

HOSANNA/FAITH COMES BY  
HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL  
FOUNDATION, INC.

Consolidated Financial Statements  
for the Years Ended  
March 31, 2010 and 2009,  
and Independent Auditors' Report

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Table of Contents**



<b>Independent Auditors' Report</b> .....	2
<b>Consolidated Financial Statements:</b>	
Consolidated Statements of Financial Position .....	3 – 4
Consolidated Statements of Activities and Changes in Net Assets.....	5 – 6
Consolidated Statements of Cash Flows .....	7 – 8
Notes to Consolidated Financial Statements .....	9 – 21
<b>Supplementary Information:</b>	
Consolidated Schedules of Functional Expenses.....	23 – 24

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Hosanna/Faith Comes By Hearing and Faith Comes  
By Hearing International Foundation, Inc.  
Albuquerque, New Mexico

We have audited the accompanying consolidated statements of financial position of Hosanna/Faith Comes By Hearing and Faith Comes By Hearing International Foundation, Inc. (Hosanna/Faith Comes By Hearing) as of March 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Hosanna/Faith Comes By Hearing's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 as of March 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information on pages 23 and 24 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Meyners + Company, LLC*  
May 24, 2010

MEYNER'S + COMPANY, LLC

Certified Public Accountants/Consultants to Business



500 Marquette NW, Suite 800 Albuquerque, NM 87102

P 505/842-8290 F 505/842-1568 E cpa@meyners.com

www.meyners.com

An Independent Member of the BDO Seidman Alliance

---

<b>AS OF MARCH 31,</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,821,501	3,362,912
Accounts receivable:		
Trade, less allowance for doubtful accounts and sales returns of \$0 and \$907 in 2010 and 2009, respectively	96,929	100,377
Other	7,972	8,000
Deposits	1,156,455	1,012,379
Inventories (Note 2)	2,238,198	939,213
Prepaid expenses	233,727	262,880
Donated property held for sale	<u>22,000</u>	<u>24,021</u>
<b>TOTAL CURRENT ASSETS</b>	<b>8,576,782</b>	<b>5,709,782</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Machinery and equipment	1,981,765	2,784,900
Building and improvements (Note 3)	1,289,715	1,289,715
Furniture and fixtures	<u>159,458</u>	<u>181,682</u>
	<b>3,430,938</b>	<b>4,256,297</b>
Less accumulated depreciation and amortization	<u>2,330,558</u>	<u>3,131,021</u>
	<b>1,100,380</b>	<b>1,125,276</b>
Land	<u>422,703</u>	<u>422,703</u>
<b>TOTAL PROPERTY AND EQUIPMENT, net</b>	<b>1,523,083</b>	<b>1,547,979</b>
<b>RECORDINGS, LITERATURE AND LICENSES, net of accumulated amortization of \$4,425,983 and \$3,683,951 in 2010 and 2009, respectively</b>	<u>16,496,508</u>	<u>13,402,062</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>26,596,373</u></b>	<b><u>20,659,823</u></b>

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Statements of Financial Position**

---

<b>AS OF MARCH 31,</b>	<b>2010</b>	<b>2009</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 580,285	951,928
Payroll and related liabilities	497,894	443,930
Deferred revenues	220	5,042
Current portion of long-term debt (Note 3)	<u>33,451</u>	<u>31,534</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,111,850</b>	<b>1,432,434</b>
<b>LONG-TERM DEBT (Note 3)</b>	<u><b>377,884</b></u>	<u><b>410,765</b></u>
<b>TOTAL LIABILITIES</b>	<b>1,489,734</b>	<b>1,843,199</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 3, 4 and 6)</b>		
<b>NET ASSETS:</b>		
Unrestricted	17,125,000	12,322,418
Temporarily restricted (Note 5)	<u>7,981,639</u>	<u>6,494,206</u>
<b>TOTAL NET ASSETS</b>	<u><b>25,106,639</b></u>	<u><b>18,816,624</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ <u><u><b>26,596,373</b></u></u>	<u><u><b>20,659,823</b></u></u>

