



Speaking Hope to the World®

TRANS WORLD RADIO and  
TRANS WORLD RADIO PACIFIC

Combined Financial Statements  
With Independent Auditors' Report

September 30, 2017 and  
December 31, 2016

**TRANS WORLD RADIO  
AND  
TRANS WORLD RADIO PACIFIC**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Trans World Radio and Trans World Radio Pacific  
Cary, North Carolina

We have audited the accompanying combined financial statements of Trans World Radio and Trans World Radio Pacific (collectively referred to as TWR), which comprise the combined statements of financial position as of September 30, 2017 and December 31, 2016, and the related combined statements of activities and cash flows for the nine months and year then ended, and the related notes to the combined financial statements.

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

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

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

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

Board of Directors  
Trans World Radio and Trans World Radio Pacific  
Cary, North Carolina

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Trans World Radio and Trans World Radio Pacific as of September 30, 2017 and December 31, 2016, and the changes in its net assets and cash flows for the nine months and year then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Columbia, South Carolina  
April 10, 2018

**TRANS WORLD RADIO  
AND  
TRANS WORLD RADIO PACIFIC**

**Combined Statements of Financial Position**

	September 30, 2017	December 31, 2016
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 9,300,294	\$ 10,447,543
Receivables–net (Note 3)	2,857,932	2,455,328
Prepaid expenses and other assets (Note 4)	1,028,644	945,732
Investments (Note 5)	8,777,303	8,188,433
	21,964,173	22,037,036
Long–term investments and other assets (Note 6)	915,334	1,010,681
Trust assets (Note 10)	4,149,483	4,012,551
Land, buildings, and equipment, at cost–net (Note 7)	11,014,800	10,090,931
Perpetual trust held by others and endowment (Note 2)	4,410,542	4,063,056
	\$ 42,454,332	\$ 41,214,255
Total Assets		
<b>LIABILITIES AND NET ASSETS:</b>		
Current liabilities:		
Trade payables	\$ 1,164,690	\$ 1,490,252
Accrued expenses	953,386	534,237
Currency exchange contract liability	1,758	313,262
Current portion of:		
Notes payable (Note 8)	56,463	55,914
Annuities payable (Note 9)	839,259	835,004
Trust obligations (Note 10)	235,351	236,028
Employee benefit obligations (Note 14)	653,294	665,315
Deferred revenue	181,679	97,022
	4,085,880	4,227,034
Long–term liabilities:		
Notes payable (Note 8)	37,419	61,030
Annuities payable (Note 9)	3,865,486	3,907,927
Trust obligations (Note 10)	2,585,867	2,537,534
Employee benefit obligations (Note 14)	4,957,725	5,653,151
	15,532,377	16,386,676

(continued)

See notes to combined financial statements

**TRANS WORLD RADIO  
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**Combined Statements of Financial Position**

(continued)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
LIABILITIES AND NET ASSETS, continued:		
Net assets (Note 11):		
Unrestricted:		
Undesignated	(847,770)	(1,538,695)
Designated	2,874,305	2,837,680
Equity in land, buildings, and equipment	<u>10,945,918</u>	<u>9,998,987</u>
	<u>12,972,453</u>	<u>11,297,972</u>
Temporarily restricted:		
Specified purpose	8,193,119	8,202,497
Life income	<u>1,345,841</u>	<u>1,264,054</u>
	<u>9,538,960</u>	<u>9,466,551</u>
Permanently restricted:		
Perpetual trust and endowment	<u>4,410,542</u>	<u>4,063,056</u>
	<u>26,921,955</u>	<u>24,827,579</u>
 Total Liabilities and Net Assets	 <u>\$ 42,454,332</u>	 <u>\$ 41,214,255</u>

See notes to combined financial statements

**TRANS WORLD RADIO  
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**Combined Statements of Activities**

	Nine months ended September 30, 2017				Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>								
Support:								
Missionary support	\$ 3,864,598	\$ 454,256	\$ -	\$ 4,318,854	\$ 5,210,061	\$ 705,681	\$ -	\$ 5,915,742
General	3,260,588	4,670,524	-	7,931,112	3,023,653	6,605,866	-	9,629,519
Legacies and bequests	165,956	-	-	165,956	1,404,994	-	-	1,404,994
Contributed services	1,050,859	-	-	1,050,859	1,272,261	-	-	1,272,261
Gift portion of new split interest agreements	188,617	-	-	188,617	354,788	-	-	354,788
	<u>8,530,618</u>	<u>5,124,780</u>	<u>-</u>	<u>13,655,398</u>	<u>11,265,757</u>	<u>7,311,547</u>	<u>-</u>	<u>18,577,304</u>
Revenue:								
Media services	12,614,312	-	-	12,614,312	17,601,722	-	-	17,601,722
Investments (Note 5)	512,994	721	347,486	861,201	1,045,360	784	62,227	1,108,371
Change in value of split interest agreements (Note 10)	271,945	80,620	-	352,565	181,676	85,939	-	267,615
Other	632,898	-	-	632,898	617,105	-	-	617,105
	<u>14,032,149</u>	<u>81,341</u>	<u>347,486</u>	<u>14,460,976</u>	<u>19,445,863</u>	<u>86,723</u>	<u>62,227</u>	<u>19,594,813</u>
Total Support and Revenue	<u>22,562,767</u>	<u>5,206,121</u>	<u>347,486</u>	<u>28,116,374</u>	<u>30,711,620</u>	<u>7,398,270</u>	<u>62,227</u>	<u>38,172,117</u>
<b>RECLASSIFICATIONS:</b>								
Net assets released from restriction:								
Satisfaction of purpose restrictions	5,133,712	(5,133,712)	-	-	7,722,020	(7,722,020)	-	-

(continued)

See notes to combined financial statements

**TRANS WORLD RADIO  
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**Combined Statements of Activities**  
(continued)

