FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

September 30, 2017 and 2016

FOCUS ON THE FAMILY AND AFFILIATES

Table of Contents

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, 2017 and 2016, 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.

2435 Research Parkway, Suite 200
Colorado Springs, CO 80920
719.528.6225
capincrouse.com

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, 2017 and 2016, 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
February 7, 2018

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	September 30, 2017	September 30, 2016
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 9,851	$ 4,374
Restricted cash	4,000	4,000
Accounts receivable–net	1,404	739
Inventory	923	548
Pledges and estate receivable	341	3,932
Prepaid expenses	6,190	2,780
Property held for investment	1,283	530
Investments	8,572	6,412
	32,564	23,315
Property held for investment–net of current portion	1,529	1,822
Property and equipment–net	29,854	32,123
Film production costs–net	953	2,750
Other assets	737	1,500
Long-term investments	5,533	7,304
Endowment assets	176	165
Total Assets	$ 71,346	$ 68,979
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 3,905	$ 3,773
Accrued expenses	3,428	4,092
Deferred revenue	8,301	2,978
Current portion of charitable gift annuities liability	425	411
	16,059	11,254
Long term liabilities	-	1,044
Charitable gift annuities liability–net of current portion	2,704	2,523
	18,763	14,821
Net assets:		
Unrestricted:		
Operations	14,524	14,592
Equity in property and equipment	29,854	32,123
	44,378	46,715
Temporarily restricted	8,114	7,352
Permanently restricted	91	91
	52,583	54,158
Total Liabilities and Net Assets	$ 71,346	$ 68,979

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended September 30, 2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	$ 55,204	$ 20,035	$ -	$ 75,239	$ 60,656	$ 19,014	$ -	$ 79,670
Sales	7,860	-	-	7,860	7,344	-	-	7,344
Royalty and licensing revenue	2,242	-	-	2,242	2,586	-	-	2,586
Investment income	379	-	-	379	455	-	-	455
Event revenue	2,907	-	-	2,907	2,635	-	-	2,635
Other revenue	2,007	-	-	2,007	788	-	-	788
Total Support and Revenue	70,599	20,035	-	90,634	74,464	19,014	-	93,478
NET ASSETS RELEASED:								
Time restrictions	420	(420)	-	-	640	(640)	-	-
Purpose restrictions	18,853	(18,853)	-	-	12,277	(12,277)	-	-
Total Net Assets Released	19,273	(19,273)	-	-	12,917	(12,917)	-	-
EXPENSES:								
Program services:								
Marriage	20,363	-	-	20,363	26,251	-	-	26,251
Parenting	29,331	-	-	29,331	23,610	-	-	23,610
Evangelism and discipleship	15,181	-	-	15,181	15,686	-	-	15,686
Advocacy	8,291	-	-	8,291	5,848	-	-	5,848
Citizenship	4,413	-	-	4,413	5,201	-	-	5,201
	77,579	-	-	77,579	76,596	-	-	76,596
Supporting activities:								
General and administrative	7,757	-	-	7,757	7,474	-	-	7,474
Fund-raising	6,873	-	-	6,873	6,477	-	-	6,477
Total Expenses	92,209	-	-	92,209	90,547	-	-	90,547
Change in Net Assets	(2,337)	762	-	(1,575)	(3,166)	6,097	-	2,931
Net Assets, Beginning of Year	46,715	7,352	91	54,158	49,881	1,255	91	51,227
Net Assets, End of Year	$ 44,378	$ 8,114	$ 91	$ 52,583	$ 46,715	$ 7,352	$ 91	$ 54,158