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Statements of Activities and Changes in Net Assets**

**YEAR ENDED MARCH 31, 2010**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>MISSION AND PROGRAM RELATED SALES</b>	\$ 568,767	-	568,767
<b>OTHER REVENUE AND SUPPORT:</b>			
Contributions	-	21,559,407	21,559,407
Interest	15,468	-	15,468
Rents and royalties	15,962	-	15,962
Miscellaneous	2,361	-	2,361
Loss on sale of property and equipment/donated assets	(434)	-	(434)
<b>TOTAL OTHER REVENUE AND SUPPORT</b>	33,357	21,559,407	21,592,764
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>20,071,974</u>	<u>(20,071,974)</u>	<u>-</u>
<b>TOTAL GROSS REVENUE AND SUPPORT</b>	20,674,098	1,487,433	22,161,531
<b>EXPENSES:</b>			
Program expense	14,000,662	-	14,000,662
Management and general	971,182	-	971,182
Fundraising	899,672	-	899,672
<b>TOTAL EXPENSES</b>	<u>15,871,516</u>	<u>-</u>	<u>15,871,516</u>
<b>CHANGE IN NET ASSETS</b>	4,802,582	1,487,433	6,290,015
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>12,322,418</u>	<u>6,494,206</u>	<u>18,816,624</u>
<b>NET ASSETS, END OF YEAR</b>	\$ <u>17,125,000</u>	\$ <u>7,981,639</u>	\$ <u>25,106,639</u>

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Statements of Activities and Changes in Net Assets - continued**

**YEAR ENDED MARCH 31, 2009**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>MISSION AND PROGRAM RELATED SALES</b>	\$ 878,289	-	878,289
<b>OTHER REVENUE AND SUPPORT:</b>			
Contributions	2,021	15,437,417	15,439,438
Interest	42,726	-	42,726
Rents and royalties	13,264	-	13,264
Miscellaneous	6,198	-	6,198
Loss on sale of property and equipment/donated assets	(4,928)	-	(4,928)
<b>TOTAL OTHER REVENUE AND SUPPORT</b>	59,281	15,437,417	15,496,698
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	13,986,443	(13,986,443)	-
<b>TOTAL GROSS REVENUE AND SUPPORT</b>	14,924,013	1,450,974	16,374,987
<b>EXPENSES:</b>			
Program expense	14,544,888	-	14,544,888
Management and general	955,776	-	955,776
Fundraising	921,107	-	921,107
<b>TOTAL EXPENSES</b>	16,421,771	-	16,421,771
<b>CHANGE IN NET ASSETS</b>	(1,497,758)	1,450,974	(46,784)
<b>NET ASSETS, BEGINNING OF YEAR</b>	13,820,176	5,043,232	18,863,408
<b>NET ASSETS, END OF YEAR</b>	\$ 12,322,418	6,494,206	18,816,624

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Statements of Cash Flows**

<b>YEARS ENDED MARCH 31,</b>	<b>2010</b>	<b>2009</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ <b>6,290,015</b>	(46,784)
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation and amortization expense	<b>1,047,164</b>	735,348
Loss on sale of property and equipment	<b>53</b>	3,829
Donated assets	<b>(22,740)</b>	(60,404)
Donated property and equipment	<b>(1,000)</b>	-
Loss on sale of donated assets	<b>381</b>	1,099
Non-cash expenses on sale of donated assets	<b>505</b>	806
 (Increase) decrease in:		
Accounts receivable:		
Trade	<b>3,448</b>	389,691
Other	<b>28</b>	(4,467)
Deposits	<b>(144,076)</b>	(84,037)
Inventories	<b>(1,298,985)</b>	458,269
Prepaid expenses	<b>29,153</b>	(97,032)
 Increase (decrease) in:		
Accounts payable and accrued expenses	<b>(371,643)</b>	594,563
Payroll and related liabilities	<b>53,964</b>	58,642
Deferred revenues	<b>(4,822)</b>	867
Total adjustments	<b>(708,570)</b>	1,997,174
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,581,445</b>	1,950,390