	Nine months ended September 30, 2017				Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>EXPENSES:</b>								
Program services:								
Media services	21,749,375	-	-	21,749,375	29,768,377	-	-	29,768,377
Missions awareness	1,288,068	-	-	1,288,068	1,628,792	-	-	1,628,792
	<u>23,037,443</u>	<u>-</u>	<u>-</u>	<u>23,037,443</u>	<u>31,397,169</u>	<u>-</u>	<u>-</u>	<u>31,397,169</u>
Supporting activities:								
Management and general	1,611,388	-	-	1,611,388	2,081,293	-	-	2,081,293
Fund-raising	2,146,374	-	-	2,146,374	2,904,150	-	-	2,904,150
	<u>3,757,762</u>	<u>-</u>	<u>-</u>	<u>3,757,762</u>	<u>4,985,443</u>	<u>-</u>	<u>-</u>	<u>4,985,443</u>
Total Expenses	<u>26,795,205</u>	<u>-</u>	<u>-</u>	<u>26,795,205</u>	<u>36,382,612</u>	<u>-</u>	<u>-</u>	<u>36,382,612</u>
Change in Net Assets before Translation Adjustment	901,274	72,409	347,486	1,321,169	2,051,028	(323,750)	62,227	1,789,505
Translation Adjustment	773,207	-	-	773,207	(114,885)	-	-	(114,885)
Change in Net Assets	1,674,481	72,409	347,486	2,094,376	1,936,143	(323,750)	62,227	1,674,620
Net Assets, Beginning of Year	11,297,972	9,466,551	4,063,056	24,827,579	9,361,829	9,790,301	4,000,829	23,152,959
Net Assets, End of Year	<u>\$ 12,972,453</u>	<u>\$ 9,538,960</u>	<u>\$ 4,410,542</u>	<u>\$ 26,921,955</u>	<u>\$ 11,297,972</u>	<u>\$ 9,466,551</u>	<u>\$ 4,063,056</u>	<u>\$ 24,827,579</u>

See notes to combined financial statements



**TRANS WORLD RADIO  
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**Combined Statements of Cash Flows**

	Nine Months Ended September 30, 2017	Year Ended December 30, 2016
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,094,376	\$ 1,674,620
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	695,776	832,733
Unrealized/realized (gain) loss on investments	(861,201)	(1,108,371)
(Gain) loss on sale of land, buildings, and equipment	(6,528)	2,006
Noncash contributions of land, buildings, and equipment	-	(59,291)
Noncash contributions of securities	(38,376)	(66,475)
Gift portion of new charitable trusts	-	(54,157)
Change in value of charitable trusts	(80,620)	(85,939)
Actuarial change in charitable gift annuities	(128,291)	(306,124)
Maturities of charitable gift annuities	(95,900)	(73,275)
Payments on charitable gift annuities	492,809	745,127
Proceeds from sales of noncash contributions	(44,081)	(104,833)
Changes in operating assets and liabilities:		
Receivables	(402,604)	(246,581)
Prepaid expenses and other assets	(82,912)	(32,292)
Trade payables	(325,562)	(177,316)
Accrued expenses	419,149	28,716
Deferred revenue	84,657	(35,648)
Employee benefit obligations	(707,447)	(275,634)
Net Cash Provided by Operating Activities	1,013,245	657,266
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of land, buildings, and equipment	(1,319,900)	(2,846,792)
Change in long-term investments and other assets	95,347	258,424
Proceeds from sale of land, buildings, and equipment	6,851	851,825
Change in land, buildings, and equipment due to currency translation	(300,068)	(39,446)
Proceeds from sale of investments	2,112,631	2,438,612
Acquisitions of investments	(2,553,765)	(2,413,621)
Net Cash Used by Investing Activities	(1,958,904)	(1,750,998)

(continued)

See notes to combined financial statements

**TRANS WORLD RADIO  
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**Combined Statements of Cash Flows**  
(continued)

	Nine Months Ended September 30, 2017	Year Ended December 30, 2016
	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of notes payable	(23,062)	(29,067)
Proceeds from new annuities and trusts	374,856	938,386
Gift portion of new charitable gift annuities	(188,617)	(354,788)
Payments on annuities and trusts	(663,314)	(973,755)
Investment income from charitable trusts	298,547	279,262
Net Cash Used by Financing Activities	<u>(201,590)</u>	<u>(139,962)</u>
 Net Change in Cash and Cash Equivalents	 (1,147,249)	 (1,233,694)
 Cash and Cash Equivalents, Beginning of Year	 <u>10,447,543</u>	 <u>11,681,237</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 9,300,294</u>	 <u>\$ 10,447,543</u>
 <b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash paid for interest, none capitalized	<u>\$ 4,331</u>	<u>\$ 6,305</u>

See notes to combined financial statements

**TRANS WORLD RADIO**  
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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

1. NATURE OF ORGANIZATION:

Trans World Radio and Trans World Radio Pacific are collectively known as Trans World Radio (TWR), which is an independent evangelical association of churches. TWR is exempt from state and federal income taxes under Sections 501(c)(3) and 170(b)(1)(A)(i) of the U.S. Internal Revenue Code and is classified as an entity that is not a private foundation. Contributions by the public may be deductible for income tax purposes.

The primary focus of TWR is to proclaim the Gospel of our Lord and Savior Jesus Christ in areas of the world where other forms of Christian witness may not be possible. TWR also eagerly supports the work of evangelism and Christian nurturing in countries where church activity is permissible, working in harmony with Christian missionaries and evangelical churches worldwide. TWR accomplishes this goal through program services described below:

*Media Services*—TWR broadcasts Gospel programs in more than 230 languages and dialects to over 190 countries. Programs air from 2,000 worldwide broadcasting outlets, including major international sites, satellite, internet, and local AM and FM stations.

