FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors Report

September 30, 2018 and 2017

CAPINCROUSE LLP

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, 2018 and 2017, 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, 2018 and 2017, 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 13, 2019

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	September 30, 2018	September 30, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 11,177	$ 9,851
Restricted cash	4,000	4,000
Accounts receivable–net	839	1,404
Inventory	1,183	923
Pledges receivable	189	341
Prepaid expenses	3,092	6,190
Property held for investment	-	1,283
Investments	9,039	8,572
	29,519	32,564
Property held for investment–net of current portion	1,529	1,529
Film production costs–net	501	953
Other assets	2,401	737
Long-term investments	3,759	5,533
Property and equipment–net	28,552	29,854
Endowment assets	186	176
Total Assets	$ 66,447	$ 71,346
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 4,061	$ 3,905
Accrued expenses	4,063	3,428
Deferred revenue	3,365	8,301
Current portion of charitable gift annuities liability	402	425
	11,891	16,059
Long-term liabilities	574	-
Charitable gift annuities liability–net of current portion	2,500	2,704
	14,965	18,763
Net assets:		
Unrestricted:		
Operations	10,430	14,524
Equity in property and equipment	28,552	29,854
	38,982	44,378
Temporarily restricted	12,409	8,114
Permanently restricted	91	91
	51,482	52,583
Total Liabilities and Net Assets	$ 66,447	$ 71,346

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended September 30,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	$ 56,993	$ 18,817	$ -	$ 75,810	$ 55,204	$ 20,035	$ -	$ 75,239
Sales	8,618	-	-	8,618	7,860	-	-	7,860
Royalty and licensing revenue	2,032	-	-	2,032	2,242	-	-	2,242
Investment income	327	-	-	327	446	-	-	446
Event revenue	8,740	-	-	8,740	2,907	-	-	2,907
Change in value of annuities	91	-	-	91	323	-	-	323
Income from joint ventures	640	-	-	640	-	-	-	-
Other revenue	2,023	-	-	2,023	1,617	-	-	1,617
Total Support and Revenue	79,464	18,817	-	98,281	70,599	20,035	-	90,634
NET ASSETS RELEASED:								
Time restrictions	201	(201)	-	-	420	(420)	-	-
Purpose restrictions	14,321	(14,321)	-	-	18,853	(18,853)	-	-
Total Net Assets Released	14,522	(14,522)	-	-	19,273	(19,273)	-	-
EXPENSES:								
Program services:								
Marriage	26,793	-	-	26,793	20,363	-	-	20,363
Parenting	28,854	-	-	28,854	29,331	-	-	29,331
Evangelism and discipleship	17,375	-	-	17,375	15,181	-	-	15,181
Advocacy	7,573	-	-	7,573	8,291	-	-	8,291
Citizenship	4,129	-	-	4,129	4,413	-	-	4,413
	84,724	-	-	84,724	77,579	-	-	77,579
Supporting activities:								
General and administrative	7,683	-	-	7,683	7,757	-	-	7,757
Fund-raising	6,975	-	-	6,975	6,873	-	-	6,873
Total Expenses	99,382	-	-	99,382	92,209	-	-	92,209
Change in Net Assets	(5,396)	4,295	-	(1,101)	(2,337)	762	-	(1,575)
Net Assets, Beginning of Year	44,378	8,114	91	52,583	46,715	7,352	91	54,158
Net Assets, End of Year	$ 38,982	$ 12,409	$ 91	$ 51,482	$ 44,378	$ 8,114	$ 91	$ 52,583

