

**FAR EAST BROADCASTING
COMPANY, INC.**

Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

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 Information	24
Schedules of Functional Expenses	25

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, 2017 and 2016, 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, 2017 and 2016, 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
November 1, 2017

FAR EAST BROADCASTING COMPANY, INC.

Statements of Financial Position

	June 30,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 2,583,727	\$ 3,617,319
Accounts receivable - net of \$9,500 and \$6,000 allowance, respectively	111,393	140,424
Prepaid expenses and other assets	162,521	97,118
Investments	1,727,876	1,618,345
Estate and trust receivables	299,591	445,861
Fiduciary fund assets	6,170,320	5,755,036
Real estate held for sale	86,756	-
Land, buildings, and equipment - at cost, net	715,756	861,145
Total Assets	\$ 11,857,940	\$ 12,535,248
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 140,699	\$ 39,862
Accrued expenses	439,331	360,305
Fiduciary obligations	2,600,957	2,699,973
Capital lease obligations	46,441	34,935
Total liabilities	3,227,428	3,135,075
Unrestricted net assets:		
Undesignated	4,770,191	1,785,672
Designated	1,543,368	4,208,817
	6,313,559	5,994,489
Temporarily restricted	2,316,953	3,405,684
Total net assets	8,630,512	9,400,173
Total Liabilities and Net Assets	\$ 11,857,940	\$ 12,535,248

See notes to financial statements

FAR EAST BROADCASTING COMPANY, INC.

Statements of Activities

	Year Ended June 30,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Contributions	\$ 2,362,198	\$ 5,204,445	\$ 7,566,643	\$ 2,672,903	\$ 6,240,883	\$ 8,913,786
Trust and estate income	652,119	5,030	657,149	1,435,179	145,358	1,580,537
Broadcast revenue	1,200,022	-	1,200,022	1,093,014	-	1,093,014
Investment income	507,092	17,970	525,062	71,244	(9,220)	62,024
Change in fiduciary obligations	62,203	116	62,319	(234,194)	6,768	(227,426)
Other income	24,912	-	24,912	54,034	-	54,034
Net assets released from restrictions:						
Satisfaction of program restrictions	6,316,292	(6,316,292)	-	5,418,163	(5,418,163)	-
	<u>11,124,838</u>	<u>(1,088,731)</u>	<u>10,036,107</u>	<u>10,510,343</u>	<u>965,626</u>	<u>11,475,969</u>
EXPENSES:						
Program ministries:						
Broadcast operations	8,354,177	-	8,354,177	7,587,771	-	7,587,771
Supporting activities:						
General and administrative	1,099,402	-	1,099,402	1,025,323	-	1,025,323
Fundraising	1,352,189	-	1,352,189	1,252,895	-	1,252,895
Total supporting services	<u>2,451,591</u>	<u>-</u>	<u>2,451,591</u>	<u>2,278,218</u>	<u>-</u>	<u>2,278,218</u>
Total Expenses	<u>10,805,768</u>	<u>-</u>	<u>10,805,768</u>	<u>9,865,989</u>	<u>-</u>	<u>9,865,989</u>
Change in Net Assets	319,070	(1,088,731)	(769,661)	644,354	965,626	1,609,980
Net Assets, Beginning of Year	5,994,489	3,405,684	9,400,173	5,350,135	2,440,058	7,790,193
Net Assets, End of Year	<u>\$ 6,313,559</u>	<u>\$ 2,316,953</u>	<u>\$ 8,630,512</u>	<u>\$ 5,994,489</u>	<u>\$ 3,405,684</u>	<u>\$ 9,400,173</u>

See notes to financial statements

FAR EAST BROADCASTING COMPANY, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (769,661)	\$ 1,609,980
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,562	193,966
Realized and unrealized (gain) loss on investments	(398,865)	71,740
Realized and unrealized (gain) loss on fiduciary fund assets	(192,727)	13,402
Loss on sale of equipment	9,548	-
Reclassification of charitable savings agreement	-	(693,849)
Change in value of trusts agreements	16,393	(56,470)
Gift annuity actuarial change	(77,910)	48,414
Payments on charitable gift annuities	243,807	205,633
Net change in:		
Accounts receivable	29,031	(4,895)
Estate and trust receivables	146,270	621,760
Prepaid expenses and other assets	(65,403)	(1,988)
Accounts payable	100,837	(71,703)
Accrued expenses	79,026	93,838
Net Cash Provided by (Used in) Operating Activities	(708,092)	2,029,828
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment	(102,727)	(99,560)
Proceeds from sale of equipment	500	-
Acquisition of investments	(3,131,747)	(4,490,392)
Proceeds from sale of investments	3,065,502	3,770,765
Net Cash Used in Investing Activities	(168,472)	(819,187)