*Missions Awareness*—The costs of *TWR* magazine and other publications and activities are used to raise public awareness of God's work through missions.

In its endeavor to fulfill its religious, educational, and evangelistic objectives, TWR works with thousands of churches and hundreds of cooperating program producers. In addition, independent groups, known as national partners, have been formed legally in numerous countries for the express purpose of working with TWR in program production and distribution, training, transmission of broadcasts, and listener follow-up.

TWR is organizationally structured to reflect its fraternal relationship with the national partners, cooperating program producers, and supporting churches. In some cases, interlocking board relationships exist between TWR and its national partners and cooperating program producers. The primary sources of funding for TWR are donations and airtime sponsorship from individuals, churches, national partners, and cooperating program producers.

Incorporation:

	<u>Trans World Radio</u>	<u>Trans World Radio Pacific</u>
State:	New Jersey	North Carolina
Date:	February 1, 1960	May 2, 1952

Location of International Headquarters:

300 Gregson Drive  
Cary, North Carolina 27511

**TRANS WORLD RADIO  
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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

1. NATURE OF ORGANIZATION, continued:

**CHANGE OF YEAR END**

The financial year end of TWR was changed from December 31 to September 30 to better align the flow of the support common in not-for-profit organizations to the timing of ministry expenditures, and to simplify budgeting and cash management. Accordingly, the current financial statements are prepared for 9 months from January 1, 2017 to September 30, 2017 and as a result, the comparative amounts stated in the combined statements of activities and cash flows and the related notes to combined statements are not comparable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

TWR maintains its accounts and prepares its combined financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

**PRINCIPLES OF COMBINATION**

These combined financial statements include Trans World Radio and Trans World Radio Pacific. These two organizations share management and headquarters facilities. Trans World Radio Pacific owns and operates the broadcasting facilities in Guam. All significant intercompany transactions and balances have been eliminated from these combined financial statements.

TWR is associated with affiliated organizations in over 70 countries. These organizations are not under the control of TWR, and their financial position and results of operations are not combined or presented herewith.

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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

**FUND ACCOUNTING AND NET ASSETS**

In order to ensure observance of limitations and restrictions placed on the use of resources available to the organization, the accounts of TWR are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds established according to their nature and purpose. Separate accounts are maintained for each fund. All financial transactions have been recorded and reported by fund group and classes of net assets.

*Unrestricted* net assets are currently available for ministry purposes under the direction of the board, designated by the board for specific use, or resources invested in land, buildings, and equipment.

*Temporarily restricted* net assets are contributed with donor stipulations for specific operating purposes or programs, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

*Permanently restricted* net assets consist of one perpetual trust held by others and one endowment held and administered directly by TWR. The perpetual trust held by others fair market value as of September 30, 2017 and December 31, 2016 was \$4,312,262 and \$3,964,676 respectively. The endowment consists of common stock with a fair market value as of September 30, 2017 and December 31, 2016 of \$98,280 and \$98,380, respectively. Substantially all of the net asset balance is comprised of the perpetual trust held by others. Therefore, the disclosure requirements related to permanently restricted net assets as prescribed by the *Endowment* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) are not included due to immateriality.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand; checking, savings, and money market accounts; and certificates of deposit with original maturities of three months or less. The amounts held at the bank may, at times, exceed federally insured deposit levels. TWR has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECEIVABLES—NET

Accounts receivable are reported net of any anticipated losses due to uncollectible accounts. TWR's policy for determining when receivables are past due or delinquent is 30 days after invoicing. Uncollectible accounts are reported as additions to the allowance for bad debts when it is determined the amounts are uncollectible.

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. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, trends in historical loss experience, specific impaired accounts, and economic conditions.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses, including recoverable investments in unowned broadcast facilities and spare parts inventory, are recognized as expense when placed in service or used in operations.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all debt securities are recorded at fair value based on the last reported sales price on the valuation date. Other investments are stated at the lower of cost or fair value. Donated investments are recorded at market value at the date of donation. Realized and unrealized gains and losses on marketable securities and other investments are included in investments in the accompanying combined statements of activities. Investments do not represent significant concentrations of market risk inasmuch as the investment portfolio is adequately diversified among many issuers.

LAND, BUILDINGS, EQUIPMENT, AND DEPRECIATION

Items capitalized as land, buildings, and equipment are recorded at cost. Donated assets are recorded at their fair value on the date of gift. Purchases of property and equipment valued at \$2,000 or more are capitalized. Fixed assets include expenditures for major renewals and betterment. Repairs and maintenance are expensed as incurred. Cost and accumulated depreciation applicable to assets retired or disposed of are eliminated from the accounts, and any resulting gains or losses are included in revenue.

TWR accounts for fixed assets in foreign locations in accordance with the functional currency provisions of the *Foreign Currency Matters* topic of the FASB ASC. This has resulted in a translation adjustment gain of \$477,998 and 39,446 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively, to fixed assets with functional currencies that differ from the reporting currency.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to 30 years.

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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

**PERPETUAL TRUST HELD BY OTHERS**

Perpetual trust held by others consists of a one-eighth beneficial interest. The trust assets consist of cash and cash equivalents and marketable securities. The trust assets are carried at fair value as of the date of the combined financial statements. When possible, the fair value of investments held as trustee or agent are determined by reference to quoted market prices. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an appropriate risk rate, taking into consideration the varying degrees of risk specific to each financial asset. Interest income of \$150,589 and \$180,400 received during the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively, is included in unrestricted investment revenue in the accompanying combined statements of activities.

**SUPPORT AND REVENUE, RECLASSIFICATIONS, AND EXPENSES**

Revenue is recognized when earned. Support is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to TWR. Noncash gifts are recorded at their estimated fair market value on the date of donation. Media services revenue is recognized as earned. The portion of gain or loss on sale of assets presented in other revenue is recorded as earned and recognized in the fund owning the asset or as directed by donor restrictions.

