



Service plus value, it all adds up.

6200 Uptown Blvd., NE Suite 400

Albuquerque, NM 87110

505 338 0800 office riccicpa.com

**HOSANNA/FAITH COMES BY
HEARING AND AFFILIATE**

**CONSOLIDATED
FINANCIAL STATEMENTS**

MARCH 31, 2018 AND 2017

HOSANNA/FAITH COMES BY HEARING AND AFFILIATE

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Independent Auditor's Report

To the Board of Directors
Hosanna/Faith Comes By Hearing and Affiliate
Albuquerque, New Mexico

We have audited the accompanying financial statements of Hosanna/Faith Comes By Hearing and Affiliate, which comprise the consolidated statements of financial position as of March 31, 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements. The consolidated financial statements of the organization, as of and for the year ended March 31, 2017, were audited by other auditors, whose report, dated June 29, 2018, expressed an unmodified opinion.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 financial statements are free of 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hosanna/Faith Comes By Hearing and Affiliate as of March 31, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statement of functional expenses is presented for purposes of additional analysis and 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 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 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. The supplementary information presented for the year ended March 31, 2017 was audited by other auditors, whose report, dated June 29, 2017 expressed an unmodified opinion.

Ricci & Company, LLC

Albuquerque, New Mexico
June 25, 2018

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2018 and 2017**

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 7,650,934	5,610,058
Accounts receivable		
Trade	28,063	17,427
Other	87,903	55,251
Inventory	2,122,855	1,477,112
Donated property held for sale	37,297	6,197
Deposits	266,925	255,928
Prepaid expenses	79,609	125,020
Committed orders	222,682	66,776
	<hr/>	<hr/>
Total current assets	10,496,268	7,613,769
	<hr/>	<hr/>
Property and equipment		
Machinery and equipment	1,348,346	1,454,709
Building and improvements	1,249,483	1,249,483
Furniture and fixtures	74,189	74,189
Total depreciable property and equipment	2,672,018	2,778,381
Less: accumulated depreciation	(2,017,807)	(2,338,643)
Total depreciable property and equipment, net	654,211	439,738
Land	422,703	422,703
Total property and equipment, net	1,076,914	862,441
	<hr/>	<hr/>
Other Assets		
Recordings, literature and licenses	44,415,067	41,466,154
Less: accumulated amortization	(15,993,163)	(14,448,683)
Total other assets, net	28,421,904	27,017,471
	<hr/>	<hr/>
Total assets	\$ 39,995,086	35,493,681
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,058,846	559,995
Accrued expenses and other liabilities	635,369	671,164
Total current liabilities	1,694,215	1,231,159
	<hr/>	<hr/>
Net Assets		
Unrestricted	26,535,131	24,773,818
Temporarily restricted	11,765,740	9,488,704
Total net assets	38,300,871	34,262,522
	<hr/>	<hr/>
Total liabilities and net assets	\$ 39,995,086	35,493,681
	<hr/>	<hr/>

See Notes to Consolidated Financial Statements.

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
March 31, 2018**

	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPORT AND OTHER INCOME			
Revenues and public support			
Contributions	\$ 2,143,172	\$ 19,050,140	\$ 21,193,312
Sales	119,777	-	119,777
Loss on disposal of equipment	(643)	-	(643)
Other revenue and support	109,540	-	109,540
Total revenue and public support	<u>2,371,846</u>	<u>19,050,140</u>	<u>21,421,986</u>
Net Assets Released from Restrictions	<u>16,773,104</u>	<u>(16,773,104)</u>	<u>-</u>
Total Revenues, Support and Other Income	19,144,950	2,277,036	21,421,986
EXPENSES			
Program services	14,907,580	-	14,907,580
Fundraising	1,458,335	-	1,458,335
Management and general	1,017,722	-	1,017,722
Total expenses	<u>17,383,637</u>	<u>-</u>	<u>17,383,637</u>
CHANGES IN NET ASSETS	1,761,313	2,277,036	4,038,349
Net assets, beginning of the year	<u>24,773,818</u>	<u>9,488,704</u>	<u>34,262,522</u>
Net assets, end of the year	<u>\$ 26,535,131</u>	<u>\$ 11,765,740</u>	<u>\$ 38,300,871</u>

See Notes to Consolidated Financial Statements.