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Statements of Cash Flows - continued**

<b>YEARS ENDED MARCH 31,</b>	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property and equipment	\$ 4,447	987
Sale of investments	-	1,100,000
Proceeds from sale of donated assets	23,875	56,478
Purchases of property and equipment	(283,736)	(123,536)
Investment in recordings, literature and licenses	<u>(3,836,478)</u>	<u>(2,744,481)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(4,091,892)</b>	<b>(1,710,552)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	<u>(30,964)</u>	<u>(29,176)</u>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u><b>(30,964)</b></u>	<u><b>(29,176)</b></u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,458,589</b>	<b>210,662</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>3,362,912</b></u>	<u><b>3,152,250</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u><u><b>4,821,501</b></u></u>	<u><u><b>3,362,912</b></u></u>

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements**

---

**NATURE OF BUSINESS**

Hosanna/Faith Comes By Hearing 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 an outside controlled Board of Directors.

During fiscal year 1999, Hosanna/Faith Comes By Hearing established Faith Comes By Hearing International Foundation, Inc. (the 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 an outside controlled Board of Directors.

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

**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.

**Services Provided**

• **"Faith Comes By Hearing" Programs - United States of America**

During the year ended March 31, 2010, over 2,500 churches in the U.S. conducted the *You've Got The Time* (YGTT) programs with more than 950,000 audio New Testaments and KIDZ Bibles. In the last ten years, over 65,000 different U.S. churches have participated in these Faith Comes by Hearing programs.

During this fiscal year, Hosanna/Faith Comes By Hearing launched the following programs: over 25,388 BibleSticks for military personnel and over 75,000 free web downloads of recorded Audio New Testaments in over 480 recordings.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**NATURE OF BUSINESS - continued**

**Services Provided - continued**

• **“Faith Comes By Hearing” Programs - International**

During the year ended March 31, 2010, Hosanna/Faith Comes By Hearing began 64,901 new listening projects in over 79 countries, with approximately 5,841,000 new listeners hearing the entire New Testament in their heart language. Each church or group was given a free audio New Testament in their mother tongue and listened at least once a week for 30 minutes. Some 59,574 of these groups received Proclaimer units. The Proclaimer ® is a dedicated audio player containing a dramatized recording of a 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. Also, most of the 74,385 programs started in 2009 continued in 2010, with new listeners added. During this fiscal year, Hosanna/Faith Comes By Hearing expanded the Every Church/Every Village program, in which over 6,610 New Testaments in various languages on Proclaimers (in increments of up to six per project) were provided free to church missionaries or individuals traveling on mission trips to establish Faith Comes By Hearing listening groups in 121 countries. Faith Comes By Hearing is being used worldwide in:

- |   |                               |
|---|-------------------------------|
| - Churches  | - Hospitals                   |
| - Unreached villages and<br>communities for church planting | - Prisons                     |
| - Schools   | - <i>JESUS</i> 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.

• **Recording Service Centers**

In order to effectively conduct the non-U.S. language recording projects and the Faith Comes By Hearing programs, regional service centers are set up. They are staffed by people from the region who are devoted to sharing the Word of God in every language. These regional service centers are supplied with the recording and other equipment needed to support all of the Audio New Testament recordings and Faith Comes By Hearing programs. The individuals staffing the centers are not Hosanna/Faith Comes By Hearing employees and the service centers are not recorded on the financial statements.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**NATURE OF BUSINESS - continued**

**Services Provided - continued**

- **Recording Service Centers - continued**

During the year ended March 31, 2010, Hosanna/Faith Comes By Hearing partnered with 34 different recording organizations in 24 countries, with a total of 56 recording teams, each capable of recording two or more languages per year.

- **New Testament Recordings**

During the year ended March 31, 2010, 97 Audio New Testament recordings were completed, bringing the total number of languages with a complete Audio New Testament to 456 languages spoken in 152 countries by over 4.5 billion people. Hosanna/Faith Comes By Hearing also had 36 recordings in final mastering and editing, and 47 recordings in-process at year-end.

