FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

September 30, 2019 and 2018

FOCUS ON THE FAMILY AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Focus on the Family and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, 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, 2019 and 2018, 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.

Emphasis of Matter

Focus on the Family and Affiliates have adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as described in Note 2. This has had a material effect on the presentation of the September 30, 2019 and 2018 consolidated financial statements. Our opinion is not modified in respect to this matter.

Capin Crouse LLP

Colorado Springs, Colorado
January 27, 2020

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	September 30, 2019	September 30, 2018
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 10,794	$ 11,177
Restricted cash	4,000	4,000
Accounts receivable–net	570	839
Inventory	1,207	1,183
Pledges receivable–net	157	189
Prepaid expenses	3,236	3,092
Investments	9,561	9,039
	29,525	29,519
Property held for investment–net of current portion	1,529	1,529
Film production costs–net	393	501
Other assets	2,390	2,401
Long-term investments	3,958	3,759
Property and equipment–net	31,552	28,552
Endowment assets	349	186
Total Assets	$ 69,696	$ 66,447
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 5,481	$ 4,061
Accrued expenses	4,207	4,063
Deferred revenue	4,172	3,365
Current portion of charitable gift annuities liability	424	402
	14,284	11,891
Long-term liabilities	753	574
Charitable gift annuities liability–net of current portion	2,512	2,500
	17,549	14,965
Net assets:		
Without donor restrictions	37,681	38,982
With donor restrictions:		
Restricted by purpose and time	14,225	12,409
Restricted in perpetuity	241	91
	52,147	51,482
Total Liabilities and Net Assets	$ 69,696	$ 66,447

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended September 30,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	$ 54,553	$ 28,268	$ 82,821	$ 56,993	$ 18,817	$ 75,810
Sales	8,543	-	8,543	8,618	-	8,618
Royalty and licensing revenue	1,959	-	1,959	2,032	-	2,032
Investment income	294	-	294	(82)	-	(82)
Event revenue	4,489	-	4,489	8,740	-	8,740
Change in value of annuities	(62)	-	(62)	238	-	238
Income (loss) from joint ventures	(514)	-	(514)	640	-	640
Other revenue	1,676	-	1,676	2,285	-	2,285
Total Support and Revenue	70,938	28,268	99,206	79,464	18,817	98,281
NET ASSETS RELEASED:						
Time restrictions	270	(270)	-	201	(201)	-
Purpose restrictions	26,032	(26,032)	-	14,321	(14,321)	-
Total Net Assets Released	26,302	(26,302)	-	14,522	(14,522)	-
EXPENSES:						
Program services:						
Marriage	21,184	-	21,184	26,793	-	26,793
Parenting	27,488	-	27,488	28,854	-	28,854
Evangelism and discipleship	19,376	-	19,376	17,375	-	17,375
Advocacy	12,303	-	12,303	7,573	-	7,573
Citizenship	3,886	-	3,886	4,129	-	4,129
	84,237	-	84,237	84,724	-	84,724
Supporting activities:						
General and administrative	7,446	-	7,446	7,683	-	7,683
Fund-raising	6,858	-	6,858	6,975	-	6,975
Total Expenses	98,541	-	98,541	99,382	-	99,382
Change in Net Assets	(1,301)	1,966	665	(5,396)	4,295	(1,101)
Net Assets, Beginning of Year	38,982	12,500	51,482	44,378	8,205	52,583
Net Assets, End of Year	$ 37,681	$ 14,466	$ 52,147	$ 38,982	$ 12,500	$ 51,482

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statement of Functional Expenses
(in thousands)

Year Ended September 30, 2019 (with comparative 2018 totals)

