

**EDUCATIONAL MEDIA FOUNDATION**

**Rocklin, California**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

**December 31, 2007**

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*Educational Media Foundation*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Educational Media Foundation  
Rocklin, California

We have audited the accompanying consolidated statement of financial position of Educational Media Foundation (EMF) and subsidiaries as of December 31, 2007, and the related consolidated statements of activities, natural expenses, and cash flows for the year then ended. These financial statements are the responsibility of EMF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Educational Media Foundation and subsidiaries as of December 31, 2007, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

May 8, 2008

**CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

*Educational Media Foundation*

December 31, 2007

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 10,400,993
Short-term investments	13,423
Unrestricted, unconditional promises to give - net of allowance of \$720,551	11,772,305
Prepaid expenses	373,800
Current portion of notes receivable	2,071,539
Other receivables	408,178
<b>Total Current Assets</b>	<u>25,040,238</u>

**PROPERTY AND EQUIPMENT**

Net of accumulated depreciation	<u>31,034,538</u>
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**OTHER ASSETS**

Deposit with trustee	563,226
Deposits	1,157,668
Notes receivable - net of current portion	57,512
Bond issuance costs - net	887,332
FCC licenses, permits, and application costs - net	160,804,356
Trademarks	636,779
<b>Total Other Assets</b>	<u>164,106,873</u>

**Total Assets**

\$ 220,181,649

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 3,201,494
Current portion of bonds and notes payable	8,671,335
Current portion of capital lease obligations	4,003,799
<b>Total Current Liabilities</b>	<u>15,876,628</u>

**LONG-TERM DEBT**

Net of current portion	98,149,794
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**CAPITAL LEASE OBLIGATIONS**

Net of current portion	<u>5,171,109</u>
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**Total Liabilities**

119,197,531

**NET ASSETS**

Unrestricted net assets:	
Board designated	6,711,921
Undesignated	94,272,197
Temporarily restricted net assets	-
<b>Total Net Assets</b>	<u>100,984,118</u>

**Total Liabilities and Net Assets**

\$ 220,181,649

*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED STATEMENT OF  
ACTIVITIES***Educational Media Foundation*

Year Ended December 31, 2007

**UNRESTRICTED NET ASSETS**

## REVENUE AND SUPPORT

Contributions	\$ 79,740,985
Business underwriting grants	1,069,716
Interest income	501,699
Gain on sale of assets	551,334
Magazine advertising and subscription revenue	107,514
Miscellaneous income	944,909
Net assets released from restrictions	50,000
<b>Total Revenue and Support</b>	<b>82,966,157</b>

## EXPENSES

Program services	55,422,169
Supporting services:	
General administration	4,915,616
Fundraising	1,894,769
<b>Total Expenses</b>	<b>62,232,554</b>

**Increase in Unrestricted Net Assets**

20,733,603

**TEMPORARILY RESTRICTED NET ASSETS**

## REVENUE AND SUPPORT

Contributions	-
Net assets released from restrictions	(50,000)
<b>Decrease in Temporarily Restricted Net Assets</b>	<b>(50,000)</b>

**Increase in Net Assets**

20,683,603

**Net Assets - Beginning of Year**

80,300,515

**Net Assets - End of Year**

\$ 100,984,118

*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED STATEMENT OF  
NATURAL EXPENSES**

*Educational Media Foundation*

Year Ended December 31, 2007

Payroll and related	\$ 20,772,566
Occupancy	937,403
Listener servicing	2,175,343
Office	2,030,324
Programming	431,382
Website	469,714
Promotion and donor development	908,052
Travel and entertainment	1,143,128
Engineering	1,575,650
Interest	8,001,304
Administrative	1,761,506
Depreciation and amortization	10,799,147
Station operations	11,035,047
Magazine publication	191,988
<b>Total Expenses</b>	<b>\$ 62,232,554</b>

*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS***Educational Media Foundation*

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Year Ended December 31, 2007