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
March 31, 2017**

	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
Revenues and public support			
Contributions	\$ 1,595,482	\$ 19,481,948	\$ 21,077,430
Sales	138,489	-	138,489
Loss on disposal of equipment	(1,919)	-	(1,919)
Other revenue and support	17,803	-	17,803
Total revenue and public support	<u>1,749,855</u>	<u>19,481,948</u>	<u>21,231,803</u>
Net Assets Released from Restrictions	<u>18,056,952</u>	<u>(18,056,952)</u>	<u>-</u>
Total Revenues, Support and Other Income	198,068,807	1,424,996	21,231,803
EXPENSES			
Program services	16,304,976	-	16,304,976
Fundraising	1,147,585	-	1,147,585
Management and general	1,158,172	-	1,158,172
Total expenses	<u>18,610,733</u>	<u>-</u>	<u>18,610,733</u>
CHANGES IN NET ASSETS	1,196,074	1,424,996	2,621,070
Net assets, beginning of the year	<u>23,577,744</u>	<u>8,063,708</u>	<u>31,641,452</u>
Net assets, end of the year	<u><u>\$ 24,773,818</u></u>	<u><u>\$ 9,488,704</u></u>	<u><u>\$ 34,262,522</u></u>

See Notes to Consolidated Financial Statements.

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 4,038,349	2,621,070
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation and amortization	2,041,663	2,184,421
Loss on sale of property and equipment	643	1,919
(Increase) decrease in operating assets:		
Accounts receivable	(43,288)	(12,401)
Inventory	(651,940)	78,103
Deposits	(4,800)	476,070
Prepaid expenses	45,411	19,523
Committed orders	(149,709)	630,087
Increase (decrease) in operating liabilities		
Accounts payable	498,851	(1,132,466)
Accrued expenses and other liabilities	(35,795)	102,989
	<u>5,739,385</u>	<u>4,969,315</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Purchase and creation of property and equipment	<u>(3,661,212)</u>	<u>(2,779,718)</u>
	<u>(3,661,212)</u>	<u>(2,779,718)</u>
Net cash used by investing activities		
Cash Flows From Financing Activities		
Payments on long-term debt	<u>-</u>	<u>(67,655)</u>
	<u>-</u>	<u>(67,655)</u>
Net cash used by financing activities		
Net change in cash and cash equivalents	2,078,173	2,121,942
Cash and cash equivalents, beginning of year	<u>5,610,058</u>	<u>3,488,116</u>
Cash and cash equivalents, end of year	<u>\$ 7,688,231</u>	<u>5,610,058</u>
Supplemental data		
Cash paid for interest	<u><u>\$ -</u></u>	<u><u>1,707</u></u>

See Notes to Consolidated Financial Statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 1. ORGANIZATION

Hosanna/Faith Comes By Hearing and Affiliate (“FCBH”) is a nonprofit Christian ministry dedicated to recording the Bible in audio format in indigenous languages and starting Audio Bible listening groups around the world. The ministry works in cooperation with Bible societies, churches, and mission groups worldwide. Hosanna/Faith Comes By Hearing is exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and is governed by a Board of Directors.

During fiscal year 1999, Hosanna/Faith Comes By Hearing established Faith Comes By Hearing International Foundation, Inc. (International Foundation). The International Foundation’s mission is to solicit, manage and disburse funds, and to otherwise provide support exclusively for the benefit of Hosanna/Faith Comes By Hearing. The International Foundation is exempt from income taxes under IRC Section 501(c)(3) and is governed by a Board of Directors.

The consolidated financial statements include the accounts of Hosanna/Faith Comes By Hearing, and the International Foundation (collectively referred to as “FCBH”). Intercompany accounts and transactions were eliminated in consolidation.

Primary Exempt Purpose

To proclaim Jesus Christ as Lord.

Mission and Program Accomplishments

Jesus Christ was proclaimed Lord to the literate and illiterate through Scripture-in-use and other programs in the U.S. and other parts of the world.

Strategy Statement

Faith Comes By Hearing partners with like-minded ministries to see that the gospel is available in the language and format they can best understand. We do this primarily by producing Audio Bible recordings in every language that needs them, then promoting and distributing these recordings to people everywhere. Our goal is Scripture engagement that results in discipleship and transformation.

