	-	-	-	-	-	-	-	-
Total Net Assets Released	12,917,453	(12,917,453)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	26,250,923	-	-	26,250,923	-	-	-	-	-	26,250,923
Parenting	23,500,612	-	-	23,500,612	108,900	-	-	108,900	-	23,609,512
Evangelism and discipleship	15,545,374	-	-	15,545,374	140,547	-	-	140,547	-	15,685,921
Advocacy	5,697,491	-	-	5,697,491	150,413	-	-	150,413	-	5,847,904
Citizenship	5,200,809	-	-	5,200,809	-	-	-	-	-	5,200,809
	76,195,209	-	-	76,195,209	399,860	-	-	399,860	-	76,595,069
Supporting activities:										
General and administrative	7,467,842	-	-	7,467,842	6,624	-	-	6,624	-	7,474,466
Fund-raising	6,476,693	-	-	6,476,693	-	-	-	-	-	6,476,693
Total Expenses	90,139,744	-	-	90,139,744	406,484	-	-	406,484	-	90,546,228
Change in Net Assets	(3,166,851)	6,097,307	-	2,930,456	(126,564)	-	-	(126,564)	126,564	2,930,456
Net Assets, Beginning of Year	49,882,168	1,254,895	91,000	51,228,063	115,999	-	-	115,999	(115,999)	51,228,063
Net Assets, End of Year	$ 46,715,317	$ 7,352,202	$ 91,000	$ 54,158,519	$ (10,565)	$ -	$ -	$ (10,565)	$ 10,565	$ 54,158,519

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Activities

Year Ended September 30, 2015

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 61,511,993	$ 13,193,742	$ -	$ 74,705,735	$ 126,000	$ -	$ -	$ 126,000	$ (66,000)	$ 74,765,735
Sales	7,199,359	-	-	7,199,359	1,571,122	-	-	1,571,122	-	8,770,481
Royalty and licensing revenue	2,100,625	-	-	2,100,625	45,878	-	-	45,878	-	2,146,503
Investment income	180,131	-	-	180,131	-	-	-	-	-	180,131
Event revenue	2,143,266	-	-	2,143,266	-	-	-	-	-	2,143,266
Earnings of subsidiaries	118,113	-	-	118,113	-	-	-	-	(118,113)	-
Other revenue	542,272	-	-	542,272	-	-	-	-	-	542,272
Total Support and Revenue	73,795,759	13,193,742	-	86,989,501	1,743,000	-	-	1,743,000	(184,113)	88,548,388
NET ASSETS RELEASED:										
Time restrictions	3,327,154	(3,327,154)	-	-	-	-	-	-	-	-
Purpose restrictions	10,353,330	(10,353,330)	-	-	-	-	-	-	-	-
Total Net Assets Released	13,680,484	(13,680,484)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	22,225,328	-	-	22,225,328	-	-	-	-	-	22,225,328
Parenting	26,828,783	-	-	26,828,783	109,728	-	-	109,728	(66,000)	26,872,511
Evangelism and discipleship	14,941,347	-	-	14,941,347	538,664	-	-	538,664	-	15,480,011
Advocacy	6,661,475	-	-	6,661,475	941,313	-	-	941,313	-	7,602,788
Citizenship	4,221,036	-	-	4,221,036	-	-	-	-	-	4,221,036
	74,877,969	-	-	74,877,969	1,589,705	-	-	1,589,705	(66,000)	76,401,674
Supporting activities:										
General and administrative	6,335,050	-	-	6,335,050	14,160	-	-	14,160	-	6,349,210
Fund-raising	6,368,076	-	-	6,368,076	21,022	-	-	21,022	-	6,389,098
Total Expenses	87,581,095	-	-	87,581,095	1,624,887	-	-	1,624,887	(66,000)	89,139,982
Change in Net Assets	(104,852)	(486,742)	-	(591,594)	118,113	-	-	118,113	(118,113)	(591,594)
Net Assets, Beginning of Year	49,987,020	1,741,637	91,000	51,819,657	(2,114)	-	-	(2,114)	2,114	51,819,657
Net Assets, End of Year	$ 49,882,168	$ 1,254,895	$ 91,000	$ 51,228,063	$ 115,999	$ -	$ -	$ 115,999	$ (115,999)	$ 51,228,063