- **Faith Comes By Hearing Radio**

Through March 31, 2010, Hosanna/Faith Comes By Hearing continued to support Radio Bible broadcasts. The broadcasts consist of a 15-minute daily program of dramatized Scripture using the major stories of the Old Testament and the entire New Testament.

The vision is to continue and expand this program for worldwide use that will create a movement with the goal to have the Bible heard on radio in 100 of the largest language groups.

Currently Radio Bible programs are complete in the following languages: Arabic, Ashanti, Farsi, French-Parole de Vie, Russian CARS, Ashanti, Shona, Spanish – Dios Habla Hoy, Swahili, SiSwati, African English, Chinese Mandarin, Indonesia Bahasa, Malayalam, and Uzbek Old Testament portions.

Projected future projects include Turkish and Urdu.

**PARTNERSHIP**

The mission of Hosanna/Faith Comes By Hearing is accomplished through support from the Body of Christ and strategic partnerships with ministries worldwide. These partnerships cover program funding and program execution through Agreements and Memorandums of Understanding.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**PARTNERSHIP - continued**

**Partnership Overview**

**American Bible Society (ABS)** – The mission of the ABS is to make the Bible available to every person in a language and format each can understand and afford so all people may experience its life-changing message. ABS and Hosanna/Faith Comes By Hearing have partnered in many joint projects, and in April 2005 the two ministries established the Global Scripture Fund (the Fund).

The purpose of the Global Scripture Fund was to provide funding from both organizations to record Audio Bibles and to establish FCBH listening groups. The ABS committed to match Global Scripture Fund donations received by Hosanna/Faith Comes By Hearing for the life of the Fund. In addition to the dollar for dollar match commitment, the ABS contributed 15% of the Global Scripture Fund donations received by Hosanna/Faith Comes By Hearing to cover Hosanna/Faith Comes By Hearing's administrative and fundraising expenses.

The ABS's match commitment to the Global Scripture Fund was stopped effective July 1, 2007. During the two years it was in effect, Hosanna/Faith Comes By Hearing raised a total of \$13,805,112. Total match payment credits and 15% contributions made by the ABS through the fiscal year ending March 31, 2010 were \$12,763,867 and \$2,070,767, respectively. The balance of Global Scripture Funds yet to be matched by the ABS is \$1,041,245. The ABS has indicated that this balance will be paid by June 30, 2010. The total amount collected from ABS during the fiscal year ended March 31, 2010 was \$4,483,702. All matching payments made by the ABS are reported as temporarily restricted contributions, and all 15% contributions are reported as unrestricted contributions.

**United Bible Societies (UBS)** – This is currently Hosanna/Faith Comes By Hearing's largest partnership. The UBS is a fellowship of over 145 national Bible Societies located in countries throughout the world. Faith Comes By Hearing has partnerships with over 100 of these national Bible Societies and UBS organizations. These partnerships consist of text agreements permitting the use of Bible translations in audio recordings, as well as Faith Comes By Hearing program funding, distribution and implementation. The UBS has a passion to reach every person with the Bible in their own language and in a format they can use.

**BIBLICA (formerly International Bible Society)** – Partnership between BIBLICA and Hosanna/Faith Comes By Hearing began in 1983, when BIBLICA granted Hosanna/Faith Comes By Hearing permission to record the New International Version (NIV) of the Bible. BIBLICA supported our national *You've Got The Time* Bible listening programs by waiving its royalties for the NIV Bible recordings freely given to participants.

**Wycliffe Bible Translators (Wycliffe)** – This major Bible translation agency has over 700 completed New Testament translations, current translation work in over 2,400 languages, and a vision to begin a translation by the year 2025 in every language of the world that doesn't have Scriptures. Wycliffe and

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**PARTNERSHIP - continued**

**Partnership Overview - continued**

**Wycliffe Bible Translators (Wycliffe) – continued**

Hosanna/Faith Comes By Hearing have partnered together in the funding, recording and distribution of more than 220 recording projects, with another 100+ projects in process. Wycliffe and Hosanna/Faith Comes By Hearing are partnering to record every translation completed by Wycliffe and to start FCBH groups in each of these languages. Bob Creson, the President of Wycliffe, writes to their donors and partners that a Wycliffe translation is not complete until there is a Hosanna/Faith Comes By Hearing recording of the translation and a Faith Comes By Hearing listening program is in place.

