

**FAR EAST BROADCASTING COMPANY, INC.**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

June 30, 2014 and 2013

# FAR EAST BROADCASTING COMPANY, INC.

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplemental Information	
Independent Auditors' Report on Supplemental Data	25
Schedules of Functional Expenses	26

## **INDEPENDENT AUDITORS' REPORT**

Audit Committee  
Far East Broadcasting Company, Inc.  
La Mirada, California

We have audited the accompanying financial statements of Far East Broadcasting Company, Inc. (FEBC), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FEBC's preparation and fair presentation of the 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 FEBC'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Committee  
Far East Broadcasting Company, Inc.  
La Mirada, California

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far East Broadcasting Company, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Brea, California  
December 30, 2014

# FAR EAST BROADCASTING COMPANY, INC.

## Statements of Financial Position

	June 30,	
	2014	2013
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,279,037	\$ 1,697,802
Accounts receivable - net of \$16,304 and \$39,814 allowance, respectively	184,228	148,473
Prepaid expenses and other assets	38,010	80,735
Investments	530,985	948,961
Estate and trust receivables	333,158	356,908
Notes receivable, net of \$22,273 and \$33,371 allowance, respectively	-	402
Fiduciary fund assets	5,753,290	5,376,239
Land, buildings, and equipment - at cost, net	1,097,325	1,296,641
<b>Total Assets</b>	<b>\$ 9,216,033</b>	<b>\$ 9,906,161</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable	\$ 62,331	\$ 40,482
Accrued expenses	199,798	314,352
Fiduciary obligations	3,013,790	3,070,374
Capital lease obligations	20,895	39,775
<b>Total liabilities</b>	<b>3,296,814</b>	<b>3,464,983</b>
Unrestricted net assets:		
Undesignated	1,871,534	2,690,697
Designated	2,671,612	2,451,842
<b>Total unrestricted net assets</b>	<b>4,543,146</b>	<b>5,142,539</b>
Temporarily restricted	1,376,073	1,298,639
<b>Total net assets</b>	<b>5,919,219</b>	<b>6,441,178</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,216,033</b>	<b>\$ 9,906,161</b>

See notes to financial statements

# FAR EAST BROADCASTING COMPANY, INC.

## Statements of Activities

	Year Ended June 30,					
	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>						
Contributions	\$ 2,859,422	\$ 4,769,717	\$ 7,629,139	\$ 2,279,309	\$ 4,464,333	\$ 6,743,642
Trust and estate income	401,291	-	401,291	1,246,372	-	1,246,372
Broadcast revenue	997,575	-	997,575	888,299	-	888,299
Investment income	52,418	54,272	106,690	32,385	52,940	85,325
Change in fiduciary obligations	240,770	17,849	258,619	(98,887)	187,542	88,655
Other income	-	-	-	9,854	-	9,854
Net assets released from restrictions:						
Satisfaction of program restrictions	4,764,404	(4,764,404)	-	4,617,759	(4,617,759)	-
	<u>9,315,880</u>	<u>77,434</u>	<u>9,393,314</u>	<u>8,975,091</u>	<u>87,056</u>	<u>9,062,147</u>
<b>EXPENSES:</b>						
Program ministries:						
Broadcast operations	7,433,693	-	7,433,693	6,677,321	-	6,677,321
Supporting activities:						
General and administrative	843,302	-	843,302	896,091	-	896,091
Fundraising	1,638,278	-	1,638,278	1,216,916	-	1,216,916
Total supporting services	<u>2,481,580</u>	<u>-</u>	<u>2,481,580</u>	<u>2,113,007</u>	<u>-</u>	<u>2,113,007</u>
Total Expenses	<u>9,915,273</u>	<u>-</u>	<u>9,915,273</u>	<u>8,790,328</u>	<u>-</u>	<u>8,790,328</u>
Change in Net Assets	(599,393)	77,434	(521,959)	184,763	87,056	271,819
Net Assets, Beginning of Year	<u>5,142,539</u>	<u>1,298,639</u>	<u>6,441,178</u>	<u>4,957,776</u>	<u>1,211,583</u>	<u>6,169,359</u>
Net Assets, End of Year	<u>\$ 4,543,146</u>	<u>\$ 1,376,073</u>	<u>\$ 5,919,219</u>	<u>\$ 5,142,539</u>	<u>\$ 1,298,639</u>	<u>\$ 6,441,178</u>