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30, 2017	2016
OPERATING ACTIVITIES:		
Change in net assets	$ (1,575)	$ 2,931
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of property and equipment	3,983	3,356
Amortization of film production costs	733	1,485
Actuarial change in charitable gift annuities liability	373	(12)
Realized loss on sale and disposal of assets	558	14
Net realized and unrealized gain on investments and endowment assets	(93)	(233)
Changes in operating assets:		
Accounts receivable	(665)	17
Inventory	(375)	(225)
Prepaid expenses	(3,410)	(145)
Pledges and estate receivable	3,591	(3,344)
Other assets	763	(1,073)
Changes in operating liabilities:		
Accounts payable	132	545
Accrued expenses	(664)	752
Deferred revenue	5,323	495
Net Cash Provided by Operating Activities	8,674	4,563
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,444)	(5,733)
Purchases of investments	(1,126)	(8,536)
Proceeds from sales of investments	819	847
Proceeds from sales of property and equipment	351	17
Payments for film production	-	(212)
Proceeds from sale of film production	425	-
Net Cash Used by Investing Activities	(1,975)	(13,617)
FINANCING ACTIVITIES:		
Payments on long term liabilities	(1,044)	-
Proceeds from issuance of new charitable gift annuities	759	385
Payments on charitable gift annuities	(419)	(402)
Gift portion of new annuities	(441)	-
Charitable gift annuity maturities	(77)	17
Net Cash Used by Financing Activities	(1,222)	-
Net Change in Cash and Cash Equivalents	5,477	(9,054)
Cash and Cash Equivalents, Beginning of Year	4,374	13,428
Cash and Cash Equivalents, End of Year	$ 9,851	$ 4,374

During the year ended September 30, 2017, property and equipment of $459,635 was reclassified to property held for investment.

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 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 a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, FOF is subject to federal income tax on any unrelated business taxable income. In addition, FOF is not classified as a private foundation within the meaning of Section 509(a) of the IRC. 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, 2017 and 2016.

RezilientKidz (RK) was organized on March 11, 2011, as a nonprofit educational corporation under the laws of Colorado and is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, RK is subject to federal income tax on any unrelated business taxable income. In addition, RK is not classified as a private foundation within the meaning of Section 509(a) of the IRC. RK is a charitable, educational, and scientific organization created to champion the needs of children and equip parents to build thriving, healthy families through research, community initiatives, and reliable content.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of receivables from events, licensees, trade sales, and tenant improvements. Accounts receivable are net of an allowance for uncollectible accounts of $0 for both September 30, 2017 and 2016. 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.

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 $141,000 and $134,000 as of September 30, 2017 and 2016, respectively. This allowance is calculated based on the historical collectability of the related pledges.

PREPAID EXPENSES

Prepaid expenses as of September 30, 2017 include approximately $3,500,000 for Focus' 40th anniversary celebration event.

PROPERTY HELD FOR INVESTMENT

Prior to the year ended September 30, 2016, FOF entered into a joint venture agreement to become a member of an LLC., for the purpose of developing and constructing a commercial retail property. During the year ended September 30, 2017, development of the land began with ground work and utility easements. As of September 30, 2017 and 2016, management has reclassified a total of $2,811,417 and $2,351,782, respectively, from property and equipment to property held for investment. As of September 30, 2017, current assets reflect $1,282,855 to be used to fund the original LLC and a second LLC during the year ended September 30, 2018. FOF has recorded $1,528,562 as a non-current asset to fund future investments in the LLCs. Property held for investment is held at the lower of cost or fair market value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2017 and 2016, accumulated amortization was $30,078,000 and $30,106,000, 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 2017, 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, 2018. Advances under the agreements bear interest at the Lender's Prime Rate (the "Index"), which was 4.25% as of September 30, 2017 and 4.0% as of September 30, 2016. The line of credit is collateralized by real property. As of September 30, 2017 and 2016, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2017 and 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2017 and 2016, there were no outstanding balances on the letter of credit and there were no draws during the fiscal years ended September 30, 2017 and 2016. The letter of credit was cancelled by the Magical Cruise Company on January 11, 2018.

During the years ended September 30, 2017 and 2016, FOF maintained a letter of credit with a bank for $487,502 and $801,522, respectively, 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, 2017 and 2016, there were no outstanding balances on the letter of credit and there were no draws during the fiscal years ended September 30, 2017 and 2016. The letter of credit expires on July 3, 2019.