TWR reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. Gifts are reported as unrestricted if they are spent in the same period as received. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Expenses, including advertising and promotion costs of \$352,091 and \$537,527 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively, are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities of TWR have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, RECLASSIFICATIONS, AND EXPENSES, continued

In connection with promotional mailings, missionary furloughs, and other informational activities, TWR incurred joint costs of \$2,876,621 and \$3,724,884 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. Of those costs, \$1,371,739 and \$1,666,945 were allocated to program services, \$14,771 and \$20,441 were allocated to management and general, and \$1,490,111 and \$2,037,498 were allocated to fund-raising for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

TWR has entered into foreign currency exchange contracts to hedge exposure to future spending activity denominated in foreign currencies in areas where it conducts significant business. As of September 30, 2017, TWR has varying monthly commitment amounts through December 2018 for notional amounts approximating \$531,464 for the African Rand, \$662,230 for the Singapore Dollar, and \$338,670 for the Euro. For the nine months ended September 30, 2017 and the year ended December 31, 2016, the unrealized gains for the contracts of \$311,504 and \$627,781, respectively, are reported as a component of investment income (loss) on the combined statements of activities.

COMPENSATED ABSENCES

For the nine months ended September 30, 2017, TWR recorded an accrual for compensated absences totaling \$394,000. No accrual for compensated absences was made in prior fiscal years in the combined financial statements because the amount could not be reasonably estimated.

CONTRIBUTED SERVICES

Contributed services represent donated skilled services and includes the cost of salary, benefits, and work expenses for approximately 26 individuals involved in engineering, broadcast operations, and broadcast administration. Contributed services are reported as contributions if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by TWR. During the nine months ended September 30, 2017 and the year ended December 31, 2016, contributed services meeting the criteria for recognition in the combined financial statements totaled \$1,050,859 and \$1,272,261, respectively.

INTENTIONS TO GIVE

TWR receives indications of intent to support ministries that are commitments to provide monthly, quarterly, or annual gifts of a specified amount. These commitments are open-ended and subject to unilateral change by the donor. Because the commitments do not express a term or period, the amount of the commitment is not measurable. Considering these factors, the commitments are not considered to be unconditional promises to give and are not recognized prior to receipt of the contribution.



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**Notes to Combined Financial Statements**

September 30, 2017 and December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

**FOREIGN OPERATIONS**

In connection with its worldwide ministry, TWR maintains broadcasting stations and other supporting facilities in various countries outside the United States. As of September 30, 2017 and December 31, 2016, respectively, current assets in other countries, including cash, securities, receivables, prepaid expenses, and inventories, totaled \$6,478,610 and \$4,825,855; noncurrent assets, other than land, buildings, and equipment, were \$893,860 and \$990,542; property and equipment, net of accumulated depreciation, amounted to \$7,191,710 and \$6,110,414; and liabilities in other countries were \$1,271,733 and \$1,596,325. Total overseas support and revenue received from foreign sources amounted to \$4,571,021 and \$7,916,750 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

Account balances relating to foreign operations are reflected in the combined financial statements in United States dollars.

3. RECEIVABLES—NET:

Receivables—net consist of:

	September 30, 2017	December 31, 2016
Broadcasters—net of allowance for uncollectible accounts of \$150,000 for September 30, 2017 and December 31, 2016, respectively	\$ 1,708,470	\$ 1,826,611
Advances to employees	118,555	98,222
Due from suppliers/affiliates	1,030,907	530,495
	\$ 2,857,932	\$ 2,455,328

4. PREPAID EXPENSES AND OTHER ASSETS:

Prepaid expenses and other assets consist of:

	September 30, 2017	December 31, 2016
Spare parts inventory	\$ 422,248	\$ 474,336
Rents and deposits	85,983	75,870
Other prepaids	520,413	395,526
	\$ 1,028,644	\$ 945,732

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5. INVESTMENTS:

Investments consist of:

	September 30, 2017	December 31, 2016
Operating and specified purpose:		
Equity securities	\$ 6,195	\$ 11,900
Certificates of deposit	100,500	101,172
Precious metals	75,525	62,700
Private equity, at cost	100,000	-
Mutual funds	1,186,882	830,481
	1,469,102	1,006,253
Life income:		
Equity securities	3,897,122	3,740,232
Fixed income securities	1,767,848	1,739,338
Mortgage-backed securities	745,539	679,839
Mutual funds	897,692	1,022,771
	7,308,201	7,182,180
	\$ 8,777,303	\$ 8,188,433

The following table reconciles gross income (loss) earned on investments to the net amount reported in the combined statements of activities:

	Nine Months Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 174,844	\$ -	\$ -	\$ 174,844
Net realized gain on sale	354,215	721	-	354,936
Change in market valuation	(327,569)	-	347,486	19,917
Gain on currency exchange contract	311,504	-	-	311,504
	\$ 512,994	\$ 721	\$ 347,486	\$ 861,201

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5. INVESTMENTS, continued:

	Year Ended December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 409,897	\$ -	\$ -	\$ 409,897
Net realized gain (loss) on sale	(1,355)	784	-	(571)
Change in market valuation	9,037	-	62,227	71,264
Gain on currency exchange contract	627,781	-	-	627,781
	\$ 1,045,360	\$ 784	\$ 62,227	\$ 1,108,371

6. LONG-TERM INVESTMENTS AND OTHER ASSETS:

Long-term investments and other assets consist of:

	September 30, 2017	December 31, 2016
Cash surrender value of life insurance	\$ 21,475	\$ 20,139
Broadcasting facility development costs-net of amortization of \$4,773,813 and \$4,513,991, respectively	893,859	990,542
	\$ 915,334	\$ 1,010,681

Broadcast facilities development costs represent amounts invested in the development of new and improved broadcast facilities in Central Asia. The funds advanced to the station owners will be recovered through reduced airtime charges to TWR for the programs broadcast by TWR.