**Campus Crusade for Christ International / *JESUS* Film (CCCI) –** CCCI is a network of 70 different organizations, with over 24,000 workers in more than 190 countries. The mission of CCCI is that every person in the world has an opportunity to hear the Gospel of Christ at least once in their lifetime. Their primary tool for fulfilling this mission is the *JESUS* Film. CCCI's vision is to win people to Christ, disciple them and send them out. CCCI has the *JESUS* Film in 1,080 languages. CCCI and Hosanna/Faith Comes By Hearing are partnering to create a vital church planting movement.

**Scripture Union –** Founded in 1867, Scripture Union has offices in over 130 countries. Scripture Union works in schools and camps, evangelizing and discipling youth in each of these countries. To date, mostly through the partnership with Scripture Union, Hosanna/Faith Comes By Hearing has started school Hosanna/Faith Comes By Hearing programs in over 10,000 schools, mostly in Africa, Latin America and India. These school programs include Faith Comes By Hearing listening programs as part of their normal weekly curriculum. Scripture Union's goal is to have Faith Comes By Hearing programs active in every school they work with. This represents hundreds of thousands of schools in Africa alone.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

• **Accounting Pronouncements**

In June 2009, the Financial Accounting Standard Board (FASB) issued FASB ASC 105-10, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, (formerly SFAS 168). FASB ASC 105-10 replaces the SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The Codification became the exclusive authoritative reference at September 30, 2009. Updates to the Codification Standards are issued as Accounting Standard Updates (ASU) by the FASB. The adoption of the Codification does not impact Hosanna/Faith Comes By Hearing's financial statements except for references made to authoritative accounting literature in the footnotes.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Accounting Pronouncements - continued**

On June 30, 2009, Hosanna/Faith Comes By Hearing's adopted the FASB amendments to general standards on accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The adoption of this guidance did not materially impact Hosanna/Faith Comes By Hearing's financial statements.

• **Basis of Presentation**

The accompanying 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 Hosanna/Faith Comes By Hearing to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – represent those restricted donations that Hosanna/Faith Comes By Hearing 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 Hosanna/Faith Comes By Hearing 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 Hosanna/Faith Comes By Hearing. This amount would represent the original gift value.

No permanently restricted assets were held during 2010 or 2009, 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, Hosanna/Faith Comes By Hearing 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.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Accounts Receivable and Sales Return Allowance**

Hosanna/Faith Comes By Hearing 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 collectibility 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/Faith Comes By Hearing's investment in accounts receivable past due 90 days or more was approximately \$7,400 and \$7,200 for the years ended March 31, 2010 and 2009, respectively.

- **Inventories**

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

- **Property and Equipment**

Generally, 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.

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

Hosanna/Faith Comes By Hearing 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.

- **Fair Value of Financial Instruments**

Hosanna/Faith Comes By Hearing adopted Statement ASC 820-10, formerly FASB No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels defined by the ASC 820-10 hierarchy are as follows:

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Fair Value of Financial Instruments - continued**

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, prepayment speeds, loss credit risk, etc.)

Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data and assumptions.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The carrying amounts of cash and cash equivalents, accounts receivable, inventories, prepaids, accounts payable and other accrued liabilities approximate fair value due to the short maturity of the financial instruments.

• **Recordings**

Hosanna/Faith Comes By Hearing 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 indirect costs of developing and acquiring the Bible recordings are initially capitalized. Based on experience and research of other organizations performing similar functions, such costs are amortized over 20 years on the straight-line basis.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- **Deferred Revenues**

Income from prepayments for orders and for Bible recordings is included in deferred revenues. The income is recognized when orders are shipped and on a percentage of completion basis.

- **Revenue Recognition**

Contributions received are recorded as increases in temporarily restricted, permanently 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. An allowance for future returns has been established based on historical experience.