See notes to financial statements

# FAR EAST BROADCASTING COMPANY, INC.

## Statements of Cash Flows

	Year Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (521,959)	\$ 271,819
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	214,824	213,371
Non-cash gifts	-	(11,624)
Realized and unrealized (gain) loss on investments	(23,183)	7,719
Realized and unrealized gain on fiduciary fund assets	(380,159)	(151,950)
Gain on sale of equipment	-	(5,569)
Change in value of trusts agreements	(5,116)	(71,392)
Gift portion of new gift annuities, trusts, and charitable savings agreements	(31,472)	(46,410)
Maturities of gift annuities, trusts, and charitable savings agreements	(91,195)	(58,978)
Gift annuity actuarial change	(68,143)	(65,294)
Payments on charitable gift annuities	276,022	270,860
Net change in:		
Accounts receivable	(35,755)	(12,012)
Estate and trust receivables	23,750	23,709
Prepaid expenses and other assets	42,725	22,652
Accounts payable	21,849	(257,836)
Accrued expenses	(114,554)	111,284
Net Cash Provided by (Used in) Operating Activities	(692,366)	240,349
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of equipment	(15,508)	(76,660)
Proceeds from sale of equipment	-	8,829
Acquisition of investments	(594,812)	(567,943)
Proceeds from sale of investments	1,058,545	618,119
Collections on fiduciary fund assets	402	36,367
Net Cash Provided by Investing Activities	448,627	18,712

(Continued)

See notes to financial statements

# FAR EAST BROADCASTING COMPANY, INC.

## Statements of Cash Flows

	Year Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from capital lease obligation	-	59,252
Payments on capital lease obligation	(18,880)	(19,477)
Payments on gift annuities and trusts agreements	(338,859)	(326,850)
Face value of new annuity, trusts, and charitable savings agreements	36,700	59,877
Investment income from trusts agreements	146,013	283,952
Net Cash Provided by (Used in) Financing Activities	(175,026)	56,754
 Change in Cash and Cash Equivalents	 (418,765)	 315,815
 Cash and Cash Equivalents, Beginning of Year	 1,697,802	 1,381,987
 Cash and Cash Equivalents, End of Year	 \$ 1,279,037	 \$ 1,697,802
 <b>SUPPLEMENTAL DISCLOSURES:</b>		
Non-cash investing and financing transactions:		
Fixed assets acquired under capital lease	\$ -	\$ 59,252

See notes to financial statements



# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

1. NATURE OF ORGANIZATION:

Far East Broadcasting Company, Inc. (FEBC) is a nonprofit Christian broadcasting corporation dedicated to serving people, primarily in Asia, by developing and delivering radio programming to move listeners toward Jesus Christ and His kingdom.

FEBC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from state income taxes. Contributions by the public are deductible for income tax purposes. FEBC has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

For the year ended June 30, 2014, approximately 5% of FEBC's contributions consisted of trust and estate gifts. Approximately 16% of contributions were received from other FEBC sending fields (see note 8), and approximately 46% of contributions were received from churches, foundations, ministries, and other institutions. Remaining contributions were received from individuals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of FEBC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

### CASH AND CASH EQUIVALENTS

For statements of financial position and cash flow purposes, cash and cash equivalents include cash on hand and on deposit. These accounts may, at times, exceed federally insured limits. FEBC has not experienced any losses on such accounts.

### INVESTMENTS

Investments are carried on the following basis:

- Investments in marketable debt securities, mutual funds, government securities, and equity securities with readily determinable fair values are reported at fair value.
- Investments in limited partnerships, closely-held stocks, and property held for investment purposes are carried at appraisal value, which approximates fair value.
- Life insurance policies are carried at cash surrender value, which approximates fair value.
- Note receivable investment pool is recorded at cost plus accrued interest.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ACCOUNTS RECEIVABLE, ESTATE AND TRUST RECEIVABLES, AND NOTES RECEIVABLE

Accounts, estate and trust, and notes receivable are reported net of any anticipated losses due to uncollectible accounts. Accounts receivable include amounts due to FEBC for airing programs on FEBC's stations.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. The allowance for the years ended June 30, 2014 and 2013, was \$38,577 and \$73,185, respectively.

