



Service plus value, it all adds up.

6200 Uptown Blvd., NE Suite 400

Albuquerque, NM 87110

505 338 0800 office riccipa.com

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

**CONSOLIDATED
FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITORS' REPORT**

MARCH 31, 2019 AND 2018

HOSANNA/FAITH COMES BY HEARING AND AFFILIATE

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Independent Auditors' Report

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

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hosanna/Faith Comes By Hearing and Affiliate, which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, consolidated statements of functional expenses, and consolidated statements of 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 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, 2019 and 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ricci & Company, LLC

Albuquerque, New Mexico
June 14, 2019

CONSOLIDATED FINANCIAL STATEMENTS

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 and 2018**

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	\$ 10,140,799	\$ 7,650,934
Accounts receivable:		
Trade	24,718	28,063
Other	107,345	87,903
Inventories	3,147,130	2,122,855
Donated property held for sale	31,797	37,297
Deposits	293,260	266,925
Prepaid expenses	207,327	79,609
Committed orders	624,063	222,682
Total current assets	14,576,439	10,496,268
Property and equipment		
Machinery and equipment	1,592,292	1,348,346
Building and improvements	1,496,064	1,249,483
Furniture and fixtures	74,189	74,189
Total depreciable property and equipment	3,162,545	2,672,018
Less: accumulated depreciation	(2,273,516)	(2,017,807)
Total depreciable property and equipment, net	889,029	654,211
Land	422,703	422,703
Total property and equipment, net	1,311,732	1,076,914
Other Assets		
Recordings, literature and licenses	46,626,621	44,415,067
Less: accumulated amortization	(17,916,826)	(15,993,163)
Total other assets, net	28,709,795	28,421,904
Total assets	\$ 44,597,966	\$ 39,995,086
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,209,718	\$ 1,058,846
Accrued expenses and other liabilities	706,287	635,369
Total current liabilities	1,916,005	1,694,215
Net Assets		
Without donor restrictions	31,085,353	26,535,131
With donor restrictions	11,596,608	11,765,740
Total net assets	42,681,961	38,300,871
Total liabilities and net assets	\$ 44,597,966	\$ 39,995,086

See Notes to Consolidated Financial Statements.

HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended MARCH 31, 2019 and 2018

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2019	2018
Revenues and public support		
Contributions	\$ 3,234,184	\$ 2,143,172
Sales	118,351	119,777
Loss on disposal of equipment	(478)	(643)
Other revenue and support	22,064	109,540
Total revenue and public support	<u>3,374,121</u>	<u>2,371,846</u>
Net assets released from donor restrictions	<u>20,442,736</u>	<u>16,773,104</u>
Total revenues and public support	<u>23,816,857</u>	<u>19,144,950</u>
 EXPENSES		
Program services	16,401,653	14,907,580
Fundraising	1,706,693	1,458,335
Management and general	1,158,289	1,017,722
Total expenses	<u>19,266,635</u>	<u>17,383,637</u>
Changes in net assets without donor restrictions	<u>4,550,222</u>	<u>1,761,313</u>
 CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	20,273,604	19,050,140
Net assets released from donor restrictions	<u>(20,442,736)</u>	<u>(16,773,104)</u>
Change in net assets with donor restrictions	<u>(169,132)</u>	<u>2,277,036</u>
 Total change in net assets	<u>4,381,090</u>	<u>4,038,349</u>
 Net assets, beginning of the year	<u>38,300,871</u>	<u>34,262,522</u>
Net assets, end of the year	<u>\$ 42,681,961</u>	<u>\$ 38,300,871</u>

See Notes to Consolidated Financial Statements.

HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended MARCH 31, 2019 and 2018

Cash Flows From Operating Activities	2019	2018
Increase in net assets	<u>\$ 4,381,090</u>	<u>\$ 4,038,349</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,181,073	2,041,663
Donated property	5,500	-
Loss on sale of property and equipment	478	643
(Increase) decrease in operating assets:		
Accounts receivable	(16,097)	(43,288)
Inventories	(1,024,275)	(689,237)
Deposits	(26,335)	(4,800)
Prepaid expenses	(127,718)	45,411
Committed orders	(401,381)	(149,709)
Increase (decrease) in operating liabilities:		
Accounts payable	150,872	498,851
Accrued expenses and other liabilities	70,918	(35,795)
Total adjustments	<u>813,035</u>	<u>1,663,739</u>
Net cash provided by operating activities	<u>5,194,125</u>	<u>5,702,088</u>
 Cash Flows From Investing Activities		
Purchase and creation of property and equipment	<u>(2,704,260)</u>	<u>(3,661,212)</u>
 Net cash used by investing activities	<u>(2,704,260)</u>	<u>(3,661,212)</u>
 Net change in cash and cash equivalents	2,489,865	2,040,876
 Cash and cash equivalents, beginning of year	<u>7,650,934</u>	<u>5,610,058</u>
 Cash and cash equivalents, end of year	<u><u>\$ 10,140,799</u></u>	<u><u>\$ 7,650,934</u></u>