Services Provided

New Testament Recordings

During the year ended March 31, 2018, 127 audio recordings were completed with 84 new languages, bringing the total number of languages with a complete Audio New Testament to 1,158 languages spoken in 190 countries by over 6 billion people. FCBH also had 50 recordings in final mastering and editing, and 48 recordings-in-process at year-end.

Recording Service Centers / Methods / Process / Technology

In order to effectively conduct language recordings, FCBH utilized four different methods in the completion of these 127 recordings. **FIELD** processes completed 73; **PARTNER** methods completed 33; **VIRTUAL** technology completed 8; and **RENDER** technology completed 13. During the year ended March 31, 2018, FCBH worked with 24 different recording organizations in 24 countries with a total of 44 recording teams. The individuals staffing the centers are not FCBH employees and the service centers are not recorded on the financial statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 1. ORGANIZATION (CONTINUED)

Services Provided (Continued)

Gospel Films

In addition, we combine our audio recordings with high-quality video to create visual Scripture called Faith Comes By Hearing Gospel Films.

“Faith Comes By Hearing” Programs – International and National

During the year ended March 31, 2018, FCBH began 51,067 new listening projects in over 80 countries, with approximately 4,596,030 new listeners hearing the entire New Testament in their indigenous language. Each church or group was given a free audio New Testament in their indigenous tongue and listened at least once a week for 30 minutes. Some 44,580 of these groups received Proclaimer® units. The Proclaimer® is a dedicated audio player containing a dramatized recording of the New Testament in a translated indigenous language. With no moving parts to the playback mechanism, it is practically indestructible, and plays for hours at a time. It can run on rechargeable batteries, solar power, hand-crank or AC adapter. A number of these listening programs utilized Global Bible Network-enabled devices which allow users to download digital Bible content to a smart phone and then pass that content to other smart phones without the need for the Internet or Cellular connection. Also, most of the 36,194 programs started in 2017 continued in 2018. During this fiscal year, FCBH expanded the Every Church/Every Village program, in which over 8,252 New Testaments in various languages on Proclaimers (in increments of up to two per project) were provided free to church missionaries or individuals traveling on mission trips to establish FCBH listening groups in 172 countries. FCBH is being used worldwide in:

- | | |
|--|------------------------|
| - Churches | - Hospitals |
| - Unreached villages and communities for church planting | - Prisons |
| - Schools | - JESUS Film follow-up |
| | - Military and police |

The listening groups range from a handful of people to 5,000 listeners. However, the worldwide average is 90 listeners per group. This calculation considers only those listeners attending the initiation of the FCBH program in the first group or church. Often, churches use the audio New Testament for evangelism, church planting and public broadcast from the church loudspeaker. These additional listeners cannot easily be counted and are therefore not included in the reported numbers of listeners.

In the last 9 years, over 950,000 MILITARY BIBLESTICKS have been provided to military personnel. During this fiscal year, over 151,000 were sent to servicemen and veterans.

Faith Comes By Hearing BIBLE.IS

Faith Comes By Hearing has one purpose: God’s Word everywhere for everyone. This is done by producing audio and sign heart-language recordings of Scripture and making them available for free by every possible means. Faith Comes By Hearing is harnessing technology that allows us to respond to any digital initiative the future may bring. The Digital Bible Platform is the “brain” that provides end-users access to biblical content.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with the accounting and reporting standards required by FASB ASC 958, *Not for Profit Entities*. FASB ASC 958 requires FCBH to report information regarding its consolidated financial position and activities according to three classes of net assets:

Unrestricted net assets – represent those unrestricted donations that FCBH has received and has fulfilled or completed the restrictions on. Unrestricted net assets are not subject to any further donor-imposed restrictions.

Temporarily restricted net assets – represent net assets subject to donor-imposed stipulations that can be fulfilled by actions of FCBH or the passage of time, pursuant to those stipulations. They would also include the fair market value adjustment to permanent funds and related activities.

Permanently restricted net assets – result from donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of FCBH. This amount would represent the original gift value.

No permanently restricted net assets were held during 2018 or 2017, and, accordingly, these consolidated financial statements do not reflect any activity related to this class of net assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, FCBH considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and Temporarily Restricted Net Asset Balances

Large increases in cash and temporarily restricted net asset balances can result from donations received close to the fiscal year end, or from restricted donations that carry longer time requirements to fulfill the donor's restrictions.