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7. LAND, BUILDINGS, AND EQUIPMENT, AT COST-NET:

Land, buildings, and equipment, at cost-net consist of:

	September 30, 2017		December 31, 2016	
	United States	Other Countries	Total	Total
Land	\$ 1,240,358	\$ 713,220	\$ 1,953,578	\$ 1,908,218
Buildings	3,598,131	3,551,299	7,149,430	6,930,896
Transmitting, generating, and testing equipment	3,495,518	3,561,467	7,056,985	6,901,183
Furniture and equipment	5,492,578	1,356,471	6,849,049	6,437,362
	<u>13,826,585</u>	<u>9,182,457</u>	<u>23,009,042</u>	<u>22,177,659</u>
Less accumulated depreciation	<u>(10,436,874)</u>	<u>(5,539,928)</u>	<u>(15,976,802)</u>	<u>(15,086,645)</u>
	3,389,711	3,642,529	7,032,240	7,091,014
Construction in progress	433,383	3,549,177	3,982,560	2,999,917
Net book value of land, buildings, and equipment	3,823,094	7,191,706	11,014,800	10,090,931
Less related capital lease obligations and note payable	<u>(40,179)</u>	<u>(28,703)</u>	<u>(68,882)</u>	<u>(91,944)</u>
Equity in land, buildings, and equipment	<u>\$ 3,782,915</u>	<u>\$ 7,163,003</u>	<u>\$ 10,945,918</u>	<u>\$ 9,998,987</u>

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8. NOTES PAYABLE:

Notes payable consist of:

	September 30, 2017	December 31, 2016
Unsecured notes:		
Promissory notes payable to individuals, due on demand, with an interest rate of 0%; principal becomes property of TWR upon death of holder.	\$ 25,000	\$ 25,000
Secured note:		
Equipment note payable; collateralized by certain real property; bears interest at a fixed rate of 4.0%; monthly payment of principal and interest in the amount of \$922, with all unpaid principal and accrued interest due at maturity in May 2020.	28,703	36,005
Capitalized lease obligations	40,179	55,939
	93,882	116,944
Less current portion	(56,463)	(55,914)
Long-term portion of notes payable	\$ 37,419	\$ 61,030

The notes payable are estimated to mature as follows:

<u>Years Ending September 30,</u>	<u>Amounts</u>
2018	\$ 35,094
2019	10,507
2020	8,102
	\$ 53,703

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9. ANNUITIES PAYABLE:

TWR 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. A portion of the transfer is considered to be a charitable contribution for income tax purposes.

The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as an unrestricted gift for long-term purposes.

The annuity liability is revalued annually based upon actuarially computed present values and is carried at the present value of future cash payments. The resulting actuarial gain or loss is included with change in value of split interest agreements in the accompanying combined statements of activities.

Annuities payable consist of:

	September 30, 2017	December 31, 2016
Computed present value	\$ 4,704,745	\$ 4,742,931
Less current portion	(839,259)	(835,004)
	\$ 3,865,486	\$ 3,907,927

Several states have specific requirements for calculating the investment assets TWR must hold to provide resources for paying obligations to annuitants. TWR holds these reserves as unrestricted designated net assets in the accompanying combined statements of activities.

10. TRUST ASSETS, OBLIGATIONS, AND NET ASSETS:

TWR administers charitable remainder trusts. These trusts provide 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 remaindermen. The present value of the portion of the trusts attributable to the remainder interest of TWR is recorded on the combined statements of activities as a temporarily restricted contribution in the period received, as temporarily restricted net assets, and as a reclassification to the unrestricted fund when released. Certain trusts contain provisions to distribute assets to remaindermen other than TWR. The portion attributable to others is reflected as a liability on the combined statements of financial position.

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10. TRUST ASSETS, OBLIGATIONS, AND NET ASSETS, continued:

	September 30, 2017	December 31, 2016
Trust assets—at fair value:		
Cash and cash equivalents	\$ 221,361	\$ 206,580
Equity securities	2,355,552	2,216,691
Fixed income securities	35,183	20,372
Mutual funds	1,537,387	1,568,908
	\$ 4,149,483	\$ 4,012,551
	September 30, 2017	December 31, 2016
Trust obligations and net assets:		
Trust obligations:		
Current portion of irrevocable trusts	\$ 235,351	\$ 236,028
Irrevocable trusts, net of current portion	2,585,867	2,537,534
	2,821,218	2,773,562
Trust net assets	1,328,265	1,238,989
	\$ 4,149,483	\$ 4,012,551

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10. TRUST ASSETS, OBLIGATIONS, AND NET ASSETS, continued:

An actuarial adjustment is recognized in the combined statements of activities for changes in the value of annuities and trusts. These changes include:

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Investment income—interest and dividends	\$ 217,795	\$ 371,415
Realized and unrealized gains	757,294	642,395
Actuarial adjustments	181,525	419,780
Advisory fees and other expenses	(140,735)	(192,219)
Payments to income beneficiaries	(663,314)	(973,756)
	<u>\$ 352,565</u>	<u>\$ 267,615</u>



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11. NET ASSETS:

Net assets consist of:

	September 30, 2017	December 31, 2016
Unrestricted:		
Undesignated:		
Undesignated	\$ 4,763,249	\$ 4,779,771
Unfunded employee benefit obligations (Note 14)	(5,611,019)	(6,318,466)
	(847,770)	(1,538,695)
Designated:		
Minimum state required annuity reserves	2,874,305	2,837,680
Equity in land, buildings, and equipment	10,945,918	9,998,987
	\$ 12,972,453	\$ 11,297,972
Temporarily restricted:		
Specified purpose:		
Designated for future ministry activities:		
Missionary equipment	\$ 997,668	\$ 933,040
Women's ministry	719,646	661,306
Children and youth ministry	326,487	325,798
HIV/AIDS and health issues ministry	149,121	146,206
Oral communicators ministry	210,032	292,855
Leadership development ministry	581,889	628,771
Extending the Reach	3,682,236	3,576,857
Other	1,526,040	1,637,664
	8,193,119	8,202,497
Life income:		
Charitable remainder trusts (Note 10)	1,319,205	1,238,989
Other	26,636	25,065
	\$ 9,538,960	\$ 9,466,551
Permanently restricted:		
Perpetual trust and endowment	\$ 4,410,542	\$ 4,063,056