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 established an agreement where funding for film projects is not recognized as revenue until certain conditions have been met. If certain conditions were not met, amounts will be returned to the funding party. The amount was reflected as long term liabilities on the consolidated statements of financial position in the amount of $1,043,595 as of September 30, 2016. During the year ended September 30, 2017, the amount was refunded to the funding party.

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. During the year ended September 30, 2017, the reserve for annuities kept by Focus was approximately $425,000.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

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 gift of any amount (GOAA) is requested. During the years ended September 30, 2017 and 2016, material costs of $515,000 and $436,000 were incurred, respectively, and are included in resources expense in the consolidated statements of activities.

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.

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, 2017	Year Ended September 30, 2016
Advertising	$ 86	$ 100
Promotion	2,335	2,228
Circulation costs	314	305
	$ 2,735	$ 2,633

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, 2017 and 2016, Focus had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

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, 2017 and 2016 are:

		Fair Value Measurements Using (in thousands):		
	September 30, 2017	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	$ 528	$ 528	$ -	$ -
Mortgage Pools	461	-	461	-
Mortgage Obligations	51	-	51	-
Agency Securities	25	25	-	-
Multisector bonds	665	665	-	-
Corporate bonds	4,999	4,999	-	-
Mutual funds and exchange traded funds:				
Small cap value	388	388	-	-
Small cap growth	829	829	-	-
Large cap value	856	856	-	-
Large cap blend	615	615	-	-
Large cap growth	400	400	-	-
Real estate	308	308	-	-
International funds	355	355	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2017	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	72	72	-	-
Mutual funds:				
Small cap value	8	8	-	-
Small cap growth	21	21	-	-
Large cap value	24	24	-	-
Large cap blend	18	18	-	-
Large cap growth	9	9	-	-
Real estate	8	8	-	-
International funds	8	8	-	-

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:				
Fixed income securities:				
US Treasuries	$ 182	$ 182	$ -	$ -
Mortgage Pools	392	-	392	-
Mortgage Obligations	70	-	70	-
Multisector bonds	570	570	-	-
Corporate bonds	4,890	4,890	-	-
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	-	-

3. FAIR VALUE MEASUREMENTS, continued:

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,	
	2017	2016
National gift annuities:		
Mutual funds	$ 3,652	$ 2,761
Fixed income securities	2,307	2,022
Money market accounts	340	327
	6,299	5,110
California gift annuities:		
Mutual funds and exchange traded funds	254	518
Money market accounts	9	6
Fixed income securities	264	-
	527	524
Corporate bonds	4,038	4,082
Certificates of deposit	3,241	4,000
	$ 14,105	$ 13,716

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

	Year Ended September 30,	
	2017	2016
Interest and dividends	$ 286	$ 222
Realized and unrealized gains	93	233
	$ 379	$ 455

5. PLEDGES AND ESTATE RECEIVABLE:
Pledges receivable consist of (in thousands):

	September 30, 2017	September 30, 2016
Due in less than one year	$ 482	$ 4,066
Less allowance for uncollectible amounts	(141)	(134)
	$ 341	$ 3,932

6. PROPERTY AND EQUIPMENT–NET:
Property and equipment-net consists of (in thousands):

	September 30, 2017	September 30, 2016
Land	$ 5,579	$ 6,038
Land improvements	3,997	3,997
Buildings and building improvements	60,150	59,086
Furniture, equipment, and software	31,075	34,108
Website	6,120	6,065
	106,921	109,294
Accumulated depreciation and amortization	(77,444)	(77,484)
	29,477	31,810
Projects in progress	377	313
	$ 29,854	$ 32,123

7. OTHER ASSETS:
Other assets consist of (in thousands):

	September 30, 2017	September 30, 2016
Deferred expenses	$ 335	$ 1,248
Advance on predevelopment fees	200	200
Deferred rent asset	202	52
	$ 737	$ 1,500

8. ENDOWMENT ASSETS:

Endowment assets consist of (in thousands):

