

**HOSANNA/FAITH COMES BY HEARING  
AND AFFILIATES**  
Albuquerque, New Mexico

**FINANCIAL STATEMENTS**  
March 31, 2011 and 2010

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## Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of Hosanna/Faith Comes By Hearing and Affiliates (Hosanna) as of March 31, 2011 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of Hosanna's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Hosanna as of March 31, 2010 were audited by Meyners + Company, LLC, which practice was acquired by Clifton Gunderson LLP on January 1, 2011. Meyners + Company, LLC's report dated May 24, 2010 expressed an unqualified opinion on those consolidated financial statements.

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 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 audit provides 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 as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements for the year ended March 31, 2011 taken as a whole. The supplementary information for the year ended March 31, 2011 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. The supplementary information for the year ended March 31, 2010 was audited by Meyners + Company, LLC, whose report dated May 24, 2010 expressed an unqualified opinion on such information, in all material respects, in relation to the consolidated financial statements taken as a whole.

*Clifton Gunderson LLP*

Albuquerque, New Mexico  
August 2, 2011

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**March 31, 2011 and 2010**

**ASSETS**

	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 573,539	\$ 4,821,501
Accounts receivable:		
Trade	77,826	96,929
Other	128,762	7,972
Inventory	1,149,836	2,238,198
Donated property held for sale	22,481	22,000
Prepaid expenses and other assets	911,809	1,390,182
Total current assets	2,864,253	8,576,782
<b>NON-CURRENT ASSETS</b>		
Pledge receivable	525,000	-
<b>PROPERTY AND EQUIPMENT</b>		
Machinery and equipment	1,695,073	1,981,765
Building and improvements	1,343,827	1,289,715
Furniture and fixtures	159,458	159,458
	3,198,358	3,430,938
Less accumulated depreciation and amortization	(2,265,337)	(2,330,558)
Total property and equipment	933,021	1,100,380
<b>LAND</b>	422,703	422,703
	1,355,724	1,523,083
<b>RECORDINGS, LITERATURE, AND LICENSES,</b> net of accumulated amortization of \$5,265,705 and \$4,425,983 in 2011 and 2010, respectively	20,480,478	16,496,508
<b>TOTAL ASSETS</b>	<b>\$ 25,225,455</b>	<b>\$ 26,596,373</b>

## LIABILITIES AND NET ASSETS

	<b>2011</b>	<b>2010</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,213,994	\$ 580,285
Accrued expenses and other liabilities	509,005	498,114
Current maturities of debt obligations	377,945	33,451
Total current liabilities	2,100,944	1,111,850
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES ABOVE</b>		
	-	377,884
Total liabilities	2,100,944	1,489,734
<b>NET ASSETS</b>		
Unrestricted	17,346,715	17,125,000
Temporarily restricted	5,777,796	7,981,639
Total net assets	23,124,511	25,106,639
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 \$ 25,225,455	 \$ 26,596,373

The accompanying notes are an integral part of the consolidated financial statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year Ended March 31, 2011**  
**With Summarized Financial Information for the Year Ended March 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
<b>REVENUES, GAINS, AND PUBLIC SUPPORT</b>					
Contributions	\$ -	\$ 13,605,894	\$ -	\$ 13,605,894	\$ 21,559,407
Sales	399,371	-	-	399,371	568,767
Other revenue and support	24,532	-	-	24,532	33,357
	<u>423,903</u>	<u>13,605,894</u>	<u>-</u>	<u>14,029,797</u>	<u>22,161,531</u>
Total revenues, gains and public support					
	<u>423,903</u>	<u>13,605,894</u>	<u>-</u>	<u>14,029,797</u>	<u>22,161,531</u>
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>15,809,737</u>	<u>(15,809,737)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>					
Program services	14,106,294	-	-	14,106,294	14,000,662
Fundraising	935,092	-	-	935,092	971,182
Management and general	970,539	-	-	970,539	899,672
	<u>16,011,925</u>	<u>-</u>	<u>-</u>	<u>16,011,925</u>	<u>15,871,516</u>
Total expenses					
	<u>16,011,925</u>	<u>-</u>	<u>-</u>	<u>16,011,925</u>	<u>15,871,516</u>
<b>CHANGES IN NET ASSETS</b>	221,715	(2,203,843)	-	(1,982,128)	6,290,015
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>17,125,000</u>	<u>7,981,639</u>	<u>-</u>	<u>25,106,639</u>	<u>18,816,624</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 17,346,715</u>	<u>\$ 5,777,796</u>	<u>\$ -</u>	<u>\$ 23,124,511</u>	<u>\$ 25,106,639</u>