Donated Assets and Services

Donated services are recognized as contributions in accordance with financial accounting standards, if the services create or enhance non-financial assets and require specialized skills provided by individuals possessing those skills, and would otherwise be purchased by FCBH.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

FCBH utilizes the allowance method for accounts receivable valuation and for estimated sales returns. The allowance is based on experience and other circumstances which may affect the collectability of the account. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. FCBH did not have any allowances for the years ended March 31, 2018 and 2017.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined using the weighted average cost method.

Deposits

The Audio Playback Devices used by FCBH in the Audio Bible Listening Groups are purchased from outside manufacturers of electronic equipment. FCBH completes production and performs quality assurance on these devices by loading/adding the New Testament Language Recordings. Deposits paid to these manufacturers for these Proclaimers®, Mini Proclaimers® and Biblesticks® for the years ended March 31, 2018 and 2017 was \$266,925 and \$255,928, respectively.

Committed Orders

FCBH purchases various proprietary audio devices from an overseas manufacturer. FCBH is obligated for the entire amount of these product orders. When the order is placed, a portion of the total dollar amount is paid to the manufacturer and recorded as a Current Asset identified as Deposits. The balance of the order is recorded as an Accounts Payable liability and as a Current Asset identified as Committed Orders. Committed Orders for the years ended March 31, 2018 and 2017 was \$222,682 and \$66,776, respectively.

Prepaid Expenses

Prepaid expenses for the years ended March 31, 2018 and 2017 were \$79,609 and \$125,020, respectively. These prepaid expenses range from advertising to group health and life premiums. Prepaid expenses are normally consumed or amortized during the next fiscal year activities.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all repairs, maintenance, renewals and betterments that materially prolong the assets' useful lives are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset, ranging from 3 to 20 years.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

FCBH reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell. Management believes all assets are recoverable and no impairment was recorded in the current year.

Recordings

FCBH incurs substantial costs in developing, recording and mastering indigenous language Bible recordings that are to be sold or distributed. The benefits of those expenditures are not realized until future periods. Therefore, all direct and applicable indirect costs of developing and acquiring the Bible recordings are capitalized. Based on experience and research of other organizations performing similar functions, such costs are amortized over 20 years on the straight-line basis.

Revenue Recognition

Contributions received are recorded as increases in permanently restricted, temporarily restricted or unrestricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Mission and program related sales revenue is recognized upon shipment of the product to the customer.

Functional Classification of Expenses

FCBH presents its expenses on a functional basis among its various programs. Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated based on various relationships.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in program costs as a component of the cost of sales. These costs were approximately \$402,417 and \$337,830 in 2018 and 2017, respectively.

Advertising and Promotion

Prepaid costs to produce direct-response advertising and fundraising materials are amortized to advertising expense according to usage. Direct-response advertising materials consist primarily of internally produced and printed brochures containing information about products available from FCBH and are included in the packaging of each item shipped. Direct-response fundraising

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

materials consist primarily of internally produced and printed letters and response receipts describing FCBH's current recording and distribution projects. Such materials are disbursed on a campaign-by-campaign basis. FCBH did not have any direct-response material costs for the years ended March 31, 2018 and 2017.

Advertising expense totaled approximately \$438,000 and \$405,000 for the years ended March 31, 2018 and 2017, respectively. Of this amount, approximately \$75,260 and \$170,600 is included in program expense in the Statements of Functional Expenses for the years ended March 31, 2018 and 2017, respectively.

Income Taxes

FCBH and the International Foundation are non-profit corporations and qualify as tax-exempt organizations under Section 501(c)(3) of the IRC. As such, their normal activities do not result in any income tax liability. FCBH and the Foundation are classified as other than private foundations.

FCBH did not incur any unrelated business taxable income for the year ended March 31, 2018. As a result, FCBH did not recognize federal and state income tax for the year ended March 31, 2018.

FCBH adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosure required. FCBH has no unrecognized tax benefit which would require an adjustment to the March 1, 2018 beginning balance of net assets and had no unrecognized tax benefits at February 28, 2018. FCBH files an exempt organization return in the U.S. federal jurisdiction. FCBH is no longer subject to income tax examinations by taxing authorities for years beginning before its December 31, 2014 federal filings.