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30, 2018	Year Ended September 30, 2017
OPERATING ACTIVITIES:		
Change in net assets	$ (1,101)	$ (1,575)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of property and equipment	4,036	3,983
Amortization of film production costs	478	733
Realized loss (gain) on sale and disposal of assets	(11)	558
Net realized and unrealized loss on investments and endowment assets	8	14
Change in value of annuities	(91)	(323)
Changes in operating assets:		
Accounts receivable	565	(665)
Inventory	(260)	(375)
Prepaid expenses	3,098	(3,410)
Pledges and estate receivable	152	3,591
Other assets	(381)	763
Changes in operating liabilities:		
Accounts payable and long-term liabilities	730	132
Accrued expenses	635	(664)
Deferred revenue	(4,936)	5,323
Net Cash Provided by Operating Activities	2,922	8,085
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,745)	(2,444)
Purchases of investments	(12,409)	(915)
Proceeds from sales of investments	13,708	778
Proceeds from sales of property and equipment	23	351
Payments for film production	(26)	-
Proceeds from sale of film production	-	425
Gift portion of new annuities	(50)	(441)
Net Cash Used by Investing Activities	(1,499)	(2,246)
FINANCING ACTIVITIES:		
Payments on long term liabilities	-	(1,044)
Proceeds from issuance of new charitable gift annuities	93	759
Charitable gift annuity maturities	(190)	(77)
Net Cash Used by Financing Activities	(97)	(362)
Net Change in Cash and Cash Equivalents	1,326	5,477
Cash and Cash Equivalents, Beginning of Year	9,851	4,374
Cash and Cash Equivalents, End of Year	$ 11,177	$ 9,851

* During the year ended September 30, 2018, property held for investment of $1,283,000 was invested in joint ventures.
* 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

FOCUS ON THE FAMILY AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

1. NATURE OF ORGANIZATIONS:

Focus on the Family (FOF) is a non-denominational church 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. which 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, 2018 and 2017.

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 chartable, 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.

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. As of September 30, 2018 and 2017, cash and cash equivalents, including restricted cash exceeded federally insured limits by approximately $14,500,000 and $13,250,000, respectively. Focus has not experienced any losses in such accounts and believe they are not exposed to any significant credit risk on cash and cash equivalents.

RESTRICTED CASH

Restricted cash consists of amounts held as a compensating balance for the bank that extended 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 tenant improvements. Accounts receivable are net of an allowance for uncollectible accounts of $6,315 and $0 as of September 30, 2018 and 2017, 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 net realizable value, 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 $100,000 and $141,000 as of September 30, 2018 and 2017, respectively. This allowance is calculated based on the historical collectability of the related pledges.

PREPAID EXPENSES

Prepaid expenses mainly consist of prepaid service contracts and advance royalties as of September 30, 2018 and 2017. The balance as of September 30, 2017 also included approximately $3,500,000 of prepaid costs for Focus' 40th anniversary celebration event.

PROPERTY HELD FOR INVESTMENT

As of September 30, 2018 and 2017, management reclassified a total of $1,528,562 and $2,811,417, respectively, from property and equipment to property held for investment. As of September 30, 2017, current assets reflected $1,282,855 as the combined anticipated funding of Highlands at Briargate I, LLC and Highlands at Briargate II, LLC (see note 7). As of September 30, 2018 and 2017, 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.

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, 2018 and 2017, accumulated amortization was $30,562,000 and $30,078,000, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 2018, FOF renewed a line of credit with a bank for $15,000,000. The line of credit is renewable annually by the Lender and matures on July 3, 2019. Advances under the agreements bear interest at the Lender's Prime Rate (the "Index"), which was 5.25% and 4.25% as of September 30, 2018 and 2017, respectively. The line of credit is collateralized by real property. As of September 30, 2018 and 2017, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2018 and 2017.

LETTERS 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 related to its 40th year anniversary celebration event. The letter of credit reduced the available balance of the operating line of credit with the bank by the same amount. The letter of credit was cancelled by the Magical Cruise Company on January 11, 2018, upon the completion of the event.

During both of the years ended September 30, 2018 and 2017, FOF maintained a letter of credit with a bank for $487,502, 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. For the years ended September 30, 2018 and 2017, the letter of credit facility was not used. The letter of credit expires on July 18, 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.

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. During the years ended September 30, 2018 and 2017, the reserve for annuities kept by Focus was approximately $402,000 and $425,000, respectively.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

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, 2018 and 2017, material costs of $682,000 and $515,000 were incurred, respectively, and are included in expenses 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.