(continued)

See notes to financial statements

FAR EAST BROADCASTING COMPANY, INC.

Statements of Cash Flows (continued)

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(8,744)	(11,935)
Collection of contribution receivable	-	253,410
Gift portion of new trusts and charitable savings agreements	(88,822)	(435,979)
Maturities of gift annuities and charitable savings agreements	(87,977)	(56,389)
Payments on gift annuities	(243,807)	(281,509)
Face value of new annuity, trusts, and charitable savings agreements	189,301	773,849
Investment income from trusts agreements	83,021	144,440
Net Cash Provided by (Used in) Financing Activities	(157,028)	385,887
Change in Cash and Cash Equivalents	(1,033,592)	1,596,528
Cash and Cash Equivalents, Beginning of Year	3,617,319	2,020,791
Cash and Cash Equivalents, End of Year	\$ 2,583,727	\$ 3,617,319
 SUPPLEMENTAL DISCLOSURES:		
Non-cash investing and financing transactions:		
Fixed assets acquired by capital lease	\$ 48,313	\$ -
Fully depreciated equipment written off	\$ -	\$ 63,738

See notes to financial statements

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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 Christian content and delivering it through various media channels 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. However, FEBC is subject to federal income tax on any unrelated business taxable income. 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, 2017, approximately 8% 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 43% 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 alternatively managed futures and indexed annuities have an estimated market value based on reasonable valuation methodologies including items such as surrender value and recent offering prices, which approximate 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, 2017 and 2016

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, 2017 and 2016, was \$9,500 and \$6,000, respectively.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of deposits and advances to affiliates.

REAL ESTATE HELD FOR SALE

FEBC placed real estate in Chino, California, up for sale during the year ended June 30, 2017. The real estate is held at the lower of cost or fair market value.

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 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, 2017 and 2016

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.

ADVERTISING

Advertising is used to promote FEBC's activities. All advertising expenses are reported when incurred and totaled \$22,740 and \$6,501 for the years ended June 30, 2017 and 2016, respectively.

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

3. INVESTMENTS:

The carrying value of FEBC's investments at June 30, 2017 and 2016, are as follows:

	June 30,	
	2017	2016
Cash and cash equivalents	\$ 217,089	\$ 217,089
Investments:		
Money market accounts	54,326	39,769
Mutual funds	1,250,033	1,255,681
Electronically traded funds	113,876	17,412
Stocks	92,467	88,309
Note receivable investment pool	85	85
	<u>\$ 1,727,876</u>	<u>\$ 1,618,345</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, 2017 and 2016

3. INVESTMENTS, continued:

The following tables present the fair value measurements of assets 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, 2017 and 2016:

As of June 30, 2017:

	<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>
Mutual funds				
Equity mutual funds:				
Large core	\$ 323,394	\$ 323,394	\$ -	\$ -
Global equity	262,009	262,009	-	-
Emerging markets	119,082	119,082	-	-
Bond mutual funds:				
Intermediate government	443,371	443,371	-	-
World bonds	102,177	102,177	-	-
Electronically traded funds:				
High yield bonds	89,967	89,967	-	-
Corporate bonds	19,495	19,495	-	-
Short term bonds	4,414	4,414	-	-
Stocks:				
Large value	33,335	33,335	-	-
Large growth	26,682	26,682	-	-
Large core	12,883	12,883	-	-
Small and mid cap value	10,624	10,624	-	-
Emerging markets	8,943	8,943	-	-
	<u>\$ 1,456,376</u>	<u>\$ 1,456,376</u>	<u>\$ -</u>	<u>\$ -</u>

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

3. INVESTMENTS, continued:

As of June 30, 2016:

	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 blend	\$ 612,902	\$ 612,902	\$ -	\$ -
Emerging markets	8,258	8,258	-	-
Bond mutual funds:				
Short term bonds	18,601	18,601	-	-
Intermediate term bonds	431,921	431,921	-	-
High yield bonds	70,534	70,534	-	-
World bonds	113,465	113,465	-	-
Electronically traded funds:				
Intermediate term bonds	4,367	4,367	-	-
High yield bonds	13,045	13,045	-	-
Stocks:				
Large growth	10,632	10,632	-	-
Large value	17,649	17,649	-	-
Large blend	31,951	31,951	-	-
Small and mid cap growth	22,377	22,377	-	-
Small and mid cap value	5,700	5,700	-	-
	\$ 1,361,402	\$ 1,361,402	\$ -	\$ -

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

3. INVESTMENTS, continued:

Investment income consists of:

	June 30,	
	2017	2016
Interest and dividends	\$ 126,197	\$ 133,764
Realized and unrealized gains (losses) on investments	398,865	(71,740)
	<u>\$ 525,062</u>	<u>\$ 62,024</u>

4. FIDUCIARY FUND ASSETS:

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

	June 30,	
	2017	2016
Cash and cash equivalents	\$ 183,121	\$ 31,829
Investments:		
Money market accounts	45,912	254,472
Mutual funds	4,119,331	2,604,331
Alternative managed futures	222,235	-
Bonds	279,011	80,095
Indexed annuities	1,260,561	2,724,134
Limited partnership	60,144	60,144
Mortgage-backed securities	5	31
	<u>\$ 6,170,320</u>	<u>\$ 5,755,036</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 cash and cash equivalents and investments totaled \$334,802 and \$360,282 as of June 30, 2017 and 2016, 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, 2017 and 2016

4. FIDUCIARY FUND ASSETS, continued:

The following tables present the fair value measurements of assets 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, 2017 and 2016:

As of June 30, 2017:

	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 blend	\$ 996,134	\$ 996,134	\$ -	\$ -
Global equity	915,319	915,319	-	-
Emerging markets	407,387	407,387	-	-
Hedged equity	403,048	403,048	-	-
Small and mid cap growth	334,104	334,104	-	-
Bond mutual funds:				
Multi strategy	345,709	345,709	-	-
High yield bonds	271,181	271,181	-	-
Intermediate term bonds	378,248	378,248	-	-
World bonds	68,201	68,201	-	-
Bonds:				
Government bonds	258,589	258,589	-	-
Corporate bonds	20,422	20,422	-	-
Indexed annuities	1,260,561	-	1,260,561	-
Alternative managed futures	222,235	-	222,235	-
Limited partnership	60,144	-	-	60,144
Mortgage-backed securities	5	-	-	5
Total	\$ 5,941,287	\$ 4,398,342	\$ 1,482,796	\$ 60,149

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

4. FIDUCIARY FUND ASSETS, continued:

As of June 30, 2016:

	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 growth	\$ 2,814	\$ 2,814	\$ -	\$ -
Large blend	1,778,182	1,778,182	-	-
Small and mid cap growth	111,711	111,711	-	-
Bond mutual funds:				
Intermediate term bonds	299,610	299,610	-	-
Aggregate bond fund	76,009	76,009	-	-
High yield bonds	279,126	279,126	-	-
World bonds	56,879	56,879	-	-
Bonds:				
Corporate bonds	21,278	21,278	-	-
Government bonds	58,817	58,817	-	-
Indexed annuities	2,724,134	-	2,724,134	-
Limited partnership	60,144	-	-	60,144
Mortgage-backed securities	31	-	-	31
	\$ 5,468,735	\$ 2,684,426	\$ 2,724,134	\$ 60,175

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

Balance as of June 30, 2015	\$ 60,293
Total losses (realized and unrealized) included in net investment income	(118)
	60,175
Balance as of June 30, 2016	60,175
Total losses (realized and unrealized) included in net investment income	(26)
	60,149
Balance as of June 30, 2017	\$ 60,149

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

5. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of the following:

	June 30,	
	2017	2016
Land	\$ 300,300	\$ 377,353
Land improvements	70,634	70,634
Buildings and improvements	1,105,724	1,754,510
Equipment	1,572,197	1,554,605
Land, buildings, and equipment - at cost	3,048,855	3,757,102
Construction in progress	-	12,000
	3,048,855	3,769,102
Less accumulated depreciation	(2,333,099)	(2,907,957)
Land, buildings, and equipment - at cost, net	715,756	861,145
Less debt secured by equipment	(46,441)	(34,935)
Net investment in land, buildings, and equipment	<u>\$ 669,315</u>	<u>\$ 826,210</u>

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016

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,	
	2017	2016
Charitable savings agreements	\$ 69,565	\$ 129,564
Gift annuity liabilities	1,798,272	1,853,682
Irrevocable agreements	492,718	497,241
Amounts due other beneficiaries	240,402	219,486
	<u>\$ 2,600,957</u>	<u>\$ 2,699,973</u>

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

6. FIDUCIARY OBLIGATIONS, continued:

The change in fiduciary obligations consists of:

	June 30,	
	2017	2016
Change in value of charitable gift annuities:		
Actuarial change	\$ 77,910	\$ (48,414)
Maturities	87,977	53,954
Payments and distributions (including miscellaneous expenses)	(243,807)	(205,633)
	(77,920)	(200,093)
Change in value of charitable trusts:		
Interest and dividends	30,831	32,992
Realized and unrealized gains (losses) on investments	57,987	(8,720)
Actuarial change	(16,393)	56,470
Maturities	-	1,902
Payments (including miscellaneous expenses)	(58,566)	(75,876)
	13,859	6,768
Change in value of charitable savings agreements:		
Interest and dividends	8,533	16,940
Realized and unrealized losses on investments	134,740	(4,682)
Payments (including miscellaneous expenses)	(16,893)	(46,359)
	126,380	(34,101)
	\$ 62,319	\$ (227,426)

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

7. NET ASSETS:

Net assets consist of:

	June 30,	
	2017	2016
Unrestricted:		
Undesignated:		
Undesignated	\$ 3,468,660	\$ 492,454
Funds held for fields	632,216	467,008
Net investment in land, buildings, and equipment	669,315	826,210
	4,770,191	1,785,672
Designated:		
Designated by board for the Legacy Fund	1,543,368	1,451,705
Designated by board for the fiduciary fund reserves	-	2,757,112
	1,543,368	4,208,817
 Total unrestricted net assets	 \$ 6,313,559	 \$ 5,994,489
 Temporarily Restricted:		
Operations in foreign countries	\$ 1,432,238	\$ 2,521,689
Missionary support	380,834	306,361
Other projects	4,969	3,339
Strategic planning and training	-	93,368
Investment account held for restricted purposes	184,424	166,555
Irrevocable agreements	314,488	314,372
	\$ 2,316,953	\$ 3,405,684

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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,	
	2017	2016
Vietnam	\$ 1,240,125	\$ 835,100
Russia	993,984	795,415
Mongolia	380,934	299,927
Philippines	366,481	471,057
Korea	301,397	324,487
Cambodia	259,020	143,072
Central Asia	222,903	181,121
Indonesia (YASKI)	187,608	170,047
Thailand	186,148	135,176
Hong Kong	159,877	167,896
Japan	87,330	92,440
Pakistan	69,435	82,772
India	40,150	92,763
England	15,303	8,437
New Zealand	8,400	10,850
Myanmar	5,000	6,611
Canada	4,100	640
China	-	39,501
Taiwan	-	3,600
Other countries	58,827	15,375
	\$ 4,587,022	\$ 3,876,287

In addition, financial support is provided to, and received from, other FEBC sending fields in Canada and Asia. Financial support in the amount of \$1,334,736 and \$1,179,556 was received from these fields during the years ended June 30, 2017 and 2016, respectively, and is included in contributions in the statements of activities. Financial support was provided to these fields in the amount of \$190,880 and \$193,218 during the years ended June 30, 2017 and 2016, respectively, and is included in broadcast operations expense.

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

9. OPERATING LEASES:

FEBC has various equipment leases that expire through March 2018. Total rental expense under these agreements amounted to \$27,521 and \$20,732 for the years ended June 30, 2017 and 2016, respectively. The equipment leases are cancellable with 60 days notice.