#### LAND, BUILDINGS, AND EQUIPMENT

Expenditures for property and equipment over \$1,500 are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets, ranging from 3 to 10 years for equipment and from 20 to 40 years for buildings and improvements.

#### NET ASSETS

The financial statements report amounts by class of net assets:

*Unrestricted net assets* are those currently available at the discretion of the board for use in FEBC's operations or designated for specific purposes and those resources invested in land, buildings, and equipment.

*Temporarily restricted net assets* are those related to fiduciary agreements and those which are stipulated by donors for specific operating purposes.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to legal restrictions.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PUBLIC SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to FEBC. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met. FEBC receives non-cash gifts which are recorded as support at the estimated fair market value on the date of the gift. Goods given to FEBC that do not have an objective basis for valuation are not recorded.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

#### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities.

#### ALLOCATION OF JOINT COSTS

FEBC has adopted the Accounting for Costs of Activities that Include Fundraising Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). This topic requires all costs that contain any fundraising appeal be allocated to fundraising unless all of the following three tests are met: purpose, audience, and content (see note 12).

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of June 30, 2014 and 2013, FEBC had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

FEBC files information tax returns in the U.S. and various states. FEBC is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) recently issued an accounting standards update to the Statement of Cash Flows—Overall—Other Presentation Matters Topic of the Accounting Standards Codification (ASC). The amendments in this update require classification of cash receipts from the sale of donated financial assets (e.g., debt or equity instruments) by a not-for-profit that, upon receipt of the donated financial assets, are directed for sale without any limitations and are converted nearly immediately into cash as (1) operating cash flows, or (2) if the donor has restricted the use of the securities to a long-term purpose, as financing cash flows. The amendments require classification as investing cash flows of all other cash receipts resulting from the sale of debt and equity securities not meeting the foregoing conditions for classification within operating or financing cash flows. The amendments are effective for fiscal years beginning after June 15, 2013, with early adoption permitted. FEBC has adopted this update for the year ended June 30, 2014. The effect of this adoption was to increase net cash provided by operating activities and decrease net used in investing activities by \$9,424 for the year ended June 30, 2014.

### 3. INVESTMENTS:

The carrying value of FEBC's investments at June 30, 2014 and 2013, are as follows:

	June 30,	
	2014	2013
Cash and cash equivalents	\$ 2,980	\$ 8,980
Investments:		
Money market accounts	24,767	110,550
Mutual funds	355,224	394,680
Electronically traded funds	6,811	-
Note receivable investment pool	141,203	434,751
	<u>\$ 530,985</u>	<u>\$ 948,961</u>

The Fair Value Measurements and Disclosure Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. FEBC uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the FEBC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or 2 inputs were not available.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

3. INVESTMENTS, continued:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

As of June 30, 2014:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market accounts	\$ 24,767	\$ 24,767	\$ -	\$ -
Mutual funds				
Equity mutual funds:				
Large growth	14,252	14,252	-	-
Large value	23,711	23,711	-	-
Large blend	15,332	15,332	-	-
Small/mid cap growth	15,169	15,169	-	-
Bond mutual funds:				
Short term bonds	77,899	77,899	-	-
Intermediate government	15,437	15,437	-	-
Inflation bonds	26,171	26,171	-	-
Aggregate bond	13,183	13,183	-	-
Intermediate term bonds	26,991	26,991	-	-
High yield bonds	70,613	70,613	-	-
World bonds	29,393	29,393	-	-
Non traditional bonds	27,073	27,073	-	-
Electronically traded funds:				
Commodity	6,811	6,811	-	-
	<u>\$ 386,802</u>	<u>\$ 386,802</u>	<u>\$ -</u>	<u>\$ -</u>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

3. INVESTMENTS, continued:

As of June 30, 2013:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 110,550	\$ 110,550	\$ -	\$ -
Mutual funds				
Equity mutual funds:				
Large growth	11,516	11,516	-	-
Large value	19,578	19,578	-	-
Large blend	12,397	12,397	-	-
Mid cap growth	12,523	12,523	-	-
Aggressive growth	17,956	17,956	-	-
Bond mutual funds:				
Short term bonds	76,743	76,743	-	-
Intermediate government	25,128	25,128	-	-
Inflation bonds	24,918	24,918	-	-
Long term government	23,957	23,957	-	-
Intermediate term bonds	25,823	25,823	-	-
Corporate bonds	26,010	26,010	-	-
High yield bonds	63,876	63,876	-	-
World bonds	27,468	27,468	-	-
Non traditional bonds	26,787	26,787	-	-
	\$ 505,230	\$ 505,230	\$ -	\$ -