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,	
	2018	2017
Advertising	$ 72	$ 86
Promotion	3,354	2,335
Circulation costs	326	314
	$ 3,752	$ 2,735

ADOPTION OF RECENTLY ISSUED PRONOUNCEMENTS

In July 2015, the Financial Accounting Standards Board (FASB) issued guidance that replaces the existing accounting standards for inventory measurement in Accounting Standards Update (ASU) 2015-11, Simplifying the Subsequent Measurement of Inventory. The guidance is effective for fiscal years beginning after December 15, 2016, and requires inventory to be measured at the lesser of cost or net realizable value. Focus adopted the provisions of this guidance in the year ended September 30, 2018 which had not material impact on the 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, 2018 and 2017 are:

		Fair Value Measurements Using (in thousands):		
	September 30, 2018	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	$ 355	$ 355	$ -	$ -
Mortgage pools	566	-	566	-
Mortgage obligations	59	-	59	-
Multisector bonds	480	480	-	-
Corporate bonds	4,045	-	4,045	-
Mutual funds and exchange traded funds:				
Small cap value	300	300	-	-
Small cap growth	840	840	-	-
Large cap value	876	876	-	-
Large cap blend	337	337	-	-
Large cap growth	336	336	-	-
Real estate	401	401	-	-
International funds	850	850	-	-
Fixed income	563	563	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using (in thousands):		
	September 30, 2018	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	74	74	-	-
Mutual funds:				
Small cap value	7	7	-	-
Small cap growth	9	9	-	-
Large cap value	20	20	-	-
Large cap blend	9	9	-	-
Large cap growth	25	25	-	-
Real estate	10	10	-	-
International funds	23	23	-	-

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)
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	-	-
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:

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, 2018	September 30, 2017
National gift annuities:		
Mutual funds	$ 4,255	$ 3,652
Fixed income securities	2,253	2,307
Money market accounts	261	340
	6,769	6,299
California gift annuities:		
Mutual funds and exchange traded funds	246	254
Money market accounts	17	9
Fixed income securities	254	264
	517	527
Corporate bonds	3,034	4,038
Certificates of deposit	2,478	3,241
	$ 12,798	$ 14,105

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

	Year Ended September 30, 2018	Year Ended September 30, 2017
Interest and dividends	$ 335	$ 460
Realized and unrealized losses	(8)	(14)
	$ 327	$ 446

5. PLEDGES RECEIVABLE:

Pledges receivable consist of (in thousands):

	September 30, 2018	September 30, 2017
Due in less than one year	$ 289	$ 482
Less allowance for uncollectible amounts	(100)	(141)
	$ 189	$ 341

6. PROPERTY AND EQUIPMENT–NET:

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

	September 30, 2018	September 30, 2017
Land	$ 5,579	$ 5,579
Land improvements	4,021	3,997
Buildings and building improvements	60,490	60,150
Furniture, equipment, and software	32,430	31,075
Website	6,406	6,120
	108,926	106,921
Accumulated depreciation and amortization	(80,923)	(77,444)
	28,003	29,477
Projects in progress	549	377
	$ 28,552	$ 29,854

7. OTHER ASSETS:

Other assets consist of (in thousands):

	September 30, 2018	September 30, 2017
Investment in joint ventures	$ 1,923	$ -
Deferred expenses	270	335
Advance on predevelopment fees	-	200
Deferred rent asset	208	202
	$ 2,401	$ 737

7. OTHER ASSETS, continued:

During the year ended September 30, 2015, FOF entered into a joint venture agreement to become a member of Highlands at Briargate I, LLC. (HBI), for the purpose of developing and constructing a retail shopping center. In December 2017, FOF contributed 8.1 acres to HBI in exchange for an ownership percentage of 25%. This is recorded as an investment in joint ventures and included in other assets on the consolidated statement of financial position as of September 30, 2018. During the year ended September 30, 2018, several buildings were constructed and tenants commenced operations.

HBI's legal year-end is December 31, however, for comparability the presentation in the consolidated financial statements reflects the balances and activities as of September 30, 2018. Summary financial information (rounded) of HBI is as follows for the period ended September 30, 2018:

Total Assets	$	13,777,000
Total Liabilities	$	10,804,000
Net Loss	$	(51,000)

During the year ended September 30, 2017, FOF entered into a joint venture agreement to become a member of Highlands at Briargate II, LLC. (HBII), for the purpose of developing and constructing a senior living center. In December 2017, FOF contributed 4.5 acres to HBII in exchange for an ownership percentage of 75%. This is recorded as an investment in joint ventures and included in other assets on the consolidated statement of financial position as of September 30, 2018. The project plans to begin construction in 2019.

HBII's legal year-end is December 31, however, for comparability the presentation in the consolidated financial statements reflects the balances and activities as of September 30, 2018. Summary financial information (rounded) of HBII is as follows for the period ended September 30, 2018:

Total Assets	$	1,670,000
Total Liabilities	$	97,000
Net Loss	$	(7,000)

FOF's investment in both joint ventures is being recorded on the equity method as it does not manage the ongoing operations of the ventures.