10. CAPITAL LEASES:

Capital leases consist of:

	June 30,	
	2017	2016
FEBC leases office equipment under a capital lease that expires in September 2022. The gross assets under capital lease were \$27,000 with accumulated amortization of \$1,259 as of June 30, 2017.	\$ 25,741	\$ -
FEBC leases office equipment under a capital lease that expires in October 2021. The gross assets under capital lease were \$23,000 with accumulated amortization of \$2,300 as of June 30, 2017.	20,700	-
FEBC leases office equipment under a capital lease with gross assets of \$43,452 with accumulated amortization of \$8,517 as of June 30, 2016. The lease was terminated during the year ended June 30, 2017.	-	34,935
	\$ 46,441	\$ 34,935

Annual maturities are as follows:

Year Ending June 30,	
2018	\$ 10,188
2019	10,205
2020	10,222
2021	10,257
Thereafter	5,569
	\$ 46,441

FAR EAST BROADCASTING COMPANY, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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 \$157,224 and \$147,357 for the years ended June 30, 2017 and 2016, 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,	
	2017	2016
Program services	\$ 490,342	\$ 488,023
Supporting activities:		
General and administrative	11,144	11,091
Fundraising	55,721	55,457
	<u>\$ 557,207</u>	<u>\$ 554,571</u>

13. RELATED PARTY TRANSACTIONS:

For the years ended June 30, 2017 and 2016, FEBC paid \$34,800 and \$29,000, respectively, for broadcasting services to a company owned by a board member. For the years ended June 30, 2017 and 2016, FEBC also paid \$6,080 and \$3,730, respectively, to an association of Christian communicators, for which FEBC's president serves as the treasurer of the association. For the year ended June 30, 2017, FEBC also received donated broadcasting time valued at \$78,300 from a broadcasting company owned by a board member.

14. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 1, 2017, 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, 2017 and 2016, and our report thereon dated November 1, 2017, 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
November 1, 2017

FAR EAST BROADCASTING COMPANY, INC.

Schedules of Functional Expenses

by Natural Classification

	Year Ended June 30, 2017			
	Broadcast Operations	General and Administrative	Fundraising	Total
Broadcasting grants	\$ 4,587,022	\$ -	\$ -	\$ 4,587,022
Salaries and wages	1,784,393	539,180	511,781	2,835,354
Employee benefits	704,740	185,135	154,787	1,044,662
Professional services	539,505	161,743	277,138	978,386
Printing and publications	82,068	24,142	252,042	358,252
Travel	210,379	52,921	54,551	317,851
Depreciation	156,121	10,294	5,147	171,562
Supplies	59,639	15,961	18,981	94,581
Telephone and occupancy	58,670	15,062	14,407	88,139
Equipment repair and maintenance	37,607	10,803	6,450	54,860
Postage and shipping	19,355	14,330	13,213	46,898
Conferences	11,739	2,938	10,225	24,902
Other expenses	102,939	66,893	33,467	203,299
	<u>\$ 8,354,177</u>	<u>\$ 1,099,402</u>	<u>\$ 1,352,189</u>	<u>\$ 10,805,768</u>

	Year Ended June 30, 2016			
	Broadcast Operations	General and Administrative	Fundraising	Total
Broadcasting grants	\$ 3,876,287	\$ -	\$ -	\$ 3,876,287
Salaries and wages	1,737,605	537,119	433,782	2,708,506
Employee benefits	676,929	181,810	128,284	987,023
Professional services	518,411	100,115	303,595	922,121
Printing and publications	55,881	23,033	212,948	291,862
Travel	237,573	47,601	62,370	347,544
Depreciation	183,355	7,075	3,536	193,966
Supplies	59,983	12,633	19,771	92,387
Telephone and occupancy	69,197	18,036	17,998	105,231
Equipment repair and maintenance	37,125	8,793	5,969	51,887
Postage and shipping	23,797	15,500	15,062	54,359
Conferences	21,434	4,553	18,734	44,721
Other expenses	90,194	69,055	30,846	190,095
	<u>\$ 7,587,771</u>	<u>\$ 1,025,323</u>	<u>\$ 1,252,895</u>	<u>\$ 9,865,989</u>