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in net assets	\$ 20,683,603
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	6,882,848
Amortization	3,916,299
Expiration of purchase options and write-off of FCC application costs	133,463
Noncash contributions	(32,689)
Gain on sale of assets	(551,333)
Net change in operating assets and liabilities:	
Increase in unrestricted, unconditional promises to give	(1,989,699)
Decrease in prepaid expenses	183,072
Increase in other receivables	(580,235)
Increase in deposit with trustee	(14,453)
Increase in deposits	(31,856)
Increase in accounts payable and accrued expenses	1,153,767
<b>Net Cash Provided by Operating Activities</b>	<b>29,752,787</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Payments for property and equipment	(9,340,456)
Payments for FCC licenses	(15,237,584)
Deposits paid for future acquisition of FCC licenses	(878,981)
Payments for trademark costs	(15,877)
Proceeds from sale of assets	1,375,292
Principal payments received on notes receivable	226,350
<b>Net Cash Used by Investing Activities</b>	<b>(23,871,256)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from issuance of bonds and notes payable	376,289
Payments for bond issuance costs	(24,954)
Principal payments on bonds and notes payable	(9,308,229)
Principal payments on capital lease obligations	(5,269,593)
<b>Net Cash Used by Financing Activities</b>	<b>(14,226,487)</b>

**Decrease in Cash and Cash Equivalents** (8,344,956)**Cash and Cash Equivalents - Beginning of Year** 18,745,949**Cash and Cash Equivalents - End of Year** \$ 10,400,993*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS***Educational Media Foundation*

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Year Ended December 31, 2007

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash Payments for Interest Expense	\$ 8,057,404
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Capitalized Interest	\$ 149,401
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**SUPPLEMENTAL DISCLOSURES OF NONCASH  
INVESTING AND FINANCING ACTIVITIES**

Capital Lease Obligations Incurred in the Acquisition of Equipment	\$ 65,407
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Debt Incurred in the Acquisition of Equipment	\$ 249,226
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Debt Incurred in the Acquisition of FCC Licenses	\$ 21,775,774
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Notes Receivable Applied in the Acquisition of FCC Licenses	\$ 200,000
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Deposits Applied in the Acquisition of FCC Licenses	\$ 770,550
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Notes Receivable Issued in the Sale of Assets	\$ 269,538
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*The accompanying notes are an integral part of these financial statements.*

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** Educational Media Foundation (EMF) is a network of contemporary Christian FM and AM radio stations, translators, and affiliates located throughout various communities in the United States, operating as K-LOVE Radio Network and Air 1 Radio Network. EMF is a member of the Evangelical Council for Financial Accountability.

**Principles of Consolidation** The consolidated financial statements include the accounts of EMF and its wholly owned subsidiaries, El Dorado Licenses, Inc. (formally Adonai Radio Group, Inc.) and Brockport Licenses, LLC. Intercompany transactions and balances have been eliminated in consolidation.

**Investments** Investments in marketable securities with readily determinable fair values are presented in the financial statements at their fair values. Unrealized gains and losses are included in the increase in net assets in the accompanying statement of activities.

**Notes Receivable** Notes receivable are recorded at the amortized amount due. Management believes that all amounts are fully collectible, therefore, no allowance has been established. In determining collectibility, management takes into consideration such factors as debtor history, payment history, and existing economic conditions. Once a receivable is deemed uncollectible based on these factors, it is written off.

**Property and Equipment** Property and equipment purchased by EMF is recorded at cost. Property and equipment donated to EMF is recorded at fair value when received, provided EMF has a clearly measurable and objective basis for determining the value. If the values are not reasonably determinable, the donations are not recorded.

EMF capitalizes equipment that costs more than \$1,500 and has a useful life of three years or more. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years for equipment, and 39 years for buildings and leasehold improvements.

**FCC Licenses, Permits, and Application Costs** FCC radio licenses, construction permits, and application costs are recorded at cost. Construction permits and application costs represent legal and other related costs incurred to date to apply for FCC licenses and in preparation of going on the air. Amortization of these costs begins when the station or translator commences broadcasting and is computed using the straight-line method over 40 years.

**Trademarks** Trademarks represent legal and other costs incurred in obtaining trademarks for the K-LOVE and Air 1 radio networks. Trademarks are recorded at cost and amortized using the straight-line method over 40 years. Accumulated amortization of trademarks was \$45,527 at December 31, 2007.

**Bond Issuance Costs** Bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, since the results are not significantly different from the effective interest method. Accumulated amortization of bond issuance costs was \$218,662 at December 31, 2007.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

***Income Taxes*** EMF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal or state income taxes is required in the financial statements.

***Contributions*** EMF receives the majority of its support from contributions received in response to periodic pledge drives for the K-LOVE and Air 1 radio networks. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. EMF reports restricted contributions as unrestricted support if the restrictions are met in the same year as the contribution is received. Unconditional promises to give are recorded as unrestricted support when received. Certain unconditional promises to give which are due in the next year are reflected as current promises to give and are recorded at their net realizable value.