8. ENDOWMENT ASSETS:

Endowment assets consist of (in thousands):

	September 30, 2018	September 30, 2017
Mutual funds	$ 118	$ 101
Fixed income securities	59	67
Money market funds	9	8
	$ 186	$ 176

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

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

	Year Ended September 30, 2018	Year Ended September 30, 2017
Payments on charitable gift annuities	$ (409)	$ (419)
Interest and dividend income	139	94
Net realized and unrealized gains	230	352
Actuarial change in charitable gift annuity liability	321	373
Charitable gift annuity maturities	(190)	(77)
	$ 91	$ 323

10. TEMPORARILY RESTRICTED NET ASSETS:

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

	September 30, 2018	September 30, 2017
Marriage	$ 9,659	$ 6,987
Sanctity of human life	2,333	756
Pledges receivable	189	290
Evangelism	133	37
Parenting	95	44
	$ 12,409	$ 8,114

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, 2018 and 2017, were $1,246,000 and $1,198,000, respectively.

12. ALLOCATION OF JOINT COSTS:

During the years ended September 30, 2018 and 2017, 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, 2018	Year Ended September 30, 2017
Program services:		
Parenting	$ 5,289	$ 5,345
Marriage	1,368	1,183
Evangelism and discipleship	1,191	1,078
Citizenship	953	875
Advocacy	230	224
	9,031	8,705
Fund-raising	1,344	1,369
	$ 10,375	$ 10,074

13. COMMITMENTS:

Focus has entered into various service agreements with unrelated third party vendors. Lease expenses for the years ended September 30, 2018 and 2017 were $206,000 and $108,000, respectively. Future minimum payments required under lease agreements and other contractual obligations as of the year ended September 30, 2018, are (in thousands):

Year Ending September 30,		
2019	$	612
2020		605
2021		352
2022		343
2023		343
	$	2,255

14. FUTURE LEASE INCOME:

Focus has entered into various lease agreements with unrelated third party tenants. Lease income for the years ended September 30, 2018 and 2017 was approximately $864,000 and $751,000, respectively. Future minimum lease income under these agreements in effect as of the year ended September 30, 2018, are (in thousands):

Year Ending September 30,		
2019	$	905
2020		905
2021		751
2022		203
2023		40
	$	2,804

15. SUBSEQUENT EVENTS:

Subsequent events were evaluated through February 13, 2019, which is the date the consolidated financial statements were available to be issued.

Focus purchased land and buildings in Michigan in October, 2018 in order to expand Focus Marriage Institute. The funds for this purchase were made from a designated gift received in September, 2018. In December 2018, Hope Restored started marriage initiatives at this new location.

Citizen Magazine will release its last issue in January 2019, and will be moving to a free electronic newsletter.

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, 2018 and 2017, and our report thereon dated February 13, 2019, 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 22-27 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 13, 2019

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FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2018

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 11,011,849	$ 164,759	$ -	$ 11,176,608
Restricted cash	4,000,000	-	-	4,000,000
Accounts receivable–net	1,002,651	31,163	(194,474)	839,340
Inventory	1,122,950	59,878	-	1,182,828
Pledges receivable	188,838	-	-	188,838
Prepaid expenses	3,092,207	-	-	3,092,207
Investments	9,039,154	-	-	9,039,154
	29,457,649	255,800	(194,474)	29,518,975
Property held for investment	1,528,562	-	-	1,528,562
Film production costs–net	501,097	-	-	501,097
Other assets	2,401,263	-	-	2,401,263
Long-term investments	3,759,170	-	-	3,759,170
Investment in subsidiaries	63,750	-	(63,750)	-
Property and equipment–net	28,552,056	-	-	28,552,056
Endowment assets	185,500	-	-	185,500
Total Assets	$ 66,449,047	$ 255,800	$ (258,224)	$ 66,446,623
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 4,075,930	$ 179,758	$ (194,474)	$ 4,061,214
Accrued expenses	4,053,205	9,792	-	4,062,997
Deferred revenue	3,362,117	2,500	-	3,364,617
Current portion of charitable gift annuities liability	402,104	-	-	402,104
	11,893,356	192,050	(194,474)	11,890,932
Long-term liabilities	574,103	-	-	574,103
Charitable gift annuities liability–net of current portion	2,500,391	-	-	2,500,391
	14,967,850	192,050	(194,474)	14,965,426