Investment income consists of:

	June 30,	
	2014	2013
Interest on notes receivable	\$ -	\$ 274
Other interest and dividends	83,507	92,770
Realized and unrealized gains (losses) on investments	23,183	(7,719)
	\$ 106,690	\$ 85,325

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

4. FIDUCIARY FUND ASSETS:

The following fiduciary fund assets are held for the benefit of annuitants and trustors:

	June 30,	
	2014	2013
Cash and cash equivalents	\$ 216,823	\$ 221,474
Investments:		
Money market accounts	577,678	498,534
Mutual funds	1,681,067	1,644,018
Electronically traded funds	53,552	-
Stocks	55,388	-
Bonds	119,031	141,972
Indexed annuities	2,989,239	2,746,259
Closely-held stock	-	63,244
Limited partnership	60,144	60,144
Mortgage-backed securities	368	594
	<u>\$ 5,753,290</u>	<u>\$ 5,376,239</u>

FEBC is licensed by the state of California Department of Insurance as an Annuity Society. Under this designation, the department requires FEBC maintain a reserve adequate to meet future payments under the annuity contracts. The reserve included in investments totaled \$358,024 and \$461,462 as of June 30, 2014 and 2013, respectively. The reserve amount is based upon the most current annuity mortality rate from the State of California Department of Insurance on the date of the agreement. The range of annuity rates for existing agreements is 5.1% and 13.2%.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

4. FIDUCIARY FUND ASSETS, continued:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

As of June 30, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market accounts	\$ 577,678	\$ 577,678	\$ -	\$ -
Mutual funds				
Equity mutual funds:				
Large growth	29,060	29,060	-	-
Large value	54,688	54,688	-	-
Large blend	188,199	188,199	-	-
Small/mid cap growth	410,138	410,138	-	-
Small/mid cap value	30,893	30,893	-	-
Small/mid cap blend	13,799	13,799	-	-
Emerging markets	27,815	27,815	-	-
International stocks	21,197	21,197	-	-
Bond mutual funds:				
Short term bonds	72,695	72,695	-	-
Intermediate government	21,613	21,613	-	-
Inflation bond	71,748	71,748	-	-
Long term government	29,376	29,376	-	-
Long term bonds	23,948	23,948	-	-
Intermediate term bonds	47,831	47,831	-	-
Corporate bond fund	5,612	5,612	-	-
Aggregate bond fund	157,460	157,460	-	-
High yield bonds	157,708	157,708	-	-
World bonds	55,207	55,207	-	-
Non traditional bonds	26,462	26,462	-	-
Real estate	235,618	235,618	-	-



# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

4. FIDUCIARY FUND ASSETS, continued:

As of June 30, 2014, continued:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Electronically traded funds:				
Commodities	15,562	15,562	-	-
Aggregate bond	24,148	24,148	-	-
High yield	13,842	13,842	-	-
Stocks:				
Commodities	9,840	9,840	-	-
Aggregate bond	36,207	36,207	-	-
High yield	9,341	9,341	-	-
Bonds:				
Corporate bonds	37,858	37,858	-	-
Government bonds	81,173	81,173	-	-
Indexed annuities	2,989,239	-	2,989,239	-
Limited partnership	60,144	-	-	60,144
Mortgage-backed securities	368	-	-	368
Total	<u>\$ 5,536,467</u>	<u>\$ 2,486,716</u>	<u>\$ 2,989,239</u>	<u>\$ 60,512</u>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### 4. FIDUCIARY FUND ASSETS, continued:

As of June 30, 2013:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds				
Equity mutual funds:				
Large cap	\$ 264,381	\$ 264,381	\$ -	\$ -
Small cap	443,733	443,733	-	-
Emerging markets	17,620	17,620	-	-
Bond mutual funds:				
Short term bonds	71,607	71,607	-	-
Intermediate government	28,276	28,276	-	-
Inflation bond	152,871	152,871	-	-
Long term government	43,530	43,530	-	-
Bonds	34,513	34,513	-	-
Intermediate term bonds	124,208	124,208	-	-
Corporate bond fund	19,766	19,766	-	-
High yield bonds	145,156	145,156	-	-
World bonds	51,590	51,590	-	-
Emerging market bonds	44,851	44,851	-	-
Non traditional bonds	26,182	26,182	-	-
Commodities	69,456	69,456	-	-
Real estate	106,278	106,278	-	-
Bonds:				
Corporate bonds	38,739	38,739	-	-
Government bonds	103,233	103,233	-	-
Indexed annuities	2,746,259	-	2,746,259	-
Closely-held stock	63,244	-	-	63,244
Limited partnership	60,144	-	-	60,144
Mortgage-backed securities	594	-	-	594
<b>Total</b>	<b>\$ 4,656,231</b>	<b>\$ 1,785,990</b>	<b>\$ 2,746,259</b>	<b>\$ 123,982</b>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

4. FIDUCIARY FUND ASSETS, continued:

The following is a reconciliation of investments for which significant unobservable inputs (Level 3) were used in determining value:

Balance as of June 30, 2012	\$	152,844
Total losses (realized and unrealized) included in net investment income		<u>(28,862)</u>
Balance as of June 30, 2013		123,982
Total losses (realized and unrealized) included in net investment income	\$	(226)
Sales, net		<u>(63,244)</u>
Balance as of June 30, 2014	\$	<u><u>60,512</u></u>

5. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of the following:

	June 30,	
	2014	2013
Land	\$ 377,353	\$ 377,353
Land improvements	70,634	70,634
Buildings	1,744,364	1,744,364
Equipment	1,484,310	1,507,320
Land, buildings, and equipment - at cost	<u>3,676,661</u>	<u>3,699,671</u>
Less accumulated depreciation	(2,579,336)	(2,403,030)
Land, buildings, and equipment - at cost, net	<u>1,097,325</u>	<u>1,296,641</u>
Less debt secured by equipment	(20,895)	(39,775)
Net investment in land, buildings, and equipment	<u><u>\$ 1,076,430</u></u>	<u><u>\$ 1,256,866</u></u>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

### 6. FIDUCIARY OBLIGATIONS:

#### CHARITABLE SAVINGS AGREEMENTS

FEBC has established a plan whereby donors are paid an income return based on charitable savings amounts placed on deposit with FEBC. The donor is permitted to demand repayment of the charitable savings amount under certain circumstances. Any unpaid income, along with the charitable savings amount on deposit, are transferred to FEBC upon the death of the donor.

Since the agreements are revocable, the principal amount is included in fiduciary obligations in the statements of financial position. Income earned on the assets and expenses, including amounts paid to donors, are reflected on the statements of activities under change in fiduciary obligations.

#### GIFT ANNUITIES

FEBC has established a gift annuity plan whereby donors may contribute assets to the organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes.

The difference between the amount contributed for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as unrestricted contributions in the fiduciary fund at the date of the gift.

The present value of the expected payments to the annuitants over their life expectancy is included in fiduciary obligations on the statements of financial position. The annuity liability is revalued annually based upon actuarially computed present values.

The change in the amount of the liabilities, net of investment income, annuitant payments, and terminations is reflected on the statements of activities under change in fiduciary obligations.

#### IRREVOCABLE AGREEMENTS

As trustee, FEBC administers irrevocable trusts, including charitable remainder unitrusts and charitable remainder annuity trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated parties.

The difference between the amount contributed and the liability for future payments, determined on an actuarial basis, is recognized as temporarily restricted contributions in the fiduciary fund at the date of the gift. The difference between the assets in the trust and the liabilities is reported on the statements of financial position as temporarily restricted net assets.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

6. FIDUCIARY OBLIGATIONS, continued:

IRREVOCABLE AGREEMENTS, continued

The present value of the expected payments to the trustors over their life expectancies is included in fiduciary obligations on the statements of financial position. The change in the amount of the liabilities, net of investment income, trustor payments and terminations, is reflected in the statements of activities under change in fiduciary obligations.

The expected future interest of beneficiaries other than FEBC is included in fiduciary obligations on the statements of financial position.

The discount rate used in calculating the present value approximates the interest rates on 30-year treasury securities at the time the trust agreements are created. The discount rate is not subsequently revised.