The accompanying notes are an integral part of the financial statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended March 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,982,128)	\$ 6,290,015
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,075,252	1,047,164
Loss on sale of property and equipment	6,101	434
Fair value of donated equipment received	(481)	(23,235)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(101,687)	3,476
Inventory	1,088,362	(1,298,985)
Prepaid expenses and other assets	478,373	(114,923)
Pledge receivable	(525,000)	-
Accounts payable	633,709	(371,643)
Accrued expenses and other liabilities	10,891	49,142
	<u>683,392</u>	<u>5,581,445</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(4,903,632)	(4,120,214)
Proceeds from sale of property and equipment	<u>5,668</u>	<u>28,322</u>
	<u>(4,897,964)</u>	<u>(4,091,892)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for:		
Payments on long-term debt	<u>(33,390)</u>	<u>(30,964)</u>
	<u>(33,390)</u>	<u>(30,964)</u>
Net cash used in financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,247,962)	1,458,589
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,821,501</u>	<u>3,362,912</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 573,539</u>	<u>\$ 4,821,501</u>
<b>SUPPLEMENTAL DATA - INTEREST PAID</b>	<u>\$ 23,240</u>	<u>\$ 25,812</u>

The accompanying notes are an integral part of the consolidated financial statements.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**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 a 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 a Board of Directors.

During this fiscal year, Hosanna/Faith Comes by Hearing created Hong Kong Limited, which is a registered charity in China. This charity only operates so donors in China could give funds to a recognized charity. The amounts received during the fiscal year were recognized as donations by Hosanna/Faith Comes by Hearing and the money held in the bank account is included in the cash reported in these financial statements.

The consolidated financial statements include the accounts of Hosanna/Faith Comes By Hearing, the International Foundation and Hong Kong Limited (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.

**Services Provided**

"Faith Comes By Hearing" (FCBH) Programs - United States of America

During the year ended March 31, 2011, over 685 churches in the U.S. conducted the *You've Got The Time* (YGTT) programs with more than 171,000 audio New Testaments and KIDZ Bibles. In the last ten years, over 66,000 different U.S. churches have participated in these Faith Comes by Hearing programs.

During this fiscal year, Hosanna launched the following programs: over 72,644 BibleSticks for military personnel, over 68,499 free web downloads, 11,438,316 streams and over 4,805,572 podcasts of recorded Audio New Testaments in over 480 recordings to over 750,000 individuals worldwide.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NATURE OF BUSINESS (CONTINUED)**

“Faith Comes By Hearing” Programs - International

During the year ended March 31, 2011, Hosanna began 60,469 new listening projects in over 84 countries, with approximately 5,442,000 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 56,373 of these groups received Proclaimer units. The Proclaimer<sup>®</sup> 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. Also, most of the 64,901 programs started in 2010 continued in 2011. During this fiscal year, Hosanna expanded the Every Church/Every Village program, in which over 12,000 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 94 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 Faith Comes By Hearing 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, Hosanna uses regional service centers. 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 employees and the service centers are not recorded on the financial statements.

During the year ended March 31, 2011, Hosanna partnered with 36 different recording organizations in 26 countries, with a total of 51 recording teams, each capable of recording two or more languages per year.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NATURE OF BUSINESS (CONTINUED)**

New Testament Recordings

During the year ended March 31, 2011, 105 Audio New Testament recordings were completed, bringing the total number of languages with a complete Audio New Testament to 553 languages spoken in 185 countries by over 5 billion people. Hosanna also had 40 recordings in final mastering and editing, and 44 recordings in-process at year-end.

Faith Comes By Hearing Radio

Through March 31, 2011, Hosanna 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, 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 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.

**Partnership Overview**

**American Bible Society (ABS)** – The mission of 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 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. ABS committed to match Global Scripture Fund donations received by Hosanna for the life of the Fund. In addition to the dollar for dollar match commitment, ABS contributed 15% of the Global Scripture Fund donations received by Hosanna to cover Hosanna's administrative and fundraising expenses.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**PARTNERSHIP (CONTINUED)**

During the life of ABS's match commitment to the Global Scripture Fund, Hosanna raised a total of \$13,805,112. Total match payment credits and 15% contributions made by ABS through the fiscal year ending March 31, 2011 were \$13,805,112 and \$2,070,767, respectively. The match commitment ended on June 30, 2010.