	Program Services						Supporting Activities				
	Marriage	Parenting	Evangelism / Discipleship	Advocacy	Citizenship	Total	General and Administrative	Fundraising	Total	2019 Total Expenses	2018 Total Expenses
Salaries and benefits	$ 10,604	$ 13,083	$ 9,464	$ 4,537	$ 2,011	$ 39,699	$ 4,169	$ 4,109	$ 8,278	$ 47,977	$ 46,544
Broadcast and publications	5,821	10,117	5,387	4,160	1,221	26,706	434	1,523	1,957	28,663	28,165
Office and technology	1,945	2,063	2,057	973	422	7,460	1,816	350	2,166	9,626	8,994
Depreciation and amortization	710	1,081	1,376	374	119	3,660	867	94	961	4,621	4,520
Events and travel	987	891	522	694	89	3,183	160	782	942	4,125	7,471
Grants and benevolence	1,117	252	570	1,565	24	3,528	-	-	-	3,528	3,688
Total Expenses	$ 21,184	$ 27,488	$ 19,376	$ 12,303	$ 3,886	$ 84,237	$ 7,446	$ 6,858	$ 14,304	$ 98,541	$ 99,382

See notes to consolidated financial statements

FOCUS ON THE FAMILY AND AFFILIATES

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30, 2019	Year Ended September 30, 2018
OPERATING ACTIVITIES:		
Change in net assets	$ 665	$ (1,101)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of property and equipment	4,243	4,036
Amortization of film production costs	378	478
Realized loss (gain) on sale and disposal of assets	568	(11)
Net realized and unrealized loss (gain) on investments and endowment assets	(1)	8
Change in value of annuities	52	(238)
Changes in operating assets:		
Accounts receivable	269	565
Inventory	(24)	(260)
Prepaid expenses	(144)	3,098
Pledges receivable	32	152
Other assets	11	(381)
Changes in operating liabilities:		
Accounts payable and long-term liabilities	1,599	730
Accrued expenses	144	635
Deferred revenue	807	(4,936)
Net Cash Provided by Operating Activities	8,599	2,775
INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,818)	(2,745)
Purchases of investments	(2,352)	(12,043)
Proceeds from sales of investments	1,754	13,708
Proceeds from sales of property and equipment	7	23
Payments for film production	(270)	(26)
Gift portion of new annuities	(130)	(50)
Net Cash Used by Investing Activities	(8,809)	(1,133)
FINANCING ACTIVITIES:		
Payments on gift annuities	(413)	(409)
Proceeds from issuance of new charitable gift annuities	240	93
Net Cash Used by Financing Activities	(173)	(316)
Net Change in Cash and Cash Equivalents	(383)	1,326
Cash and Cash Equivalents, Beginning of Year	11,177	9,851
Cash and Cash Equivalents, End of Year	$ 10,794	$ 11,177

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

See notes to consolidated financial statements

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 Focus on the Family 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, 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, 2019 and 2018.

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, 2019 and 2018, Focus has cash and cash equivalents on deposit with financial institutions, including restricted cash, that exceed the federally insured (FDIC) balance by approximately $13,900,000 and $14,760,000, 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 revenue without donor restrictions 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 and $6,315 as of September 30, 2019 and 2018, 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.

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 $83,000 and $100,000 as of September 30, 2019 and 2018, 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, 2019 and 2018.

PROPERTY HELD FOR INVESTMENT

As of September 30, 2019 and 2018, management reclassified a total of $1,528,562 from property and equipment to property held for investment. As of September 30, 2019 and 2018, FOF has recorded this property held for investment as a non-current asset to fund future investments in the Highlands at Briargate I, LLC and Highlands at Briargate II, LLC. 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, 2019 and 2018, accumulated amortization was $30,940,000 and $30,562,000, 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 2019, FOF renewed a line of credit with a bank for $14,685,624, which is renewable annually by the Lender and matures July 3, 2020. Advances under the agreements bear interest at the Lender's Prime Rate (the "Index"), which was 5.50% and 5.00% as of September 30, 2019 and 2018, respectively. The line of credit is collateralized by real property. As of September 30, 2019 and 2018, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2019 and 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LETTERS OF CREDIT

In 2016, FOF obtained a letter of credit with a bank for $3,012,830 for the benefit of the Magical Cruise Company related to its 40th year anniversary celebration event. 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 obligation. There were no draws during the fiscal year ended September 30, 2018. 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, 2019 and 2018, FOF maintained a letter of credit with a bank in the amounts of $314,376 and $487,502, respectively, for the benefit of the Colorado Department of Labor and Employment. If FOF were to fail to pay unemployment obligations, the bank could draw upon this letter of credit to pay the obligation. As of September 30, 2019 and 2018, there were no outstanding balances on the letter of credit and there were no draws during the fiscal years ended September 30, 2019 and 2018. The letter of credit expires July 3, 2021.