Conflicts of Interest / Private Inurement

Business activities or relationships by Board Members, Directors, Officers and employees that conflict with FCBH's business interests are prohibited by policy.

Expense Approval

Reimbursable expense accounts are not used. All expense activity requires authorization and approval by two members of management.

Wages, Benefits and Compensations

Employee compensation is determined by a Board approved nondiscriminatory graded pay scale system with adjustments for merit and tenure. Each position contains grade level evaluations of the individual job requirements for education/mental ability; physical/ emotional capacity; skill/experience levels; authority/responsibility parameters; and work condition/performance conformity. Compensation to any employees related to upper management is disclosed in the corporate 990 return in compliance with IRS regulations.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements.

New Pronouncements

FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update were issued to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, and upon adoption, the Company will be required to disclose qualitative and quantitative information about its contracts with customers, the significant judgements and changes in those judgements as well as any assets recognized from the costs to obtain or fulfill a contract with a customer. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early adoption of ASC Topic 606 is permitted for public business entities and certain other specified entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. FCBH has not yet adopted Topic 606.

In addition, FASB has issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update were issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early application is permitted; however, FCBH has not yet adopted Topic 842.

FASB has also issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The amendments in this update were issued to improve the current net asset classification requirements and the information presented in Not-for-Profit financial statements and notes. The update simplifies the Statement of Financial Position by requiring only two net asset classifications: net assets with donor restrictions and net assets without donor restrictions. The amendments in this update are effective for fiscal years beginning after December 15, 2017. Early application is permitted. Management has evaluated the amendments in this update and has determined that they will not have a significant impact on FCBH's financial statements.

Subsequent Events

Management evaluated subsequent events through June 25, 2018, the date the financial statements were available to be issued. Events or transactions occurring after March 31, 2018, but prior to June 25, 2018, that provided additional evidence about conditions that existed at March 31, 2018 have been recognized in the financial statements for the year ended March 31, 2018. Events or transactions that provided evidence about conditions that did not exist at March 31, 2018 but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended March 31, 2018.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 3. INVENTORIES

Inventories consisted of the following at March 31:

	<u>2018</u>	<u>2017</u>
Finished Goods	\$ 561,902	\$ 326,968
Work-in-Progress	39,723	83,630
Raw Materials and Supplies	<u>1,521,229</u>	<u>1,066,514</u>
Total Inventories	<u>\$ 2,122,855</u>	<u>\$ 1,477,112</u>

NOTE 4. RECORDINGS, LITERATURE AND LICENSES

Recordings consisted of the following at March 31:

	<u>2018</u>	<u>2017</u>
Recordings	\$ 44,415,067	\$ 41,119,832
Literature	-	55,915
Licenses	-	<u>290,407</u>
Total Recordings, Literature and Licenses	44,415,067	41,466,154
Less: Accumulated Amortization	<u>(15,993,163)</u>	<u>(14,448,683)</u>
Net Recordings, Literature and Licenses	<u>\$ 28,421,904</u>	<u>\$ 27,017,471</u>

Recordings and the related components are all amortized over a useful life of 20 years. Amortization expense for the years ended March 31, 2018 and 2017 was \$1,934,365 and \$2,083,848.

NOTE 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Faith Comes By Hearing Programs	\$ 4,507,093	\$ 3,598,802
Military BibleStick Programs	2,832,289	2,595,917
Narration Programs	1,285,734	1,054,997
Other Programs	<u>3,140,624</u>	<u>2,238,988</u>
Total Temporarily Restricted Net Assets	<u>\$ 11,765,740</u>	<u>\$ 9,488,704</u>

Net assets are released from donor restrictions by conducting the programs for which they were restricted as costs are incurred in amounts representing actual costs plus certain indirect costs. Some programs provide for the release of restrictions based upon a fixed amount, such as \$37 per New Testament produced for distribution and \$35,000 per Audio Drama New Testament recorded. Other programs provide for the release of restrictions as costs are incurred in these programs in an amount representing management's estimate of actual costs incurred plus certain indirect costs.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 7. ROYALTY AGREEMENTS

FCBH has entered into several copyright license agreements to produce and sell certain products, which expire at various dates through February 2019. Under these agreements, FCBH pays the proprietor of the copyright a percentage of net sales, as defined. Royalties under these agreements range up to 10 percent. Sales subject to these agreements during the years ended March 31, 2018 and 2017 were approximately \$119,777 and \$138,489, respectively. Amounts paid for royalties during the years ended March 31, 2018 and 2017 were approximately \$21,274 and \$26,204, respectively, and are included in the consolidated financial statements.