- **Functional Classification of Expenses**

Hosanna/Faith Comes By Hearing 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.

- **Advertising and Promotion**

Costs to produce direct-response advertising and fundraising materials are capitalized and 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/Faith Comes By Hearing 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/Faith Comes By Hearing's current recording and distribution projects. Such materials are disbursed on a campaign-by-campaign basis. Capitalized direct-response material costs are included in prepaid expenses and amounted to \$25,183 and \$34,781 as of March 31, 2010 and 2009, respectively.

Advertising expense totaled approximately \$266,000 and \$553,000 for the years ended March 31, 2010 and 2009, respectively. Of this amount, \$158,523 and \$328,681 is included in program expense as a component of cost of sales for the years ended March 31, 2010 and 2009, respectively.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Income Taxes**

Hosanna/Faith Comes By Hearing and the 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/Faith Comes By Hearing and the Foundation are classified as other than private foundations.

In 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance relating to the accounting for the uncertainty in income taxes, which was effective for Hosanna/Faith Comes By Hearing for the year ended March 31, 2010. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with GAAP. The guidance also requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Hosanna/Faith Comes By Hearing's information returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. In addition, guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition was also provided. As of March 31, 2010, Hosanna/Faith Comes By Hearing performed a review of its material tax positions in accordance with recognition and measurement standards established by GAAP. As a result of this review, Hosanna/Faith Comes By Hearing qualified as a tax exempt organization under Section 501(c)(3) of the IRC and had no income derived from unrelated business activities and did not identify any entity level tax positions that would not meet the more-likely-than-not threshold.

• **Estimates**

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

• **Conflicts of Interest / Private Inurement**

Business activities/relationships by Board Members, Directors, Officers and employees that conflict with Hosanna/Faith Comes By Hearing's business interests are prohibited.

• **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

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **Wages, Benefits and Compensations - continued**

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

**2. INVENTORIES**

Inventories consisted of the following at March 31:

	<b>2010</b>	2009
Finished goods	\$ 572,363	438,209
Work-in-progress	96,935	93,416
Raw materials and supplies	<u>1,568,900</u>	<u>407,588</u>
	<u>\$ 2,238,198</u>	<u>939,213</u>

**3. LONG-TERM DEBT**

Long-term debt consisted of the following at March 31:

	<b>2010</b>	2009
Note payable to a local financial institution at 6%, due in monthly installments of \$4,716, including interest, through October 2011, with an anticipated balloon payment of approximately \$378,000 on November 1, 2011. Note is secured by Hosanna/Faith Comes By Hearing's operating facility.	\$ 411,335	442,299
Less current portion	<u>33,451</u>	<u>31,534</u>
	<u>\$ 377,884</u>	<u>410,765</u>

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

**3. LONG-TERM DEBT - continued**

Scheduled future principal payments on long-term debt are as follows:

Years ending March 31:

2011	\$	33,451
2012		377,884
2013 and thereafter		<u>          -</u>
	\$	<u>          411,335</u>

**4. OPERATING LEASES**

Hosanna/Faith Comes By Hearing leases certain equipment under short-term operating leases. Rent expense for all operating leases for the years ended March 31, 2010 and 2009 was \$39,897 and \$23,195, respectively. There were no minimum rental commitments as of March 31, 2010.

**5. TEMPORARILY RESTRICTED NET ASSETS**

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

	2010	2009
Faith Comes By Hearing Programs	\$ 3,416,455	2,852,949
Other programs	-	61,311
Narration programs	<u>4,565,184</u>	<u>3,579,946</u>
	\$ <u>7,981,639</u>	<u>6,494,206</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 \$25,596 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 FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Notes to Consolidated Financial Statements - continued**

---

**6. COMMITMENTS AND CONTINGENCIES**

- **Concentrations of Credit Risk**

Hosanna/Faith Comes By Hearing maintains its cash and cash equivalents in depository accounts with a financial institution. Balances in these accounts at March 31, 2010 exceeded the federally insured limit of \$250,000 by approximately \$4,064,000. Hosanna/Faith Comes By Hearing does not believe that its risk for amounts in excess of federally insured limits is significant.