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. As of September 30, 2019, $835,790 of deferred income was collected from various donors related to a conditional pledge. If $2,000,000 is collected before the end of the pledge period, other donors will match the $2,000,000 and all funds will be recognized as revenue by Focus. If this threshold is not met, Focus must return all amounts collected to the various donors. Subsequent to September 30, 2019, the match was met and all revenue was recognized.

CLASSES OF NET ASSETS

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

Net assets without donor restrictions 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, 2019 and 2018, the reserve for annuities kept by Focus was approximately $424,000 and $402,000, respectively.

Net assets with donor restrictions consist of unexpended, donor-restricted contributions and pledges receivable for special projects and contributions with time restrictions attached, and unexpended endowment funds subject to restriction of gift instruments requiring that the principal be invested in perpetuity. Some disclosures required by the Reporting Endowment Funds subtopic of the Financial Accounting Standards Board Accounting Standards Codification have not been included in these financial statements due to immateriality.

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 net assets restricted in perpetuity (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 net assets restricted in perpetuity 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered available for use without donor restrictions 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, 2019 and 2018, material costs of $648,000 and $682,000 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.

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. Salaries and benefits are allocated based upon time and effort, property depreciation is allocated based on square footage, equipment depreciation is allocated based on program usage, and remaining costs are allocated based on the purpose of the expense. The detailed schedule of the costs by program is included in the consolidated statement of functional expenses.

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,	
	2019	2018
Advertising	$ 59	$ 72
Promotion	3,730	3,354
Circulation costs	222	326
	$ 4,011	$ 3,752

ADOPTION OF RECENTLY ISSUED PRONOUNCEMENTS

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Focus adopted the provisions of this new standard during the year ended September 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added including liquidity and funds available (Note 9), the consolidated statement of functional expenses was added, and disclosures on functional expenses were expanded (Note 2, above). The guidance defines the FASB's improvements to the net asset classification requirements and the information presented about a not-for-profit's liquidity, financial performance, and cash flows. The net asset classification has been updated to reflect the classification of assets into two distinct categories: with donor restrictions and without donor restrictions.

3. PLEDGES RECEIVABLE:

Pledges receivable consist of (in thousands):

	September 30, 2019	September 30, 2018
Due in less than one year	$ 240	$ 289
Less allowance for uncollectible amounts	(83)	(100)
	$ 157	$ 189

4. 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, 2019 and 2018 are (in thousands):

		Fair Value Measurements Using:	
	September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments:			
Fixed income securities	$ 4,753	$ 1,009	$ 3,744
Mutual funds	3,936	3,936	-
Exchange traded funds	874	874	
Endowments:			
Mutual funds	187	187	-
Fixed income securities	119	119	-
Exchange traded funds	29	29	-
	9,898	6,154	3,744
Reconciling items:			
Certificates of deposit	3,695		
Cash and money market accounts	275		
	3,970		
Total investments and endowment assets	$ 13,868		

4. FAIR VALUE MEASUREMENTS, continued:

	September 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)
Investments:			
Fixed income securities	$ 5,540	$ 870	$ 4,670
Mutual funds	3,693	3,693	-
Exchange traded funds	809	809	
Endowments:			
Mutual funds	103	103	-
Fixed income securities	59	59	-
Exchange traded funds	16	16	-
	10,220	5,550	4,670
Reconciling items:			
Certificates of deposit	2,478		
Cash and money market accounts	286		
	2,764		
Total investments and endowment assets	$ 12,984		

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.