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12. LINE OF CREDIT:

TWR maintains a line of credit at a North Carolina financial institution. As of September 30, 2017, this line permitted TWR to borrow up to \$1,500,000 and is secured by real property in Cary, North Carolina. No commitment fees or compensating balances are required. The note has an interest rate equal to LIBOR plus 175 basis points (or 2.98% and 2.52% at September 30, 2017 and December 31, 2016, respectively). As of September 30, 2017 and December 31, 2016, TWR had no outstanding borrowings against this line of credit.

13. COMMITMENTS:

LEASE AGREEMENTS

TWR maintains operating lease contracts for the use of missionary housing, office facilities, and property. Although the specific terms of these agreements vary, all are treated as operating leases, most contain renewal options ranging from one to five years, and some carry escalation provisions which are generally tied to the cost of living in the related field. TWR is obligated under capital leases for computer equipment and other equipment that expire at various dates through 2020. At September 30, 2017, the carrying value of the related equipment and the accumulated amortization recorded for the assets acquired via capital leases were:

Equipment	\$ 85,964
Less accumulated amortization	<u>(39,603)</u>
	<u><u>\$ 46,361</u></u>

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13. COMMITMENTS, continued:

LEASE AGREEMENTS, continued

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease obligation payments as of September 30, 2017, are as follows:

<u>Years Ending September 30,</u>	<u>Capital leases</u>	<u>Operating leases</u>
2018	\$ 23,315	\$ 95,804
2019	13,193	89,576
2020	6,539	38,267
2021	-	38,541
2022	-	26,006
	<u>43,047</u>	<u>\$ 288,194</u>
Less amount representing interest	(2,868)	
Present value of net minimum capital lease payments	40,179	
Less current installments of obligations under capital leases	<u>(21,369)</u>	
Obligations under capital leases, excluding current installments	<u>\$ 18,810</u>	

Rental expenses pertaining to the agreements noted above were \$66,582 and \$80,574 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

AIRTIME COMMITMENTS

In addition to their own transmitting facilities, TWR has entered into contracts with various foreign corporations to purchase airtime in order to air international gospel programs. The agreements specify minimum levels of time usage at various rates and are subject to periodic review by the foreign corporations.

14. EMPLOYEE BENEFIT OBLIGATIONS:

DEFINED CONTRIBUTION PLAN

Effective in 2009, TWR established a new 401(k) plan (the Plan) for U.S. staff and missionaries. TWR provides a 50% match for U.S. based employees contributing up to 6% of their base salary. For U.S. missionaries serving outside the U.S., TWR contributes 9% of the missionaries' U.S. base pay rate. U.S. missionaries and staff may make additional voluntary contributions which are not matched by TWR.

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14. EMPLOYEE BENEFIT OBLIGATIONS, continued:

DEFINED CONTRIBUTION PLAN, continued

TWR contributed \$166,486 and \$190,545 in matching contributions to the Plan for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. Employee contributions vest at time of payment into the plan. TWR's contributions become fully vested after three years of service. All employees may start contributions from the date of employment. TWR begins matching U.S. staff contributions after the employee has one year of service.

AD HOC RETIREMENT PLAN

In recognition of years of service prior to TWR implementing its 401(k) plan described above, TWR provides a supplemental pension allowance and certain other retiree welfare benefits, including medical and life insurance benefits, to qualifying U.S. employees which qualifies as a defined benefit plan. In 2007, the board froze the plan to any additional participants. For the nine months ended September 30, 2017 and the year ended December 31, 2016, 58 and 60 employees or surviving spouses, respectively, were receiving these benefits.

The ad hoc plan's current and future benefits are funded by unrestricted undesignated net assets of TWR (see Note 11). The following table sets forth the amounts recognized in the combined statements of financial position:

	Pension Benefits		Retiree Welfare Benefits	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation, January 1	\$ 2,796,844	\$ 2,956,879	\$ 3,521,622	\$ 3,637,221
Interest cost	99,650	138,393	109,891	148,147
Actuarial gain/(loss)	28,417	84,292	(446,418)	18,260
Benefits paid	(283,322)	(382,720)	(215,665)	(282,006)
Benefit obligation, December 31	<u>\$ 2,641,589</u>	<u>\$ 2,796,844</u>	<u>\$ 2,969,430</u>	<u>\$ 3,521,622</u>

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14. EMPLOYEE BENEFIT OBLIGATIONS, continued:

AD HOC RETIREMENT PLAN, continued

Components of net periodic benefit costs for the nine months ended September 30, 2017 and the year ended December 31, 2016, are as follows:

	Pension Benefits		Retiree Welfare Benefits	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost:				
Interest cost	\$ 99,650	\$ 138,393	\$ 109,891	\$ 148,147
Amortization of unrecognized prior service cost	-	240,502	261,175	348,234
Amortization of unrecognized net gain	142,142	148,120	(6,922)	(15,737)
Net periodic pension cost	\$ 241,792	\$ 527,015	\$ 364,144	\$ 480,644

Weighted-average assumptions and method disclosures as of September 30, 2017 and December 31, 2016, include:

	Pension Benefits		Retiree Welfare Benefits	
	2017	2016	2017	2016
Discount rate	5.00%	5.00%	5.00%	5.00%
Average life expectancy of participants	9 years	9 years	9 years	9 years

Furthermore, for purposes of calculating the benefit obligation for the post-retirement other benefit component, TWR assumed an initial 10% health care cost trend for participants for both the nine months ended September 30, 2017 and the year ended December 31, 2016.