See Notes to Consolidated Financial Statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended MARCH 31, 2019**

	Program Expense	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Advertising and promotion	\$ 105,462	74,630	580,888	655,518	\$ 760,980
Cost of goods produced	137,009	-	-	-	137,009
Depreciation and amortization	2,101,987	21,481	3,017	24,498	2,126,485
Faith Comes By Hearing programs	6,757,757	-	-	-	6,757,757
Insurance	20,670	1,480	2,209	3,689	24,359
Interest	15,364	1,150	1,717	2,867	18,231
Legal and accounting fees	16,066	3,949	6,042	9,991	26,057
Merchant and bank fees	42,775	3,170	4,731	7,901	50,676
Miscellaneous expense	3,455	3,777	1,599	5,376	8,831
Office expenses	7,872	1,682	-	1,682	9,554
Payroll taxes and fringe benefits	1,212,577	184,961	185,506	370,467	1,583,044
Postage and courier expenses	44,023	5,702	25,050	30,752	74,775
Professional services	46,670	4,395	52,134	56,529	103,199
Repairs and maintenance	116,470	49,351	11,293	60,644	177,114
Salaries and wages	5,040,988	715,554	664,443	1,379,997	6,420,985
Supplies and artwork expenses	42,330	5,575	23,246	28,821	71,151
Telephone and utilities	471,024	44,241	15,848	60,089	531,113
Travels, meetings and entertainment	219,154	37,191	128,970	166,161	385,315
	<u>\$ 16,401,653</u>	<u>1,158,289</u>	<u>1,706,693</u>	<u>2,864,982</u>	<u>\$ 19,266,635</u>

See Notes to Consolidated Financial Statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended MARCH 31, 2018**

	<u>Program Expense</u>	<u>Supporting Services</u>		<u>Total Supporting Services</u>	<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>		
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.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 1. ORGANIZATION

Hosanna/Faith Comes By Hearing and Affiliate (“Hosanna”) 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 “Hosanna”). 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

Hosanna 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, 2019, 137 audio recordings were completed with 108 new languages, bringing the total number of languages with a complete Audio New Testament to 1,266 languages spoken in 190 countries by over 6.5 billion people. Hosanna also had 49 recordings in final mastering and editing, and 53 recordings in-process at year-end.

Recording Service Centers / Methods / Process / Technology

In order to effectively conduct language recordings, Hosanna utilized four different methods in the completion of these 137 recordings. FIELD processes completed 71; PARTNER methods completed 36; VIRTUAL technology completed six; and RENDER technology completed 24.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 1. ORGANIZATION (CONTINUED)

Services Provided (Continued)

During the year ended March 31, 2019, Hosanna worked with 24 different recording organizations in 24 countries, with a total of 44 recording teams, the individuals staffing the centers are not Hosanna employees and the service centers are not recorded on the consolidated financial statements.

Gospel Films

In addition, we combine our audio recordings with high-quality video to create visual Scripture called Faith Comes By Hearing Gospel Films. For this year end over 165 Gospel Films in unique languages were completed.

“Faith Comes By Hearing” Programs – International and National

During the year ended March 31, 2019, Hosanna began 59,113 new listening projects in over 80 countries, with approximately 5,320,170 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 46,839 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 51,067 programs started in 2018 continued in 2019. During this fiscal year, Hosanna expanded the Every Church/Every Village program, in which over 12,330 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 Hosanna listening groups in 172 countries. Hosanna 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 Hosanna 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 ten years, over 1,123,000 MILITARY BIBLESTICKS have been provided to military personnel. During this fiscal year, over 173,000 were sent to servicemen and veterans.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 1. ORGANIZATION (CONTINUED)

Services Provided (Continued)

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Consolidated 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

Hosanna has adopted the provisions of FASB Accounting Standards Codification 958 (ASC 958). Under FASB ASC 958, Hosanna reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

Accordingly, net assets of Hosanna and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions. Represent net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions. Represent net assets subject to donor-imposed stipulations that will be met either by actions of Hosanna or the passage of time or net assets subject to donor-imposed stipulations that must be maintained permanently. At March 31, 2019 and 2018, Hosanna does not have any net assets with permanent donor-imposed stipulations.

Cash and Cash Equivalents

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

Cash Balances and Net Assets with Donor Restrictions

Large increases in cash balances and net assets with donor restrictions 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.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Hosanna.

Accounts Receivable

Hosanna 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. Hosanna did not have any allowances for the years ended March 31, 2019 and 2018.

Inventories

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 Hosanna in the Audio Bible Listening Groups are purchased from outside manufacturers of electronic equipment. Hosanna 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, 2019 and 2018 was \$293,260 and \$266,925, respectively.

Committed Orders

Hosanna purchases various proprietary audio devices from an overseas manufacturer. Hosanna 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, 2019 and 2018 was \$624,063 and \$222,682, respectively.