5. INVESTMENTS:

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

	September 30, 2019	September 30, 2018
National gift annuities:		
Mutual funds	$ 3,936	$ 3,692
Fixed income securities	2,473	2,253
Exchange traded funds	616	563
Money market accounts	246	261
	7,271	6,769
California gift annuities:		
Fixed income securities	268	254
Exchange traded funds	258	246
Money market accounts	15	17
	541	517
Certificates of deposit	3,695	2,478
Corporate bonds	2,012	3,034
	$ 13,519	$ 12,798

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

	Year Ended September 30, 2019	Year Ended September 30, 2018
Interest and dividends	$ 293	$ (74)
Realized and unrealized gains (losses)	1	(8)
	$ 294	$ (82)

6. OTHER ASSETS:

Other assets consist of (in thousands):

	September 30, 2019	September 30, 2018
Investment in joint ventures	$ 1,402	$ 1,923
Deferred expenses	621	270
Deferred rent asset	189	208
Other	178	-
	$ 2,390	$ 2,401

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 statements of financial position as of September 30, 2019 and 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, 2019 and 2018. Unaudited summary financial information (rounded) of HBI is as follows for the periods ended September 30, 2019 and 2018:

	September 30, 2019	September 30, 2018
Total Assets	$ 13,903,000	$ 13,777,000
Total Liabilities	$ 13,049,000	$ 10,804,000
Net Loss	$ (37,500)	$ (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 statements of financial position as of September 30, 2019 and 2018. During the year ended September 30, 2019, construction began with a plan to be completed before September 2020.

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, 2019 and 2018. Unaudited summary financial information (rounded) of HBII is as follows for the period ended September 30, 2019 and 2018:

6. OTHER ASSETS, continued:

	September 30, 2019	September 30, 2018
Total Assets	$ 2,033,000	$ 1,670,000
Total Liabilities	$ 337,000	$ 97,000
Net income (loss)	$ 32,500	$ (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.

7. PROPERTY AND EQUIPMENT–NET:

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

	September 30, 2019	September 30, 2018
Land	$ 5,785	$ 5,579
Land improvements	4,097	4,021
Buildings and building improvements	64,617	60,490
Furniture, equipment, and software	34,885	32,430
Website	6,406	6,406
	115,790	108,926
Accumulated depreciation and amortization	(84,351)	(80,923)
	31,439	28,003
Projects in progress	113	549
	$ 31,552	$ 28,552

8. ENDOWMENT ASSETS:

Endowment assets consist of (in thousands):

	September 30, 2019	September 30, 2018
Mutual funds	$ 187	$ 102
Fixed income securities	119	59
Exchange traded funds	29	16
Money market funds	14	9
	$ 349	$ 186

9. LIQUIDITY AND FUNDS AVAILABLE:

The following table (in thousands) reflects Focus' financial assets as of September 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, due to state required annuity reserves, trust requirements, assets being held for others, or perpetual endowment accumulated earnings net of appropriations within one year.

Financial assets:		
Cash and cash equivalents	$	14,794
Accounts receivable–net		570
Pledges receivable–net		157
Investments		13,519
Investment in joint ventures		1,402
Endowment assets		349
Financial assets, at year-end		30,791
Less those unavailable for general expenditure within one year, due to:		
Contributions not available for general expenditure within one year		(8,378)
State required annuity reserves		(4,130)
Investment in joint ventures		(1,402)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year		(349)
Financial assets available to meet cash needs for general expenditures within one year	$	16,532

Focus has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management monitors cash flows through board meetings and detailed financial analysis. Focus also has a secured line of credit in the amount of $14,685,624 that it could draw upon in the event of an unexpected cash need (see Note 2, above). The line of credit matures within the next year and management intends to restructure this facility to a lower amount, at which point the cash required to be restricted related to the line of credit should be significantly reduced or eliminated.

10. 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 a contribution without donor restrictions. 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 consists of (in thousands):

	Year Ended September 30,	
	2019	2018
Interest and dividend income	$ 166	$ 139
Net realized and unrealized gains	106	230
Actuarial change in charitable gift annuity liability	(346)	(321)
Charitable gift annuity maturities	12	190
	$ (62)	$ 238

11. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of the following (in thousands):

	September 30,	
	2019	2018
Marriage	$ 9,650	$ 9,659
Sanctity of human life	3,713	2,333
Parenting	684	95
Endowment	241	91
Pledges receivable	157	189
Evangelism	21	133
	$ 14,466	$ 12,500

12. 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, 2019 and 2018, were $1,269,000 and $1,246,000, respectively.