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14. EMPLOYEE BENEFIT OBLIGATIONS, continued:

AD HOC RETIREMENT PLAN, continued

Based upon participants involved, TWR's expected contribution is as follows and accordingly classified on the combined statements of financial position:

	September 30, 2017	December 31, 2016
Employee benefit obligation (including pension and retiree welfare benefits)	\$ 5,611,019	\$ 6,318,466
Less current portion	(653,294)	(665,315)
Employee benefit obligation—net of current portion	\$ 4,957,725	\$ 5,653,151

*Estimated Future Benefit Payments*—The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

<u>Years Ending September 30,</u>	<u>Pension Benefits</u>	<u>Retiree Welfare Benefits</u>
2018	\$ 366,149	\$ 287,145
2019	343,429	286,717
2020	320,721	285,098
2021	298,080	281,179
2022	275,560	274,942
Thereafter	1,037,650	1,554,349
	\$ 2,641,589	\$ 2,969,430

15. CONCENTRATIONS:

Three broadcasters represent approximately 62% and 61% of total broadcast revenue for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

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16. RELATED PARTY TRANSACTIONS:

Income provided by affiliated organizations (as described in Note 1) approximated \$3,025,000 and \$2,439,000 plus approximately \$1,051,000 and \$1,272,000 in contributed services for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

Grants to affiliated organizations and payments for services rendered totaled \$3,457,793 and \$4,342,532 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

17. FAIR VALUE MEASUREMENTS:

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 have the lowest priority. TWR uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, TWR measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying combined 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 September 30, 2017:

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17. FAIR VALUE MEASUREMENTS, continued:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Investments:				
Certificates of deposit	\$ 100,500	\$ -	\$ 100,500	\$ -
Equity securities:				
International developed markets	158,397	158,397	-	-
Intermediate bond	113,597	113,597	-	-
Large cap	2,759,022	2,759,022	-	-
Mid cap	426,265	426,265	-	-
Small cap	201,690	201,690	-	-
Long bond	14,593	14,593	-	-
Short bond	131,582	131,582	-	-
REITs	49,500	49,500	-	-
Other	48,671	48,671	-	-
Fixed income securities:				
Intermediate bond	982,408	982,408	-	-
International bond	173,835	173,835	-	-
Long bond	393,569	393,569	-	-
Short bond	207,818	207,818	-	-
Intermediate muni	10,218	10,218	-	-
Mortgage-backed securities:				
Intermediate bond	136,939	136,939	-	-
Long bond	608,600	608,600	-	-
Mutual funds:				
Global equity	642,676	642,676	-	-
Intermediate bond	353,126	353,126	-	-
International developed markets	321,180	321,180	-	-
Large cap	3,227	3,227	-	-
Small cap	668,631	668,631	-	-
REITs	15,689	15,689	-	-
Other	80,045	80,045	-	-
Precious metals	75,525	-	75,525	-
	<u>\$ 8,677,303</u>	<u>\$ 8,501,278</u>	<u>\$ 176,025</u>	<u>\$ -</u>



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17. FAIR VALUE MEASUREMENTS, continued:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Other assets:				
Cash surrender value of life insurance policy	\$ 21,475	\$ -	\$ 21,475	\$ -
Trust assets:				
Cash and cash equivalents	\$ 221,361	\$ 221,361	\$ -	\$ -
Equity securities:				
Intermediate bond	760,655	760,655	-	-
Short bond	195,546	195,546	-	-
Long bond	72,145	72,145	-	-
Large cap	1,255,759	1,255,759	-	-
Mid cap	5,384	5,384	-	-
Small cap	52,872	52,872	-	-
Other	13,191	13,191	-	-
Fixed income:				
Short bond	25,011	25,011	-	-
Long muni	10,172	10,172	-	-
Mutual funds:				
Global equity	540,079	540,079	-	-
High yield	42,267	42,267	-	-
Intermediate bond	351,550	351,550	-	-
International developed markets	20,842	20,842	-	-
Large cap	75,662	75,662	-	-
Small cap	290,729	290,729	-	-
REITs	216,258	216,258	-	-
	<u>\$ 4,149,483</u>	<u>\$ 4,149,483</u>	<u>\$ -</u>	<u>\$ -</u>

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17. FAIR VALUE MEASUREMENTS, continued:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Assets held in perpetual trust and endowment assets:				
Cash and cash equivalents	\$ 450,325	\$ -	\$ 450,325	\$ -
Corporate stock	98,280	98,280	-	-
Equity securities:				
US large cap	859,847	-	859,847	-
US mid cap	575,325	-	575,325	-
US small cap	488,991	-	488,991	-
International developed	862,025	-	862,025	-
Emerging markets	342,014	-	342,014	-
Fixed income:				
Investment grade taxable bonds	61,062	-	61,062	-
International developed bonds	277	-	277	-
Global high yield taxable bond	39,718	-	39,718	-
Other:				
Hedge funds specific strategy	429,846	-	429,846	-
Private equity fund	156,644	-	156,644	-
Commodities	46,188	-	46,188	-
	<u>\$ 4,410,542</u>	<u>\$ 98,280</u>	<u>\$ 4,312,262</u>	<u>\$ -</u>
Current liabilities:				
Foreign currency exchange contract liability	\$ (1,758)	\$ -	\$ (1,758)	\$ -