**United Bible Societies (UBS)** – This is currently Hosanna's largest partnership. 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 agreements permitting the use of Bible translations in audio recordings, as well as Faith Comes By Hearing program funding, distribution and implementation. 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 began in 1983, when BIBLICA granted Hosanna 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 have partnered together in the funding, recording and distribution of more than 220 recording projects, with another 100+ projects in process. Wycliffe and Hosanna are partnering to record every translation completed by Wycliffe and to start Faith Comes By Hearing groups in each of these languages. The President of Wycliffe writes to their donors and partners that a Wycliffe translation is not complete until there is a Hosanna 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 bring people to Christ, disciple them and send them out to the world. CCCI has the *JESUS* Film in 1,080 languages. CCCI and Hosanna 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 has started school Hosanna 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.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 1 - 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. Significant estimates included in these consolidated financial statements relate to depreciable lives of property and equipment and amortization period of recording costs.

**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 Hosanna 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 Hosanna 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 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 Hosanna. This amount would represent the original gift value.

No permanently restricted net assets were held during 2011 or 2010, 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 considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents. Hosanna maintains its cash and cash equivalents in depository accounts with a financial institution. Balances in these accounts at March 31, 2011 exceeded the federally insured limit of \$250,000 by approximately \$310,000. Hosanna does not believe that its risk for amounts in excess of federally insured limits is significant.

**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 AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Assets and Services**

Donated services are recognized as contributions in accordance with ASB 958-605, formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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 and Sales Return Allowance**

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 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 did not have any allowances for the years ended March 31, 2011 and 2010.

**Inventory**

Inventories consist of Proclaimers, CDs, BibleSticks and packaging items. Inventories are valued at the lower of cost or market. Cost is determined using the weighted average cost method.

**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.

**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.

**Pledge Receivable**

Pledge receivable represents a donation from an unrelated party with a maturity date of December 31, 2013. The amount owed to Hosanna is \$525,000.

Interest only is paid quarterly at 8% per annum. Interest income is recognized on a quarterly basis. No interest was paid in this fiscal year.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Deferred Revenues**

Income from prepayments for orders and for Bible recordings is recorded as deferred revenue. The income is recognized when orders are shipped. The amount is insignificant and is included in the accrued expenses amount shown on the consolidated Statements of Financial Position.

**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**

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.

**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 \$835,000 and \$845,000 in 2011 and 2010, 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. Direct-response material costs are included in prepaid expenses and amounted to approximately \$21,000 and \$25,200 as of March 31, 2011 and 2010, respectively.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising expense totaled approximately \$396,000 and \$266,000 for the years ended March 31, 2011 and 2010, respectively. Of this amount, approximately \$236,000 and \$158,500 is included in program expense as a component of cost of sales for the years ended March 31, 2011 and 2010, 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 started a charitable organization in China called Hong Kong Limited, which serves as a way for Chinese donors to give funds to Hosanna. Hosanna has no tax liability related to this organization.

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 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'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, 2011, Hosanna 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 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.

**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.

**Expense Approval**

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

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Subsequent Events**

Management evaluated subsequent events through August 2, 2011 the date the financial statements were available to be issued. Events or transactions occurring after March 31, 2011, but prior to August 2, 2011, that provided additional evidence about conditions that existed at March 31, 2011 have been recognized in the financial statements for the year ended March 31, 2011. Events or transactions that provided evidence about conditions that did not exist at March 31, 2011, 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, 2011.

**NOTE 2 - INVENTORIES**

Inventories consisted of the following at March 31:

	<u>2011</u>	<u>2010</u>
Finished goods	\$ 462,121	\$ 572,363
Work-in-progress	145,236	96,935
Raw materials and supplies	<u>542,479</u>	<u>1,568,900</u>
<b>Total inventories</b>	<u>\$ 1,149,836</u>	<u>\$ 2,238,198</u>

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 3 - LONG-TERM DEBT**

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

	<b>2011</b>	<b>2010</b>
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's operating facility.	\$ 377,945	\$ 411,335
Less current portion	(377,945)	(33,451)
<b>Long-term debt less current portion</b>	<b>\$ -</b>	<b>\$ 377,884</b>

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

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

	<b>2011</b>	<b>2010</b>
Military BibleStick Programs	\$ 522,626	\$ -
Faith Comes By Hearing Programs	2,045,514	3,416,455
Other programs	100,582	-
Narration programs	3,109,074	4,565,184
<b>Total temporarily restricted net assets</b>	<b>\$ 5,777,796</b>	<b>\$ 7,981,639</b>

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.

**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, 2011 and 2010 were \$355,048 and \$531,420, respectively. Amounts paid for royalties during the years ended March 31, 2011 and 2010 were \$16,715 and \$17,130, respectively.