13. ALLOCATION OF JOINT COSTS:

During the years ended September 30, 2019 and 2018, 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, 2019	Year Ended September 30, 2018
Program services:		
Parenting	$ 5,769	$ 5,289
Marriage	955	1,368
Evangelism and discipleship	1,792	1,191
Citizenship	397	953
Advocacy	228	230
	9,141	9,031
Fund-raising	1,352	1,344
	$ 10,493	$ 10,375

14. COMMITMENTS:

Focus has entered into various service agreements with unrelated third party vendors. Lease expenses for the years ended September 30, 2019 and 2018 were $908,000 and $206,000, respectively. Future minimum payments required under lease agreements and other contractual obligations as of the year ended September 30, 2019, are (in thousands):

Year Ending September 30,	
2020	$ 308
2021	240
2022	203
2023	167
2024	167
	$ 1,085

15. FUTURE LEASE INCOME:

Focus has entered into various lease agreements with unrelated third party tenants. Lease income for the years ended September 30, 2019 and 2018 was approximately $887,000 and $864,000, respectively. Future minimum lease income under these agreements in effect as of the year ended September 30, 2019, are (in thousands):

Year Ending September 30,		
2020	$	890
2021		736
2022		185
2023		29
	$	1,840

16. SUBSEQUENT EVENTS:

Subsequent events were evaluated through January 27, 2020, which is the date the consolidated financial statements were available to be issued.

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, 2019 and 2018, and our report thereon dated January 27, 2020, 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 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 27, 2020

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FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2019

	Focus on the Family	Affiliates	Eliminations	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 10,594,034	$ 199,880	$ -	$ 10,793,914
Restricted cash	4,000,000	-	-	4,000,000
Accounts receivable–net	739,211	9,078	(178,343)	569,946
Inventory	1,150,406	56,183	-	1,206,589
Pledges receivable	157,223	-	-	157,223
Prepaid expenses	3,235,687	-	-	3,235,687
Investments	9,560,745	-	-	9,560,745
	29,437,306	265,141	(178,343)	29,524,104
Property held for investment	1,528,562	-	-	1,528,562
Film production costs–net	392,587	-	-	392,587
Other assets	2,390,226	-	-	2,390,226
Long-term investments	3,957,914	-	-	3,957,914
Investment in subsidiaries	82,109	-	(82,109)	-
Property and equipment–net	31,551,621	-	-	31,551,621
Endowment assets	348,972	-	-	348,972
Total Assets	$ 69,689,297	$ 265,141	$ (260,452)	$ 69,693,986
LIABILITIES AND NET ASSETS:				
Current liabilities:				
Accounts payable	$ 5,478,830	$ 180,266	$ (178,343)	$ 5,480,753
Accrued expenses	4,204,042	2,766	-	4,206,808
Deferred revenue	4,172,313	-	-	4,172,313
Current portion of charitable gift annuities liability	424,450	-	-	424,450
	14,279,635	183,032	(178,343)	14,284,324
Long-term liabilities	752,597	-	-	752,597
Charitable gift annuities liability–net of current portion	2,512,390	-	-	2,512,390
	17,544,622	183,032	(178,343)	17,549,311

(continued)

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2019
(continued)

	Focus on the Family	Affiliates	Eliminations	Total
Net assets:				
Without donor restrictions	37,776,999	(87,940)	(9,912)	37,679,147
With donor restrictions:				
Restricted by purpose and time	14,126,676	97,852	-	14,224,528
Restricted in perpetuity	241,000	-	-	241,000
	52,144,675	9,912	(9,912)	52,144,675
Stockholders' equity	-	(677,803)	677,803	-
Capital investment	-	750,000	(750,000)	-
Total Liabilities and Net Assets	$ 69,689,297	$ 265,141	$ (260,452)	$ 69,693,986