- **Royalty Agreements**

Hosanna/Faith Comes By Hearing 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/Faith Comes By Hearing 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, 2010 and 2009 were \$531,420 and \$832,621, respectively. Amounts paid for royalties during the years ended March 31, 2010 and 2009 were \$17,130 and \$46,696, respectively.

- **Subsequent Events**

Management has evaluated subsequent events through May 24, 2010 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended March 31, 2010. The date through which events were reviewed represents the date the financial statements were available to be issued. Management does not believe there to be any material subsequent events to disclose as of this date.

**SUPPLEMENTARY INFORMATION**

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Schedules of Functional Expenses**

**YEAR ENDED MARCH 31, 2010**

	<u>Program Expense</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Faith Comes By Hearing programs	\$ 7,421,945	-	-	7,421,945
Salaries and wages	3,652,430	610,870	436,707	4,700,007
Employee benefits and payroll taxes	697,232	132,293	97,511	927,036
Depreciation and amortization	807,464	98,608	8,146	914,218
Cost of goods produced*	440,361	-	-	440,361
Telephone and utilities	328,649	18,055	68,211	414,915
Travels, meetings and entertainment	196,391	34,050	130,193	360,634
Advertising and promotion	158,523	18,654	88,909	266,086
Supplies and artwork expenses	59,628	13,509	8,079	81,216
Postage and courier expenses	54,529	5,071	11,015	70,615
Professional services	16,382	4,931	38,620	59,933
Repairs and maintenance	45,192	11,715	2,543	59,450
Rental expenses	27,238	10,419	622	38,279
Miscellaneous expense	24,382	7,413	859	32,654
Merchant and bank fees	29,067	1,092	1,010	31,169
Legal and accounting fees	15,518	2,416	5,613	23,547
Insurance	16,434	1,381	1,029	18,844
Interest	9,117	653	605	10,375
Office expenses	<u>180</u>	<u>52</u>	<u>-</u>	<u>232</u>
	<u>\$ 14,000,662</u>	<u>971,182</u>	<u>899,672</u>	<u>15,871,516</u>

\*Also includes amounts allocated from other natural categories as part of manufacturing overhead, including depreciation and amortization.

**HOSANNA/FAITH COMES BY HEARING AND FAITH COMES  
BY HEARING INTERNATIONAL FOUNDATION, INC.**

**Consolidated Schedules of Functional Expenses - continued**

**YEAR ENDED MARCH 31, 2009**

	<b>Program Expense</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Faith Comes By Hearing programs	\$ 8,739,097	-	-	8,739,097
Salaries and wages	3,054,205	604,482	376,966	4,035,653
Employee benefits and payroll taxes	525,860	118,176	72,356	716,392
Depreciation and amortization	595,963	72,308	8,099	676,370
Cost of goods produced*	648,356	-	-	648,356
Advertising and promotion	328,681	41,988	182,346	553,015
Telephone and utilities	209,872	17,800	108,195	335,867
Travels, meetings and entertainment	124,772	28,143	91,576	244,491
Repairs and maintenance	74,935	15,948	3,466	94,349
Professional services	30,045	8,168	46,377	84,590
Postage and courier expenses	49,050	4,784	13,818	67,652
Supplies and artwork expenses	41,534	11,458	6,846	59,838
Miscellaneous expense	27,033	16,557	12	43,602
Merchant and bank fees	27,349	1,014	1,078	29,441
Legal and accounting fees	18,864	1,844	5,776	26,484
Rental expenses	14,673	6,370	932	21,975
Insurance	17,335	1,449	1,260	20,044
Interest	11,011	3,604	1,597	16,212
Office expenses	<u>6,253</u>	<u>1,683</u>	<u>407</u>	<u>8,343</u>
	<u>\$ 14,544,888</u>	<u>955,776</u>	<u>921,107</u>	<u>16,421,771</u>

\*Also includes amounts allocated from other natural categories as part of manufacturing overhead, including depreciation and amortization.