



**FOCUS ON THE FAMILY ACTION™ INC.
2008 ANNUAL REPORT**

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FOCUS ON THE FAMILY ACTION

8655 EXPLORER DRIVE
COLORADO SPRINGS, CO 80920
(866) 655-4545

Greetings from Colorado Springs! On behalf of everyone here at Focus on the Family® and Focus on the Family Action™, it's a privilege to offer you this overview into our work on behalf of families over the past year. As you peruse our 2008 annual report, I trust you'll gain an inspiring glimpse into the many exciting opportunities the Lord has provided to strengthen families, defend biblical principles and, most importantly, communicate the Gospel to hurting folks throughout the world.

I'd like to begin by thanking those of you who have sacrificed to help us financially. This has been a challenging few months for thousands of nonprofit organizations, and your generosity has kept us afloat. As you know, we have pared down our staff by more than 200 people as stewardship required, and going forward it looks like we will meet our smaller budget. God has been wonderfully gracious to give us loving and caring friends who have stood with us through these past 32 years, in times of plenty and in periods of need. Our task, now, is to continue to be faithful to the charge laid before us, and we will do our best.

Among some of the more notable highlights of 2008 were the successes that were achieved in the marriage arena. A number of groups have been laboring tirelessly to promote the passage of state marriage amendments, and we've been able to celebrate highly significant victories in that regard. So far, 30 states have voted on how marriage would be defined in state constitutions, and all 30 have limited it exclusively to one man and one woman. We are grateful for those outcomes.

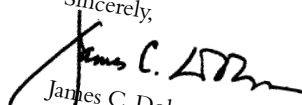
Meanwhile, our dedicated team continues to battle other threats to the family, including gambling, pornography, abortion and homosexual activists' relentless attempts to impose their ideology upon our nation's school children. We're particularly concerned about a campaign aimed at silencing religious broadcasters and will continue boldly asserting the constitutional freedoms guaranteed to every American.

At the heart of our concerns are the stated intentions of the Obama administration to advance policies that seriously diminish the sanctity of human life. Two days after taking office, the new President struck down the Mexico City policy, which prohibited U.S. taxpayers' money from being used to support abortions around the world. The President has also promised that the passage of the Freedom of Choice Act will be his top priority, an action that will nullify more than 100 laws designed to regulate and limit abortion. In addition, it is expected that directives allowing embryonic stem cell experimentation resulting in the deaths of countless human embryos, and increased funding for domestic "family planning" will soon follow. All of the issues I've mentioned make for daunting struggles, but we remain committed to upholding morality in the public square with everything that is within us.

We're particularly thankful for the countless opportunities we were given last year to extend practical assistance and insight to those seeking advice on family-related topics. In addition, our Option Ultrasound™ Pregnancy Resource Center outreach, our Christian worldview curriculum known as Focus on the Family's The Truth Project®, and our Orphan Care Initiative™ continue to impact hundreds of thousands of individuals. We consider it an honor to come alongside these folks in any way we're able and, ultimately, to point them to a personal relationship with Jesus Christ.

None of these endeavors would be possible without the sacrificial partnership of friends like you, and we trust you're aware that your involvement is never taken for granted. God's blessings to you and yours throughout 2009!

Sincerely,


James C. Dobson, Ph.D.
Founder and Chairman

INDEPENDENT AUDITORS' REPORT

Board of Directors
Focus on the Family Action, Inc.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of Focus on the Family Action, Inc. as of September 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Focus on the Family Action, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Focus on the Family Action, Inc. as of September 30, 2008, and the results of its activities and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements are those of Focus on the Family Action, Inc., a supporting organization that is under the control of the Focus on the Family, and are not those of the primary reporting organization. Combined financial statements of Focus on the Family and Focus on the Family Action, Inc. are issued separately.

Capin Crouse LLP

Colorado Springs, Colorado
December 19, 2008

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STATEMENT OF FINANCIAL POSITION

September 30, 2008

ASSETS:

Cash and cash equivalents	\$ 1,540,972
Investments	1,500,000
Accounts receivable	207,537
Prepaid expenses	305,226
Equipment, net	<u>11,434</u>

TOTAL ASSETS

\$ 3,565,169

LIABILITIES AND NET ASSETS:

Liabilities:	
Accounts payable	\$ 796,160
Accrued expenses	<u>338,898</u>
	1,135,058

Unrestricted net assets 2,430,111

TOTAL LIABILITIES AND NET ASSETS

\$ 3,565,169

See Notes to Financial Statements

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STATEMENT OF ACTIVITIES

Year Ended
September 30, 2008
(Changes in Unrestricted
Net Assets)

SUPPORT AND REVENUE:

Contributions	\$ 5,715,088
Reimbursement income	4,528,979
Membership dues	74,042
Gift-in-kind	126,165
Investment income	99,952

Total Support and Revenue 10,544,226

EXPENSES:

Program services:	
Broadcasts	1,431,411
Resources	48,209
Publications	2,049,477
Correspondence	340,339
Public policy awareness	2,163,066
Internet	1,082,239
Events	428,825
	<u>7,543,566</u>

Supporting activities:	
General and administrative	1,789,949
Fund-raising	482,944
	<u>2,272,893</u>

Total Expenses 9,816,459

Change in Net Assets 727,767

Net Assets—Beginning of Year 1,702,344

NET ASSETS—END OF YEAR \$ 2,430,111

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STATEMENT OF CASH FLOWS

Year Ended
September 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 727,767
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,695
Non-cash contributions	(126,165)
Loss on sale of investments (contributed)	6,472
Change in operating assets and liabilities:	
Accounts receivable	28,848
Prepaid expenses	(221,353)
Accounts payable	329,343
Accrued expenses	55,682

Net Cash Provided by Operating Activities 802,289

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of equipment	(6,999)
Purchases of investments	(1,500,000)
Proceeds from sale of investments (contributed)	119,693

Net Cash Used by Investing Activities (1,387,306)

Net Decrease in Cash and Cash Equivalents (585,017)

Cash and Cash Equivalents—Beginning of Year 2,125,989

Cash and Cash Equivalents—End of Year \$ 1,540,972

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1. NATURE OF ORGANIZATION:

Focus on the Family Action, Inc. (FOFA) was organized as a religious corporation on April 2, 2004, and is not organized for the private gain of any person. It is organized under the Colorado Nonprofit Corporation Act for religious purposes. FOFA was formed for the express purpose of spreading the Gospel of Jesus Christ, and to provide an educational service to parents and others who are concerned with healthy family living, toward the end of strengthening the family in its varied dimensions.

FOFA is active in the promotion of social welfare by addressing the Christian community and the Christian's responsibility in the public policy arena, both locally and nationally. This organization uses regular media channels such as radio, television, periodicals, the internet and events to discuss critical legislation and policy matters that significantly impact Christian world view issues. This organization is also a vehicle to discuss practical means for Christians to become educated and involved in public policy matters. The organization encourages Christians to be aware of and involved in their civic duties. FOFA is a membership organization that is supported by members who are dedicated to the defense of moral values and the institution of the family. Membership is open to the public and is attained by the annual affirmation of joining as a member and paying the annual membership dues of \$1.

FOFA focuses on policy matters such as: Federal and state constitutional amendments to protect marriage as an institution between one man and one woman, the protection of human life in all its various forms, and the appropriate role of state and federal judicial systems as designed by the founding fathers of the United States of America.

FOFA operates under Section 501(c)(4) of the Internal Revenue Code of 1986.

2. SUMMARY OF ACCOUNTING POLICIES:

FOFA uses estimates and assumptions in preparing the financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual

results could vary from the estimates that were assumed in preparing the financial statements. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

FOFA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include amounts held in non-interest bearing checking accounts. These accounts may, at times, exceed federally insured limits. FOFA has not experienced any losses in such accounts.

INVESTMENTS

Investments in equity securities with readily determinable fair values are carried at fair market value, with realized and unrealized gains and losses included as unrestricted revenue in the statement of activities. FOFA generally expects to hold all debt securities to maturity and they are therefore carried at amortized cost. Donated investments are recorded at the fair value on the date of donation and thereafter carried in accordance with the above provisions. As of September 30, 2008, FOFA held \$1.5 million of auction rate securities ("ARS") at original par value and they were collateralized by student loan portfolios. Subsequent to September 30, 2008, FOFA redeemed all \$1.5 million of auction rate securities at par and no losses were recognized in connection with FOFA's ARS investments.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of receivables from Focus on the Family (FOF) for various transaction processing. All amounts are considered fully collectible and therefore there are no allowances for uncollectible amounts.

EQUIPMENT

Equipment is recorded on the basis of cost, or estimated fair value if donated. FOFA capitalizes most purchases in excess of \$2,500, with lesser amounts expensed in the year purchased. Depreciation is provided using the straight-line method over 3-7 years. Accumulated depreciation as of September 30, 2008 was \$1,695.

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OPERATING LINE OF CREDIT

In July 2008, FOFA obtained a line of credit that totaled \$750,000, expiring in March 2011. The line of credit allowed for borrowings of up to 50% of the par value of FOFA's ARS holdings. Advances under the agreement bore interest at the rate of Open Federal Funds rate plus 0.50% per annum, which was 2.6% as of September 30, 2008. The line of credit is secured by auction rate securities; with total borrowings available subject to reduction should any of the collateral be sold. There were no outstanding balances on the line of credit at September 30, 2008.

Subsequent to September 30, 2008, FOFA redeemed all of the \$1.5 million of auction rate securities at par. The line of credit was terminated during November 2008.

NET ASSETS

Net assets consist of unrestricted amounts currently available for use in the ministries of FOFA and resources invested in equipment.