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011 and 2010**

**NOTE 6 - OPERATING LEASES**

Hosanna leases certain equipment under short-term operating leases. Rent expense for all operating leases for the years ended March 31, 2011 and 2010 was \$27,281 and \$39,897, respectively. There were no minimum rental commitments as of March 31, 2011.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended March 31, 2011

	<u>Supporting Services</u>					<u>Total Functional Expenses</u>
	<u>Program Expense</u>	<u>Total Program Services</u>	<u>Fund- Raising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	
<b>EXPENSES</b>						
Faith Comes By Hearing programs	\$ 7,143,607	\$ 7,143,607	\$ -	\$ -	\$ -	\$ 7,143,607
Salaries	3,991,093	3,991,093	479,185	612,839	1,092,024	5,083,117
Payroll taxes and fringe benefits	793,771	793,771	89,218	120,811	210,029	1,003,800
Depreciation and amortization	890,921	890,921	8,717	98,831	107,548	998,469
Travel, meetings, and entertainment	215,554	215,554	148,899	39,719	188,618	404,172
Advertising and promotion	236,388	236,388	127,607	32,338	159,945	396,333
Cost of goods produced*	349,731	349,731	-	-	-	349,731
Telephone and utilities	212,455	212,455	17,150	12,624	29,774	242,229
Repairs and maintenance	64,929	64,929	3,200	12,686	15,886	80,815
Professional services	31,204	31,204	40,629	7,941	48,570	79,774
Postage and courier expenses	59,719	59,719	7,966	5,006	12,972	72,691
Supplies and artwork expenses	28,365	28,365	2,998	10,143	13,141	41,506
Merchant and bank fees	27,261	27,261	1,412	1,468	2,880	30,141
Rental expenses	17,865	17,865	599	8,817	9,416	27,281
Legal and accounting fees	15,820	15,820	5,903	1,774	7,677	23,497
Insurance	15,395	15,395	1,034	1,343	2,377	17,772
Interest	8,175	8,175	556	577	1,133	9,308
Miscellaneous expense	2,850	2,850	19	3,493	3,512	6,362
Office expenses	1,191	1,191	-	129	129	1,320
<b>TOTAL EXPENSES</b>	<u>\$ 14,106,294</u>	<u>\$ 14,106,294</u>	<u>\$ 935,092</u>	<u>\$ 970,539</u>	<u>\$ 1,905,631</u>	<u>\$ 16,011,925</u>

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

**HOSANNA/FAITH COMES BY HEARING AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**Year Ended March 31, 2010**

	<u>Supporting Services</u>					
	<u>Program Expense</u>	<u>Total Program Services</u>	<u>Fund- Raising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>Total Functional Expenses</u>
<b>EXPENSES</b>						
Faith Comes By Hearing programs	\$ 7,421,945	\$ 7,421,945	\$ -	\$ -	\$ -	\$ 7,421,945
Salaries	3,652,430	3,652,430	610,870	436,707	1,047,577	4,700,007
Payroll taxes and fringe benefits	697,232	697,232	132,293	97,511	229,804	927,036
Depreciation and amortization	807,464	807,464	98,608	8,146	106,754	914,218
Cost of goods produced*	440,361	440,361	-	-	-	440,361
Telephone and utilities	328,649	328,649	18,055	68,211	86,266	414,915
Travel, meetings, and entertainment	196,391	196,391	34,050	130,193	164,243	360,634
Advertising and promotion	158,523	158,523	18,654	88,909	107,563	266,086
Supplies and artwork expenses	59,628	59,628	13,509	8,079	21,588	81,216
Postage and courier expenses	54,529	54,529	5,071	11,015	16,086	70,615
Professional services	16,382	16,382	4,931	38,620	43,551	59,933
Repairs and maintenance	45,192	45,192	11,715	2,543	14,258	59,450
Rental expenses	27,238	27,238	10,419	622	11,041	38,279
Miscellaneous expense	24,382	24,382	7,413	859	8,272	32,654
Merchant and bank fees	29,067	29,067	1,092	1,010	2,102	31,169
Legal and accounting fees	15,518	15,518	2,416	5,613	8,029	23,547
Insurance	16,434	16,434	1,381	1,029	2,410	18,844
Interest	9,117	9,117	653	605	1,258	10,375
Office expenses	180	180	52	-	52	232
<b>TOTAL EXPENSES</b>	<u>\$ 14,000,662</u>	<u>\$ 14,000,662</u>	<u>\$ 971,182</u>	<u>\$ 899,672</u>	<u>\$ 1,870,854</u>	<u>\$ 15,871,516</u>

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