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17. FAIR VALUE MEASUREMENTS, continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying combined 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 December 31, 2016:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Investments:				
Certificates of deposit	\$ 101,172	\$ -	\$ 101,172	\$ -
Equity securities:				
International developed markets	153,681	153,681	-	-
Intermediate bond	112,540	112,540	-	-
Large cap	2,718,934	2,718,934	-	-
Mid cap	327,008	327,008	-	-
Small cap	234,368	234,368	-	-
Short bond	125,088	125,088	-	-
REITs	47,546	47,546	-	-
Other	32,967	32,967	-	-
Fixed income securities:				
Intermediate bond	806,215	806,215	-	-
International bond	212,842	212,842	-	-
Long bond	435,864	435,864	-	-
Short bond	284,417	284,417	-	-
Mortgage-backed securities:				
Intermediate bond	140,325	140,325	-	-
Long bond	534,617	534,617	-	-
Short bond	4,897	4,897	-	-
Mutual funds:				
Global equity	508,888	508,888	-	-
Intermediate bond	333,454	333,454	-	-
International developed markets	186,491	186,491	-	-
Small cap	680,213	680,213	-	-
Other	144,206	10,623	133,583	-
Precious metals	62,700	-	62,700	-
	<u>\$ 8,188,433</u>	<u>\$ 7,890,978</u>	<u>\$ 297,455</u>	<u>\$ -</u>

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17. FAIR VALUE MEASUREMENTS, continued:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Other assets:				
Cash surrender value of li life insurance policy	\$ 20,139	\$ -	\$ 20,139	\$ -
Trust assets:				
Cash and cash equivalents	\$ 206,580	\$ 206,580	\$ -	\$ -
Equity securities:				
High yield	-	-	-	-
International developed markets	-	-	-	-
Intermediate bond	726,948	726,948	-	-
Short bond	136,422	136,422	-	-
Long bond	10,942	10,942	-	-
Large cap	1,167,208	1,167,208	-	-
Mid cap	117,946	117,946	-	-
Small cap	44,304	44,304	-	-
Other	12,921	12,921	-	-
Fixed income:				
High yield	10,025	10,025	-	-
Long muni	10,347	-	10,347	-
Mutual funds:				
Global equity	487,534	487,534	-	-
High yield	63,781	63,781	-	-
Intermediate bond	391,692	391,692	-	-
Short bond	70,289	70,289	-	-
International developed markets	17,648	17,648	-	-
Large cap	70,021	70,021	-	-
Small cap	265,319	265,319	-	-
REITs	202,624	202,624	-	-
	<u>\$ 4,012,551</u>	<u>\$ 4,002,204</u>	<u>\$ 10,347</u>	<u>\$ -</u>

**TRANS WORLD RADIO  
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17. FAIR VALUE MEASUREMENTS, continued:

	Total	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Assets held in perpetual trust and endowment assets:				
Cash and cash equivalents	\$ 124,025	\$ -	\$ 124,025	\$ -
Corporate stock	98,380	98,380	-	-
Equity securities:				
US large cap	1,090,996	-	1,090,996	-
US mid cap	233,821	-	233,821	-
US small cap	190,226	-	190,226	-
International developed	547,728	-	547,728	-
Emerging markets	385,441	-	385,441	-
Fixed income:				
Investment grade taxable bonds	413,623	-	413,623	-
International developed bond	40,582	-	40,582	-
Global high yield taxable bonds	37,181	-	37,181	-
Other:				
Hedge funds specific strategy	375,479	-	375,479	-
Private equity other	152,504	-	152,504	-
Public REITs	243,847	-	243,847	-
Commodities	129,223	-	129,223	-
	<u>\$ 4,063,056</u>	<u>\$ 98,380</u>	<u>\$ 3,964,676</u>	<u>\$ -</u>
Current liabilities:				
Foreign currency exchange contract liability	\$ (313,262)	\$ -	\$ (313,262)	\$ -

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying combined statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Level 1 Fair Value Measurements*

The fair values of cash and cash equivalents, corporate stock, equity securities, fixed income securities, mortgage-backed securities, and mutual funds are based on quoted market prices, when available.

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17. FAIR VALUE MEASUREMENTS, continued:

*Level 2 Fair Value Measurements*

The fair values of the cash and cash equivalents, equity securities, mutual funds, and certificates of deposit are based on observable inputs other than the quoted prices included in Level 1 and thus are based on yields for securities of comparable maturity, quality, and type as obtained from market makers. The fair values of fixed income securities and mortgage-backed securities are based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of precious metals is estimated by reference to market values for similar securities. The fair value of the cash surrender value of life insurance policy is based on TWR's share of the cash surrender value of the respective life insurance policy as represented by the insurance company. Currency exchange contract liability is the estimated amount that TWR would owe the financial institution if it terminated the contracts at the reporting date.

TWR recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels for the nine months ended September 30, 2017 and the year ended December 31, 2016.

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**AND**  
**TRANS WORLD RADIO PACIFIC**

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18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through April 10, 2018, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Subsequent to the balance sheet date, on December 22, 2017, there was a fire on the loading dock at TWR's international headquarters in Cary, NC. The fire caused some structural damage and considerable smoke damage. The estimated cost to restore and repair the office exceeds \$4 million. TWR has adequate insurance to cover this cost, and TWR donors have generously provided gifts to pay the deductible and "out-of-pocket" costs, which will likely exceed \$100,000.

While the fire has caused considerable disruption in the Cary office, TWR has been able to continue ministering in 230 languages and dialects, in 190 countries without fail. Our stations and internet platforms continued operating flawlessly during the fire and have not missed a minute of ministry.

TWR's ability to continue functioning effectively in the midst of this challenge is a testimony to the resilience and commitment of our staff, who have been working under conditions that are less than ideal yet remain faithful in performing their duties to keep the ministry operating. Our insurance carrier (CHUBB) and the restoration company (BELFOR), have been outstanding in assisting and equipping TWR to continue fulfilling our mission.

The restoration effort will likely continue through August, so there will continue to be disruption and challenges in the months ahead. However, we believe the fire will have no financial impact on TWR's ability to fulfill our mission.