SUPPORT AND REVENUE

Contributions are recognized as income when made, which may be when cash is received or unconditionally promised, or when ownership of donated assets is transferred. Contributions and membership dues made to organizations that have received a 501(c)(4) designation by the Internal Revenue Service, such as FOFA, are not tax-deductible for federal income tax purposes.

FUNCTIONAL ALLOCATION OF EXPENDITURES

The cost of providing the various programs has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

3. RETIREMENT PLAN:

FOFA sponsors a defined contribution retirement plan under section 401(k) of the Internal Revenue Code covering substantially all regular, full-time employees meeting eligibility requirements. FOFA provides a matching contribution of 3% up to 6% of participant compensation, depending on years of service. It

is FOFA's policy to fund retirement plan costs accrued. Total contributions for the year ended September 30, 2008, were \$125,276.

4. ALLOCATION OF JOINT COSTS:

During the year ended September 30, 2008, FOFA incurred joint costs for informational materials and activities that included fund-raising appeals. These programs include various newsletters, magazines, and constituent relations. Costs associated with the various programs have been allocated in the statement of activities according to their functional classification as follows:

Program services:		
Public policy awareness	\$	456,978
Fund-raising		<u>384,136</u>
	\$	<u><u>841,114</u></u>

5. RELATED PARTY TRANSACTIONS:

FOFA has common board members and officers, as well as some common management with FOF. FOFA has a receivable from FOF of \$205,621 and a payable to FOF of \$429,486. These amounts are related to services that each organization performs for the other as well as items such as shared office space and reimbursements of expenses such as postage. Reimbursement income reflected on the statement of activities is from FOF; this income composes approximately 43% of all revenue. In addition, FOFA paid \$2,637,455 to FOF. This expense is approximately 27% of all expenses.

A formal reimbursement policy has been adopted by each organization. This policy includes FOFA reimbursing FOF for items at fair market value based on research done and FOF reimbursing FOFA for items at cost. If fair market value is not readily available a markup on any goods or services that FOF provides to FOFA will be reimbursed in order to guarantee that tax-deductible contributions given to FOF, as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, are not used for the activities of FOFA.

*We are governed
by an independent
board of directors
committed to the
lordship of Jesus
Christ and His
principles for
the success of the
traditional family.*

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BOARD OF DIRECTORS

James C. Dobson, Ph.D.

Founder of Focus on the Family
Chairman of the Board of Directors

Patrick P. Caruana, M.S.

Lieutenant General (Ret.), Air Force
Former Vice President at Northrop
Grumman (Aerospace Industry)

Paul D. Nelson

Retired President of Evangelical
Council for Financial Accountability
Former Executive Vice President/COO
of Focus on the Family

Lee Torrence

Managing Director for IBM,
Senior State Executive for Georgia

James D. Daly

Chief Executive Officer
President of Focus on the Family

Shirley M. Dobson

Chairman of the National Day of Prayer
Task Force

Kathleen Nielson, Ph.D.

Professor, author and women's
conference/retreat speaker

Daniel L. Villanueva

President, The Villanueva Companies

Bobb Biehl, M.A.

President of Masterplanning
Group International

Robert E. Hamby, C.P.A.

Former Senior Vice President
and CFO of Multimedia, Inc.

Eric Pillmore

Former Senior Vice President of
Tyco International

Elsa Prince Broekhuizen

Chairman of E.O.P. Management
Co., LLC

R. Albert Mohler Jr., Ph.D.

President of The Southern Baptist
Theological Seminary

Kim A. Robinson

Vice President of Customer Business
Development, Proctor & Gamble

EXECUTIVE COMMITTEE

James D. Daly

Chief Executive Officer
President of Focus on the Family

Dave Dickinson

Senior Vice President,
Marketing

Clark Miller

Senior Vice President,
Family Ministry

Michele Wilson

Senior Vice President,
Human Resources

Wade Crow

Chief Financial Officer/Treasurer

Stan John

Senior Vice President,
Global Strategic Development

Tom Minnery

Senior Vice President,
Public Policy

Ron Wilson

Senior Vice President, Global Leadership
and Organizational Development

Glenn Williams

Chief Operating Officer

Kent Kiefer

Senior Vice President,
Operations

Diane Passno

Senior Vice President,
Ministry Values

Ken Windebank

Senior Vice President,
Donor Ministry

Bob Wood

Chief Information Officer

Steve Maegdlin

Senior Vice President,
Mobilize

Del Tackett

Senior Vice President
President, Focus on the Family Institute

GUIDELINES FOR FUND-RAISING

We believe that the way an organization handles itself in the financial arena is a reflection of its integrity in every arena. Therefore, Focus on the Family Action adheres to all applicable fundraising guidelines of Focus on the Family.

"Focus on the Family" is a registered trademark of Focus on the Family, a California nonprofit religious corporation, and is used pursuant to a license agreement.