	September 30,	
	2017	2016
Mutual funds	$ 101	$ 86
Fixed income securities	67	65
Money market funds	8	14
	$ 176	$ 165

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,	
	2017	2016
Payments on charitable gift annuities	$ (419)	$ (402)
Actuarial change in charitable gift annuity liability	373	(12)
Charitable gift annuity maturities	(77)	(17)
	$ (123)	$ (431)

10. TEMPORARILY RESTRICTED NET ASSETS:

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

	September 30, 2017	September 30, 2016
Marriage	$ 6,987	$ 6,340
Sanctity of human life	756	-
Time restricted amounts	290	432
Parenting	44	129
Evangelism	37	40
Reserve for annuities	-	411
	$ 8,114	$ 7,352

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, 2017 and 2016, were $1,198,000 and $1,160,000, respectively.

12. ALLOCATION OF JOINT COSTS:

During the years ended September 30, 2017 and 2016, 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, 2017	2016
Program services:		
Parenting	$ 5,345	$ 4,180
Marriage	1,183	1,825
Evangelism and discipleship	1,078	808
Citizenship	875	926
Advocacy	224	130
	8,705	7,869
Fund-raising	1,369	1,146
	$ 10,074	$ 9,015

13. COMMITMENTS:

Focus has entered into various service agreements with unrelated third party vendors. Lease expenses for the years ended September 30, 2017 and 2016 were $108,000 and $118,000 respectively. Future minimum payments required under lease agreements and other contractual obligations as of the year ended September 30, 2017, are (in thousands):

Year Ending September 30,	
2018	$ 495
2019	216
2020	121
2021	112
2022	112
	$ 1,056

14. FUTURE LEASE INCOME:

Focus has entered into various lease agreements with unrelated third party tenants. Lease income for the years ended September 30, 2017 and 2016 was approximately $751,000 and $171,000, respectively. Future minimum lease income under these agreements in effect as of the year ended September 30, 2017, are (in thousands):

Year Ending September 30,		
2018	$	798
2019		798
2020		798
2021		645
2022		97
	$	3,136

15. SUBSEQUENT EVENTS:

Subsequent events were evaluated through February 7, 2018, which is the date the financial statement were available to be issued.

In December 2017, FOF contributed 8.1 acres of property held for investment as of September 30, 2017 to become a member of Highlands at Briargate I, LLC. Construction of retail shops and restaurants has begun with the first business anticipated to be open in early 2018. The remaining land to be contributed is recorded as property held for investment–net of current portion on the consolidated statements of financial position.

Also, in December 2017, FOF contributed an additional 4.5 acres to Highlands at Briargate II, LLC to develop and construct a senior living center. This property was recorded as property held for investment under current assets on the consolidated statements of financial position as of September 30, 2017.

As noted in footnote #2, the letter of credit related to the 40th anniversary celebration event was cancelled in January 2018 subsequent to the event taking place.

SUPPLEMENTAL INFORMATION

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, 2017 and 2016, and our report thereon dated February 7, 2018, 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
February 7, 2018

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2017

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 9,770,373	$ 80,936	$ -	$ 9,851,309
Restricted cash	4,000,000	-	-	4,000,000
Accounts receivable–net	1,484,635	48,982	(130,110)	1,403,507
Inventory	869,787	53,675	-	923,462
Pledges and estate receivable	340,999	-	-	340,999
Prepaid expenses	6,190,488	-	-	6,190,488
Property held for investment	1,282,855	-	-	1,282,855
Investments	8,572,248	-	-	8,572,248
	32,511,385	183,593	(130,110)	32,564,868
Property held for investment–net of current portion	1,528,562	-	-	1,528,562
Property and equipment–net	29,853,626	-	-	29,853,626
Film production costs–net	946,717	6,433	-	953,150
Other assets	736,507	-	-	736,507
Long-term investments	5,533,131	-	-	5,533,131
Investment in subsidiaries	58,439	-	(58,439)	-
Endowment assets	175,773	-	-	175,773
Total Assets	$ 71,344,140	$ 190,026	$ (188,549)	$ 71,345,617
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 3,904,900	$ 130,403	$ (130,110)	$ 3,905,193
Accrued expenses	3,427,019	1,184	-	3,428,203
Deferred revenue	8,300,502	-	-	8,300,502
Current portion of charitable gift annuities liability	424,760	-	-	424,760
	16,057,181	131,587	(130,110)	16,058,658
Charitable gift annuities liability–net of current portion	2,704,378	-	-	2,704,378
	18,761,559	131,587	(130,110)	18,763,036