Prepaid Expenses

Prepaid expenses for the years ended March 31, 2019 and 2018 were \$207,327 and \$79,609, respectively. These prepaid expenses range from advertising to group health and life premiums. Prepaid expenses are normally consumed during the next fiscal year.

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 THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation expense was recorded on the schedules of functional expenses under the following categories:

	<u>2019</u>	<u>2018</u>
Cost of goods produced	\$ 54,588	\$ -
Depreciation and amortization	<u>2,126,485</u>	<u>2,041,663</u>
Total depreciation expense	<u>\$ 2,181,073</u>	<u>\$ 2,041,663</u>

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

Hosanna 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. No impairment was recorded in the current year.

Recordings

Hosanna 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.

Amortization expense for the years ended March 31, 2019 and 2018 was \$1,933,625 and \$1,934,365, respectively.

Revenue Recognition

Contributions received are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor stipulations. When a stipulation is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Classification of Functional Expenses

Hosanna 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.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$407,200 and \$402,417 in 2019 and 2018, 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 Hosanna and are included in the packaging of each item shipped. Direct-response fundraising materials consist primarily of internally produced and printed letters and response receipts describing Hosanna's current recording and distribution projects. Such materials are disbursed on a campaign-by-campaign basis. Hosanna did not have any direct-response material costs for the years ended March 31, 2019 and 2018.

Advertising expense totaled \$760,980 and \$438,052 for the years ended March 31, 2019 and 2018, respectively. Of this amount, approximately \$105,462 and \$75,260 is included in program expense in the Consolidated Schedules of Functional Expenses for the years ended March 31, 2019 and 2018, respectively.

Income Taxes

Hosanna 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. Hosanna and the Foundation are classified as other than private foundations.

Hosanna did not incur any unrelated business taxable income for the years ended March 31, 2019 and 2018. As a result, Hosanna did not recognize federal and state income tax for the years then ended.

Hosanna 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. Hosanna has no unrecognized tax benefit which would require an adjustment to the March 1, 2019 beginning balance of net assets and had no unrecognized tax benefits at February 28, 2019. Hosanna files an exempt organization return in the U.S. federal jurisdiction. Hosanna is no longer subject to income tax examinations by taxing authorities for years beginning before its December 31, 2015 federal filings.

Conflicts of Interest / Private Inurement

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

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Hosanna 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, Hosanna 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.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended MARCH 31, 2019 and 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pronouncements (continued)

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 implemented this standard during the year ended March 31, 2019.

Subsequent Events

Management evaluated subsequent events through June 14, 2019, the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events that would require any additional adjustments or disclosure to the accompanying consolidated financial statements.

NOTE 3. INVENTORIES

Inventories consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
Raw materials and supplies	\$ 2,429,431	\$ 1,521,229
Finished goods	680,329	561,902
Work-in-progress	37,370	39,724
Total inventory	<u>\$ 3,147,130</u>	<u>\$ 2,122,855</u>

NOTE 4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at March 31:

	<u>2019</u>	<u>2018</u>
Faith Comes By Hearing programs	\$ 5,443,661	\$ 4,507,093
Military BibleStick programs	2,247,200	2,832,289
Narration programs	1,702,880	1,285,734
Other programs	2,202,867	3,140,624
Total temporarily restricted net assets	<u>\$ 11,596,608</u>	<u>\$ 11,765,740</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.

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NOTE 5. ROYALTY AGREEMENTS

Hosanna has entered into several copyright license agreements to produce and sell certain products, which expire at various dates through February 2019. Under these agreements, Hosanna 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, 2019 and 2018 were \$118,350 and \$119,783, respectively. Amounts paid for royalties during the years ended March 31, 2019 and 2018 were approximately \$20,963 and \$21,274, respectively, and are included in the statements of financial position.

NOTE 6. COMMITMENTS AND CONTINGENCIES

Cash deposits at a financial institution exceed the federal insured limit of \$250,000 at March 31, 2019. Hosanna has not experienced, and believes it is not exposed to, significant credit risk from these deposits.

Hosanna maintains cash on deposit in checking, and savings accounts with two financial institutions. At March 31, 2019, these balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) up to \$250,000 at each respective financial institution. Hosanna has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to the uninsured cash balances. At March 31, 2019, Hosanna entities had deposits of \$9,987,034 in excess of the FDIC insurance limits.

NOTE 7. MAJOR DONORS

Hosanna relied on two main contributors for a total of 19.99% and 23.69% of total contributions for the years ended March 31, 2019 and 2018, respectively. Management anticipates that contributor concentrations will continue, but the makeup will differ.

NOTE 8. AVAILABILITY OF FINANCIAL ASSETS

Hosanna's financial assets available within one year of the balance sheet date for general expenditure consisted of the following at March 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 10,140,799	\$ 7,650,934
Accounts receivable	132,063	115,966