***Contributed Services*** Many individuals volunteer their time in performing a variety of tasks that assist EMF in its fundraising efforts. However, no amounts have been reflected in the financial statements for donated services, as these services do not meet the criteria for recognition as set forth under generally accepted accounting principles.

***Cash and Cash Equivalents*** EMF considers all investments having an original maturity of three months or less to be cash equivalents.

***Deposit with Trustee*** Deposit with trustee includes bond proceeds restricted for the purpose of refinancing debt incurred in the acquisition of stations, as well as the purchase of additional stations. These proceeds are held and disbursed by a third party.

***Underwriting Grants*** Business underwriting grants represent fees paid by businesses to EMF for concert or special event announcements.

***Promotion*** EMF promotes its stations within local service areas. Promotion costs are expensed as they are incurred.

***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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. PROMISES TO GIVE**

The promises to give as of December 31, 2007, are unconditional as they represent future monthly or one-time pledges which have been authorized to be charged automatically against the donor's credit card or withdrawn automatically from the donor's bank account. The amounts are due from individuals within the listening audience of the K-LOVE and Air 1 radio networks and are due within the next four months.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2007

*Educational Media Foundation*

The promises to give are subject to estimation as of the date of the financial statements. Promises to give as of December 31, 2006, which were based on an estimate of future automatic donor donations, were subsequently determined to be lower than actual receipts. This change in the previously recorded estimate had the effect of increasing contributions revenue and the change in net assets for the year ended December 31, 2007, by approximately \$479,000.

**3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Broadcast equipment	\$ 41,165,631
Furniture and fixtures	5,877,793
Automobiles	191,163
Software	1,555,613
Buildings	8,655,718
Leasehold improvements	660,368
Land	2,318,083
<b>Total</b>	<b>60,424,369</b>
Less: Accumulated depreciation	29,389,831
<b>Property and Equipment - Net</b>	<b>\$ 31,034,538</b>

**4. FCC LICENSES, PERMITS, AND APPLICATION COSTS**

*Operating Stations and Translators* Capitalized FCC licenses, permits, and application costs for operating stations and translators consist of the following:

Cost	\$ 172,760,883
Less: Accumulated amortization	15,968,889
<b>Operating Stations and Translators - Net</b>	<b>\$ 156,791,994</b>

*Permits and Applications for Stations and Translators* The FCC licenses, permits, and application costs incurred for additional licenses, translators, and construction permits are as follows:

<b>Permits and Applications for Stations and Translators</b>	<b>\$ 4,012,362</b>
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**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

**5. LINE OF CREDIT**

EMF has a \$3,500,000 revolving line of credit with a bank. Outstanding advances under the line of credit bear interest at the bank's prime rate plus 1.0% and are secured by a security interest in assets listed in connection with stations WAKL, KLVH, KLVR, KLVY, KLVG, KNKL, and KJKL. The line of credit agreement expires on December 31, 2007. There were no outstanding advances under the line of credit at December 31, 2007.

**6. LONG-TERM DEBT**

Long-term debt consisted of the following:

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging from 4.0% to 11.29%, maturing at various dates through December 2033.	\$ 87,006,307
Tax-exempt bonds payable, secured by commercial deeds of trust and security interests in personal property, due in aggregate monthly payments of approximately \$300,000, including interest at rates ranging from 5.46% to 5.72%, maturing at various dates through June 2021.	19,814,822
<b>Total Long-Term Debt</b>	<b>106,821,129</b>
Less: Current portion	8,671,335
<b>Long-Term Debt - Net</b>	<b>\$ 98,149,794</b>

Maturities of tax-exempt bonds and notes payable are as follows:

Year Ending December 31	
2008	\$ 8,671,335
2009	9,996,996
2010	10,719,481
2011	11,159,847
2012	11,252,386
Thereafter	55,021,084
<b>Total</b>	<b>\$ 106,821,129</b>

EMF has entered into Master Financing Agreements in connection with the tax-exempt bonds maturing in January 2019 and the financing maturing in January 2021, which require, among other things, that EMF maintain certain financial covenants, including:

- Leverage ratio of not more than 5.00 to 1.00 at any time.
- Debt service coverage ratio of not less than 1.30 to 1.00 for each fiscal year.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

**7. CAPITAL LEASE OBLIGATIONS**

EMF leases broadcast equipment, which are accounted for as capital leases. The following is a schedule by year of future minimum lease payments together with the present value of the net minimum lease payments:

Year Ending December 31	
2008	\$ 4,604,508
2009	6,533,192
2010	1,757,107
2011	432,160
<b>Total Minimum Lease Payments</b>	<b>13,326,967</b>
Less: Amount representing interest	4,152,059
<b>Present Value of Net Minimum Lease Payments</b>	<b>9,174,908</b>
Less: Current portion	4,003,799
<b>Capital Lease Obligations - Net of Current Portion</b>	<b>\$ 5,171,109</b>

The broadcast equipment cost, accumulated depreciation, and depreciation expense for this leased equipment is as follows:

Broadcast equipment	\$ 19,248,121
Less: Accumulated depreciation	10,468,587
<b>Net Book Value</b>	<b>\$ 8,779,534</b>
<b>Depreciation Expense</b>	<b>\$ 3,784,583</b>

The above equipment cost and related accumulated depreciation are included with the property and equipment amounts shown in note 3.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2007

*Educational Media Foundation*

**8. OPERATING LEASES**

EMF leases office space, radio tower space, land, and satellite equipment under various non-cancelable operating lease agreements. EMF has constructed radio towers on these leased land parcels.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year:

Year Ending December 31	
2008	\$ 3,840,093
2009	3,895,824
2010	3,832,069
2011	3,855,870
2012	3,831,008
Thereafter	77,325,672
<b>Total</b>	<b>\$ 96,580,536</b>

Rent expense was \$3,119,618 for the year ended December 31, 2007.

**9. AFFILIATES AND COMMITMENTS**

EMF has entered into various affiliate agreements with other radio stations to rebroadcast EMF's radio format through these stations. EMF also has certain rights and obligations related to the purchase of radio stations.

Certain of these stations operate under agreements which require an income split of the nonbusiness cash contributions generated under the stations' listening markets, or under agreements which require an income split of the nonbusiness cash contributions in excess of a base amount, in addition to a flat monthly fee. The remaining affiliate stations operate under agreements which require flat monthly fees and/or operating expense reimbursements.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

The following is a schedule of future minimum payments required under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements:

Year Ending December 31	
2008	\$ 3,005,799
2009	2,156,669
2010	1,822,525
2011	694,643
2012	644,721
Thereafter	651,552
<b>Total</b>	<b>\$ 8,975,909</b>

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were \$3,223,928 for the year ended December 31, 2007.

**10. DESIGNATED NET ASSETS**

The Board of Directors of EMF designates a portion of unrestricted net assets for future acquisitions and general reserves. The amount of this designation was \$6,711,921 at December 31, 2007.

**11. CONCENTRATIONS AND CONTINGENCIES**

**Credit Risk** EMF maintains its cash accounts in depositories that are insured by the FDIC to \$100,000 per institution. The amount of funds on deposit with a bank was approximately \$8,726,000 at December 31, 2007.

**Group Concentration** EMF has a group concentration with an individual and his related entities for station acquisitions. EMF had the following transactions with this individual and related entities:

Operating lease payments	\$ 27,780
Note payable payments	\$ 1,948,661

The following balance sheet amounts with this individual and related entities existed:

Notes payable	\$ 12,429,064
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**Litigation** EMF is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on future financial position or changes in net assets.

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

*Educational Media Foundation*

December 31, 2007

**12. RETIREMENT PLAN**

EMF sponsors a 401(k) defined contribution retirement plan covering all employees who meet the plan's age and service requirements. Eligible employees may elect to make salary deferral contributions to the plan up to certain annual limits. EMF may elect to make discretionary matching contributions based on employee salary deferral contributions, discretionary profit sharing contributions, or a combination of both. Employer contributions to the plan were \$313,697 for the year ended December 31, 2007.

**13. SUBSEQUENT EVENTS**

Subsequent to December 31, 2007, EMF closed on the acquisition of several radio stations, with an aggregate purchase price of \$1,041,000 plus the exchange of an existing station. These transactions were closed with down payments totaling \$591,000 and the issuance of a note payable in the amount of \$450,000, due in three years with interest at 6.25%.

Subsequent to December 31, 2007, EMF closed on the sale of a radio station with a sales price of \$650,000.

As of May 8, 2008, EMF entered into agreements to acquire several radio stations in separate transactions with aggregate purchase prices totaling \$31,225,000. These transactions will require EMF to make aggregate down payments totaling \$1,400,000 and to issue aggregate notes payable totaling \$2,625,000, due over a period of 10 years at interest rates ranging from 6.5% to 7.0%. EMF anticipates funding \$27,200,000 of these acquisitions through a tax-exempt bond issuance, bearing interest at 5.09%.

As of May 8, 2008, EMF is on file with the FCC to sell a radio station at a price of \$8,200,000.