Fiduciary obligations consist of:

	June 30,	
	2014	2013
Charitable savings agreements	\$ 684,547	\$ 620,795
Gift annuity liabilities	1,745,948	1,861,155
Irrevocable agreements	349,366	378,562
Amounts due other beneficiaries	233,929	209,862
	<u>\$ 3,013,790</u>	<u>\$ 3,070,374</u>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

6. FIDUCIARY OBLIGATIONS, continued:

The change in fiduciary obligations consists of:

	June 30,	
	2014	2013
Change in value of charitable gift annuities:		
Interest and dividends	\$ 57,924	\$ 62,244
Realized and unrealized gains on investments	256,027	164,696
Actuarial change	68,143	65,294
Maturities	77,293	58,978
Payments and distributions (including miscellaneous expenses)	(276,022)	(270,860)
	183,365	80,352
Change in value of charitable trusts:		
Interest and dividends	14,259	16,922
Realized and unrealized gain on investments	60,904	2,775
Actuarial change	5,116	71,392
Maturities	-	-
Payments (including miscellaneous expenses)	(62,837)	(55,990)
	17,442	35,099
Change in value of charitable savings agreements:		
Interest and dividends	15,723	20,060
Realized and unrealized gain (loss) on investments	63,228	(15,521)
Maturities	13,902	-
Payments (including miscellaneous expenses)	(35,041)	(31,335)
	57,812	(26,796)
	\$ 258,619	\$ 88,655

Contribution income from new agreements for the years ended June 30, 2014 and 2013, was \$31,472 and \$46,410, respectively, and is included in contributions in the statements of activities.

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

7. NET ASSETS:

Net assets consist of:

	June 30,	
	2014	2013
Unrestricted:		
Undesignated:		
Undesignated	\$ 548,450	\$ 1,071,537
Funds held for fields	246,654	362,294
Net investment in land, buildings, and equipment	1,076,430	1,256,866
	1,871,534	2,690,697
Designated:		
Designated by board for fiduciary fund reserves	2,281,060	2,029,806
Designated by board for the Legacy Fund	389,782	412,261
Designated by board for projects	770	9,775
	2,671,612	2,451,842
Total unrestricted net assets	\$ 4,543,146	\$ 5,142,539
Temporarily Restricted:		
Missionary support	\$ 258,257	\$ 259,149
Operations in foreign countries	860,486	799,704
Other projects	1,968	2,273
Irrevocable agreements	255,362	237,513
	\$ 1,376,073	\$ 1,298,639

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

8. AFFILIATES:

In connection with its worldwide radio ministry, FEBC provides financial support to certain broadcasting stations, located in various foreign countries, that are not under the direct control of the U.S. office. Financial support was provided and is included in broadcast operations expense as follows:

	June 30,	
	2014	2013
Vietnam	\$ 935,604	\$ 630,095
Russia	816,590	756,082
Philippines	613,540	536,370
Korea	552,811	546,314
Central Asia	243,000	98,005
Cambodia	196,121	95,902
Indonesia (YASKI)	161,326	251,380
Thailand	138,393	161,626
Mongolia	123,220	87,212
Hong Kong	100,817	76,547
Canada	36,100	58,220
Singapore	6,767	50,973
Other countries	267,900	141,604
	<u>\$ 4,192,189</u>	<u>\$ 3,490,330</u>

In addition, financial support is provided to, and received from, other FEBC sending fields in Canada, England, and Asia. Financial support in the amount of \$1,314,448 and \$955,980 was received from these fields during the years ended June 30, 2014 and 2013, respectively, and is included in contributions in the statements of activities. Financial support was provided to these fields in the amount of \$158,486 and \$179,109 during the years ended June 30, 2014 and 2013, respectively, and is included in broadcast operations expense.



# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

9. OPERATING LEASES:

FEBC has various equipment leases that expire through September 2016. Total rental expense under these agreements amounted to approximately \$12,528 and \$13,392 for the years ended June 30, 2014 and 2013, respectively. Total future minimum rental commitments due are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 8,600
2016	<u>4,653</u>
	<u>\$ 13,253</u>

10. CAPITAL LEASES:

Capital leases consist of:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
FEBC leases office equipment under a capital lease that expires in November 2014. The gross assets under capital lease were \$23,770 with accumulated amortization of \$19,379 as of June 30, 2014.	\$ 5,326	\$ 13,620
FEBC leases office equipment under a capital lease that expires in November 2015. The gross assets under capital lease were \$35,482 with accumulated amortization of \$19,149 as of June 30, 2014.	<u>15,569</u>	<u>26,155</u>
	<u>\$ 20,895</u>	<u>\$ 39,775</u>

Annual maturities are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 16,839
2016	<u>4,056</u>
	<u>\$ 20,895</u>

# FAR EAST BROADCASTING COMPANY, INC.

## Notes to Financial Statements

June 30, 2014 and 2013

11. RETIREMENT PLAN:

FEBC has an employee retirement plan under Internal Revenue Code Section 403(b). Under this plan, FEBC contributes 3% of each employee's annual gross salary to his or her individual account. In addition, FEBC will match each employee's contribution up to an additional 3% annually. Employer contributions to this plan were \$136,135 and \$131,456 for the years ended June 30, 2014 and 2013, respectively.

12. JOINT COSTS:

As stated in note 2, FEBC has adopted the Accounting for Costs of Activities that Include Fundraising Topic of the FASB ASC. FEBC incurs costs for missionary deputation, which includes time spent performing fundraising functions. These costs are referred to as joint costs and are allocated to program services, general and administrative, and fundraising. Joint cost allocations are as follows:

	June 30,	
	2014	2013
Program services	\$ 448,977	\$ 477,937
Supporting activities:		
Management and general activities	10,204	10,862
Fundraising	51,020	54,311
	<u>\$ 510,201</u>	<u>\$ 543,110</u>

13. RELATED PARTY TRANSACTIONS:

A board member of FEBC is the vice president of Joy Partners International. Joy Partners International leased office space from FEBC for \$1,300 per month. During the years ended June 30, 2014 and 2013, FEBC received rental income of \$0 and \$15,600, respectively.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTAL INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTAL INFORMATION**

Audit Committee  
Far East Broadcasting Company, Inc.  
La Mirada, California

We have audited the financial statements of Far East Broadcasting Company, Inc. for years ended June 30, 2014 and 2013, and our report thereon dated December 30, 2014, which expresses an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Capin Crouse LLP*

Brea, California  
December 30, 2014

# FAR EAST BROADCASTING COMPANY, INC.

## Schedules of Functional Expenses

by Natural Classification

	Year Ended June 30, 2014			
	Broadcast Operations	General and Administrative	Fundraising	Total
Broadcasting grants	\$ 4,192,189	\$ -	\$ -	\$ 4,192,189
Salaries and wages	1,640,686	442,766	411,196	2,494,648
Employee benefits	634,064	156,032	140,889	930,985
Printing and publications	55,819	30,891	325,953	412,663
Professional services	139,171	81,514	350,101	570,786
Travel and conferences	179,994	42,701	320,784	543,479
Depreciation	202,335	8,326	4,163	214,824
Telephone and occupancy	70,983	17,213	17,916	106,112
Supplies	49,733	9,206	17,974	76,913
Postage and shipping	37,767	16,502	11,275	65,544
Equipment repair and maintenance	41,696	10,905	7,622	60,223
Conferences	77,237	711	6,243	84,191
Other expenses	112,019	26,535	24,162	162,716
Total Expenses	\$ 7,433,693	\$ 843,302	\$ 1,638,278	\$ 9,915,273

	Year Ended June 30, 2013			
	Broadcast Operations	General and Administrative	Fundraising	Total
Broadcasting grants	\$ 3,490,330	\$ -	\$ -	\$ 3,490,330
Salaries and wages	1,654,444	437,196	402,508	2,494,148
Employee benefits	640,913	133,002	139,591	913,506
Printing and publications	92,156	36,582	300,639	429,377
Professional services	152,122	91,133	181,333	424,588
Travel and conferences	189,210	42,519	89,235	320,964
Depreciation	167,493	29,686	16,192	213,371
Telephone and occupancy	63,854	16,213	17,112	97,179
Supplies	62,181	12,299	24,128	98,608
Postage and shipping	25,060	17,151	13,152	55,363
Equipment repair and maintenance	43,897	8,334	7,060	59,291
Conferences	9,384	1,360	1,835	12,579
Other expenses	86,277	70,616	24,131	181,024
Total Expenses	\$ 6,677,321	\$ 896,091	\$ 1,216,916	\$ 8,790,328