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–net of current portion	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:				
Without donor restrictions	38,980,960	(3,956)	3,956	38,980,960
With donor restrictions:				
Restricted by purpose and time	12,409,237	-	-	12,409,237
Restricted in perpetuity	91,000	-	-	91,000
	51,481,197	(3,956)	3,956	51,481,197
Stockholders' equity, net	-	(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 Activities

Year Ended September 30, 2019

	Focus on the Family			Affiliates				
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Eliminations	Grand Total
SUPPORT AND REVENUE:								
Contributions	$ 54,539,174	$ 28,094,746	$ 82,633,920	$ 15,342	$ 172,000	$ 187,342	$ -	$ 82,821,262
Sales	8,502,350	-	8,502,350	40,616	-	40,616	-	8,542,966
Royalty and licensing revenue	1,948,144	-	1,948,144	10,822	-	10,822	-	1,958,966
Investment income	293,702	-	293,702	-	-	-	-	293,702
Event revenue	4,488,932	-	4,488,932	-	-	-	-	4,488,932
Change in value of annuities	(61,651)	-	(61,651)	-	-	-	-	(61,651)
Earnings of subsidiaries	18,359	-	18,359	-	-	-	(18,359)	-
Loss from joint ventures	(513,983)	-	(513,983)	-	-	-	-	(513,983)
Other revenue	1,675,619	-	1,675,619	-	-	-	-	1,675,619
Total Support and Revenue	70,890,646	28,094,746	98,985,392	66,780	172,000	238,780	(18,359)	99,205,813
NET ASSETS RELEASED:								
Time restrictions	269,513	(269,513)	-	-	-	-	-	-
Purpose restrictions	25,957,794	(25,957,794)	-	74,148	(74,148)	-	-	-
Total Net Assets Released	26,227,307	(26,227,307)	-	74,148	(74,148)	-	-	-
EXPENSES:								
Program services:								
Marriage	21,184,465	-	21,184,465	-	-	-	-	21,184,465
Parenting	27,280,020	-	27,280,020	209,203	-	209,203	-	27,489,223
Evangelism and discipleship	19,375,157	-	19,375,157	712	-	712	-	19,375,869
Advocacy	12,298,967	-	12,298,967	4,084	-	4,084	-	12,303,051
Citizenship	3,885,947	-	3,885,947	-	-	-	-	3,885,947
	84,024,556	-	84,024,556	213,999	-	213,999	-	84,238,555
Supporting activities:								
General and administrative	7,439,137	-	7,439,137	6,422	-	6,422	-	7,445,559
Fund-raising	6,858,221	-	6,858,221	-	-	-	-	6,858,221
Total Expenses	98,321,914	-	98,321,914	220,421	-	220,421	-	98,542,335
Change in Net Assets	(1,203,961)	1,867,439	663,478	(79,493)	97,852	18,359	(18,359)	663,478
Net Assets, Beginning of Year	38,980,960	12,500,237	51,481,197	63,750	-	63,750	(63,750)	51,481,197
Net Assets, End of Year	$ 37,776,999	$ 14,367,676	$ 52,144,675	$ (15,743)	$ 97,852	$ 82,109	$ (82,109)	$ 52,144,675

FOCUS ON THE FAMILY AND AFFILIATES

Consolidating Statement of Activities

Year Ended September 30, 2018

	Focus on the Family			Affiliates				
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	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	(82,359)	-	(82,359)	-	-	-	-	(82,359)
Event revenue	8,740,101	-	8,740,101	-	-	-	-	8,740,101
Change in value of annuities	237,936	-	237,936	-	-	-	-	237,936
Earnings of subsidiaries	5,311	-	5,311	-	-	-	(5,311)	-
Income from joint ventures	639,947	-	639,947	-	-	-	-	639,947
Other revenue	2,284,879	-	2,284,879	-	-	-	-	2,284,879
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	8,205,225	52,582,581	58,439	-	58,439	(58,439)	52,582,581
Net Assets, End of Year	$ 38,980,960	$ 12,500,237	$ 51,481,197	$ 63,750	$ -	$ 63,750	$ (63,750)	$ 51,481,197