(continued)

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2017

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	14,523,730	40,936	(40,936)	14,523,730
Equity in property and equipment	29,853,626	-	-	29,853,626
	44,377,356	40,936	(40,936)	44,377,356
Temporarily restricted	8,114,225	-	-	8,114,225
Permanently restricted	91,000	-	-	91,000
	52,582,581	40,936	(40,936)	52,582,581
Stockholders' equity	-	(732,497)	732,497	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 71,344,140	$ 190,026	$ (188,549)	$ 71,345,617

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
Accounts receivable–net	802,674	8,289	(71,845)	739,118
Inventory	507,361	40,554	-	547,915
Pledges receivable	3,931,647	-	-	3,931,647
Prepaid expenses	2,780,200	-	-	2,780,200
Property held for investment	529,692	-	-	529,692
Investments	6,412,494	-	-	6,412,494
	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, net	-	(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 Activities

Year Ended September 30, 2017

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 55,121,424	$ 20,035,340	$ -	$ 75,156,764	$ 82,645	$ -	$ -	$ 82,645	$ -	$ 75,239,409
Sales	7,823,617	-	-	7,823,617	36,703	-	-	36,703	-	7,860,320
Royalty and licensing revenue	2,071,441	-	-	2,071,441	170,109	-	-	170,109	-	2,241,550
Investment income	378,686	-	-	378,686	-	-	-	-	-	378,686
Event revenue	2,906,703	-	-	2,906,703	-	-	-	-	-	2,906,703
Earnings of subsidiaries	69,004	-	-	69,004	-	-	-	-	(69,004)	-
Other revenue	2,006,789	-	-	2,006,789	-	-	-	-	-	2,006,789
Total Support and Revenue	70,377,664	20,035,340	-	90,413,004	289,457	-	-	289,457	(69,004)	90,633,457
NET ASSETS RELEASED:										
Time restrictions	420,100	(420,100)	-	-	-	-	-	-	-	-
Purpose restrictions	18,853,217	(18,853,217)	-	-	-	-	-	-	-	-
Total Net Assets Released	19,273,317	(19,273,317)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	20,363,231	-	-	20,363,231	-	-	-	-	-	20,363,231
Parenting	29,255,832	-	-	29,255,832	75,278	-	-	75,278	-	29,331,110
Evangelism and discipleship	15,122,832	-	-	15,122,832	57,704	-	-	57,704	-	15,180,536
Advocacy	8,208,864	-	-	8,208,864	82,059	-	-	82,059	-	8,290,923
Citizenship	4,413,318	-	-	4,413,318	-	-	-	-	-	4,413,318
	77,364,077	-	-	77,364,077	215,041	-	-	215,041	-	77,579,118
Supporting activities:										
General and administrative	7,751,943	-	-	7,751,943	5,412	-	-	5,412	-	7,757,355
Fund-raising	6,872,922	-	-	6,872,922	-	-	-	-	-	6,872,922
Total Expenses	91,988,942	-	-	91,988,942	220,453	-	-	220,453	-	92,209,395
Change in Net Assets	(2,337,961)	762,023	-	(1,575,938)	69,004	-	-	69,004	(69,004)	(1,575,938)
Net Assets, Beginning of Year	46,715,317	7,352,202	91,000	54,158,519	(10,565)	-	-	(10,565)	10,565	54,158,519
Net Assets, End of Year	$ 44,377,356	$ 8,114,225	$ 91,000	$ 52,582,581	$ 58,439	$ -	$ -	$ 58,439	$ (58,439)	$ 52,582,581

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