NOTE 8. OPERATING LEASES

FCBH leases certain equipment and space under short-term operating leases. Rent expense for the years ended March 31, 2018 and 2017 were \$9,000 and \$34,000, respectively.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Cash deposits at a financial institution exceed the federal insured limit of \$250,000 at March 31, 2018. FCBH has not experienced, and believes it is not exposed to, significant credit risk from these deposits.

NOTE 10. MAJOR DONORS

The company relied on two main contributors for a total of 23.69% and 34% of total contributions for the years ended March 31, 2018 and 2017, respectively. Management anticipates that contributor concentrations will continue.

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
March 31, 2018**

	Program Expense	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Advertising and promotion	\$ 75,260	42,961	319,831	362,792	438,052
Cost of Goods Produced	77,468	-	-	-	77,468
Depreciation and amortization	1,986,694	24,053	30,916	54,969	2,041,663
Faith comes by hearing programs	5,862,519	-	-	-	5,862,519
Insurance	18,450	1,397	2,025	3,422	21,872
Interest	13,836	1,047	1,519	2,566	16,402
Legal and accounting fees	17,902	5,386	8,441	13,827	31,729
Merchant and bank fees	46,183	3,326	4,823	8,149	54,332
Miscellaneous expense	2,968	3,238	94	3,332	6,300
Office expenses	9,201	1,873	-	1,873	11,074
Payroll taxes and fringe benefits	1,206,528	169,982	176,665	346,647	1,553,175
Postage and courier expenses	41,945	4,019	10,627	14,646	56,591
Professional Services	45,615	9,752	50,816	60,568	106,183
Rental expenses	8,280	720	-	720	9,000
Repairs and maintenance	136,504	24,188	13,390	37,578	174,082
Salaries and wages	4,614,914	634,590	660,093	1,294,683	5,909,597
Supplies and artwork expenses	45,773	10,529	13,934	24,463	70,236
Telephone and utilities	504,417	45,724	16,684	62,408	566,825
Travels, meetings and entertainment	193,123	34,937	148,477	183,414	376,537
	<u>\$ 14,907,580</u>	<u>1,017,722</u>	<u>1,458,335</u>	<u>2,476,057</u>	<u>17,383,637</u>

See Notes to Consolidated Financial Statements.

**HOSANA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
March 31, 2017**

	Program Expense	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Advertising and promotion	170,580	37,366	197,527	234,893	405,473
Cost of Goods Produced	92,676	-	-	-	92,676
Depreciation and amortization	2,157,567	23,932	2,922	26,854	2,184,421
Faith comes by hearing programs	6,754,138	-	-	-	6,754,138
Insurance	17,107	1,446	1,298	2,744	19,851
Interest	1,471	124	112	236	1,707
Legal and accounting fees	23,760	4,031	6,071	10,102	33,862
Merchant and bank fees	31,524	3,008	2,702	5,710	37,234
Miscellaneous expense	3,160	3,657	18	3,675	6,835
Office expenses	8,824	1,838	-	1,838	10,662
Payroll taxes and fringe benefits	1,121,875	198,125	146,003	344,128	1,466,003
Postage and courier expenses	48,485	6,000	19,105	25,105	73,590
Professional Services	95,240	9,221	63,226	72,447	167,687
Rental expenses	31,280	2,720	-	2,720	34,000
Repairs and maintenance	94,127	17,157	7,180	24,337	118,464
Salaries and wages	4,888,115	756,097	499,687	1,255,784	6,143,899
Supplies and artwork expenses	47,243	5,740	9,267	15,007	62,250
Telephone and utilities	547,647	57,722	46,204	103,926	651,573
Travels, meetings and entertainment	170,157	29,988	146,263	176,251	346,408
	<u>\$ 16,304,976</u>	<u>1,158,172</u>	<u>1,147,585</u>	<u>2,305,757</u>	<u>18,610,733</u>

See Notes to Consolidated Financial Statements.