(continued)

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2018

(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Unrestricted:				
Operations	10,428,904	(3,956)	3,956	10,428,904
Equity in property and equipment	28,552,056	-	-	28,552,056
	38,980,960	(3,956)	3,956	38,980,960
Temporarily restricted	12,409,237	-	-	12,409,237
Permanently restricted	91,000	-	-	91,000
	51,481,197	(3,956)	3,956	51,481,197
Stockholders' equity	-	(682,294)	682,294	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 66,449,047	$ 255,800	$ (258,224)	$ 66,446,623

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 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
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)	-
Property and equipment–net	29,853,626	-	-	29,853,626
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, net	-	(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 Activities

Year Ended September 30, 2018

	Focus on the Family				Affiliates					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:										
Contributions	$ 56,922,059	$ 18,816,709	$ -	$ 75,738,768	$ 70,775	$ -	$ -	$ 70,775	$ -	$ 75,809,543
Sales	8,562,608	-	-	8,562,608	54,960	-	-	54,960	-	8,617,568
Royalty and licensing revenue	1,939,023	-	-	1,939,023	93,442	-	-	93,442	-	2,032,465
Investment income	326,783	-	-	326,783	-	-	-	-	-	326,783
Event revenue	8,740,101	-	-	8,740,101	-	-	-	-	-	8,740,101
Change in value of annuities	91,098	-	-	91,098	-	-	-	-	-	91,098
Earnings of subsidiaries	5,311	-	-	5,311	-	-	-	-	(5,311)	-
Income from joint ventures	639,947	-	-	639,947	-	-	-	-	-	639,947
Other revenue	2,022,575	-	-	2,022,575	-	-	-	-	-	2,022,575
Total Support and Revenue	79,249,505	18,816,709	-	98,066,214	219,177	-	-	219,177	(5,311)	98,280,080
NET ASSETS RELEASED:										
Time restrictions	200,575	(200,575)	-	-	-	-	-	-	-	-
Purpose restrictions	14,321,122	(14,321,122)	-	-	-	-	-	-	-	-
Total Net Assets Released	14,521,697	(14,521,697)	-	-	-	-	-	-	-	-
EXPENSES:										
Program services:										
Marriage	26,792,746	-	-	26,792,746	-	-	-	-	-	26,792,746
Parenting	28,687,894	-	-	28,687,894	165,608	-	-	165,608	-	28,853,502
Evangelism and discipleship	17,374,239	-	-	17,374,239	652	-	-	652	-	17,374,891
Advocacy	7,532,256	-	-	7,532,256	41,098	-	-	41,098	-	7,573,354
Citizenship	4,129,320	-	-	4,129,320	-	-	-	-	-	4,129,320
	84,516,455	-	-	84,516,455	207,358	-	-	207,358	-	84,723,813
Supporting activities:										
General and administrative	7,676,137	-	-	7,676,137	6,508	-	-	6,508	-	7,682,645
Fund-raising	6,975,006	-	-	6,975,006	-	-	-	-	-	6,975,006
Total Expenses	99,167,598	-	-	99,167,598	213,866	-	-	213,866	-	99,381,464
Change in Net Assets	(5,396,396)	4,295,012	-	(1,101,384)	5,311	-	-	5,311	(5,311)	(1,101,384)
Net Assets, Beginning of Year	44,377,356	8,114,225	91,000	52,582,581	58,439	-	-	58,439	(58,439)	52,582,581
Net Assets, End of Year	$ 38,980,960	$ 12,409,237	$ 91,000	$ 51,481,197	$ 63,750	$ -	$ -	$ 63,750	$ (63,750)	$ 51,481,197

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	445,996	-	-	445,996	-	-	-	-	-	445,996
Event revenue	2,906,703	-	-	2,906,703	-	-	-	-	-	2,906,703
Change in value	322,781	-	-	322,781	-	-	-	-	-	322,781
Earnings of subsidiaries	69,004	-	-	69,004	-	-	-	-	(69,004)	-
Other revenue	1,616,698	-	-	1,616,698	-	-	-	-	-	1,616,698
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