

**THREE ANGELS BROADCASTING NETWORK, INC.**

**FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2000**

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A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

## CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Three Angels Broadcasting Network, Inc.

We have audited the accompanying statement of financial position of Three Angels Broadcasting Network, Inc. (a nonprofit organization) as of December 31, 2000, 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.

Except as discussed in the sixth paragraph, 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.

Downlink equipment acquired by gift is not recorded in the financial statements. In our opinion, generally accepted accounting principles require that such donated property be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of the unrecorded equipment on the financial statements.

Charitable gift annuity agreements have been recorded at fair value when received as an asset and an offsetting liability. In our opinion, generally accepted accounting principles require that the assets received be recognized at fair value, and an annuity payment liability be recognized at the present value of future cash flows expected to be paid to the donor. Contribution revenue should be recognized as the difference between these two amounts. It was not practicable to determine the effects of the unrecorded contribution revenue on the financial statements.

Three Angels Broadcasting Network, Inc.'s statement of activities does not disclose the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets, as required by Statement of Financial Accounting Standards No. 117. In our opinion, disclosure of this information is required by generally accepted accounting principles.

In connection with the recording of real estate revocable trusts, the fair values of the trusts were based on internal estimates performed by the Organization. We were unable to obtain sufficient evidential matter in connection with the estimates of fair value.

In our opinion, except for the effects of the items discussed in the third through fifth paragraphs, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to the real estate revocable trusts as discussed in the sixth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Three Angels Broadcasting Network, Inc. as of December 31, 2000, and the changes in its net assets and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Program Service Expenses and Schedule of Supporting Service Expenses are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, for the items mentioned in the preceding paragraphs, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marion, Illinois  
October 11, 2001

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2000

<b>Current Assets</b>	
Cash	\$ 2,039,012.18
Accounts receivable (Note 1)	193,623.70
Employee advances	979.98
Inventory	88,159.71
Prepaid expenses	18,737.99
Due from trust accounts	<u>24,000.00</u>
<b>Total Current Assets</b>	<b>\$ 2,364,513.56</b>
Cash restricted to investment in equipment	\$ 250,777.69
Property and equipment, less accumulated depreciation (Note 2)	<u>10,394,155.86</u>
	<b>\$10,644,933.55</b>
<b>Other Assets:</b>	
Investments (Note 3)	\$ 2,124,227.06
Deposits	288,625.75
Revocable trusts (Note 10)	12,488,484.45
Charitable gift annuities (Note 10)	<u>5,543,103.77</u>
<b>Total Other Assets</b>	<b>\$20,444,441.03</b>
<b>Total Assets</b>	<b><u>\$33,453,888.14</u></b>
<b>Current Liabilities</b>	
Accounts payable	\$ 338,307.62
Accrued wages and vacation pay	68,370.01
Accrued payroll taxes	12,417.70
Accrued interest	10,585.00
Current portion of long-term debt (Note 5)	120,000.00
Funds due to other ministries	24,655.00
Due to trust accounts	81,125.85
Estimated liability for future group medical insurance claims (Note 1)	<u>37,399.30</u>
<b>Total Current Liabilities</b>	<b>\$ 692,860.48</b>
<b>Long-term Liabilities</b>	
Long-term debt (Note 5)	\$ 99.99
Refundable advances (Note 10)	12,488,484.45
Charitable gift annuities (Note 10)	5,543,103.77
Liabilities under unitrust agreements (Note 10)	<u>1,003,711.00</u>
<b>Total Long-term Liabilities</b>	<b>\$19,035,399.21</b>
<b>Total Liabilities</b>	<b>\$19,728,259.69</b>
<b>Net Assets</b>	
Unrestricted	\$11,976,735.57
Temporarily restricted (Note 6)	<u>1,748,892.88</u>
<b>Total Net Assets</b>	<b>\$13,725,628.45</b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$33,453,888.14</u></b>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2000

<b>Revenues and Other Support</b>	
Contributions	\$10,847,976.18
Charitable remainder unitrusts (Note 10)	43,990.00
Airtime and production fees	603,842.23
Skyangel sales	2,665,397.84
Video sales	146,300.30
Rental income	31,347.49
Investment income (Note 3)	25,587.69
Change in value of split-interest agreements	15,659.23
Gain on sale of fixed assets	962.68
Other	<u>71,456.27</u>
<b>Total Revenues and Other Support</b>	<b><u>\$14,452,519.91</u></b>
<b>Expenses</b>	
Program service	
Television and radio broadcasting	\$ 9,141,284.01
Supporting service	
Management and general	<u>4,098,620.61</u>
<b>Total Expenses</b>	<b><u>\$13,239,904.62</u></b>
Increase in Net Assets	\$ 1,212,615.29
Net assets at beginning of period	<u>12,513,013.16</u>
<b>Net Assets at End of Period</b>	<b><u>\$13,725,628.45</u></b>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2000

**Cash Flows from Operating Activities:**

Cash received from contributors	\$11,202,956.60
Cash received from airtime and production fees	592,908.90
Cash received from Skyangel sales	2,665,397.84
Cash received from video sales	146,300.30
Rental receipts	31,347.49
Interest received	52,232.15
Other receipts	71,456.27
Cash paid to employees and suppliers	(3,984,193.87)
Cash paid for program service	(8,318,514.09)
Interest paid	(17,972.71)
Cash paid for school subsidy	(17,088.79)
Cash paid for farm, rental and miscellaneous expense	(16,979.85)

**Net Cash Provided by Operating Activities** \$ 2,407,850.24

**Cash Flows from Investing Activities:**

Purchases of property and equipment	\$(1,986,489.97)
Proceeds from sales of property and equipment	12,000.00
Purchases of investments	(214,960.66)
Proceeds from sales of investments	768,235.40
Net receipts from restricted cash and cash equivalents	382,287.40
Receipts on employee advances	1,520.02
Payments on construction in progress	(222,332.48)

**Net Cash Used by Investing Activities** \$(1,259,740.29)

**Cash Flows from Financing Activities**

Proceeds from notes payable	\$ 195,000.00
Retirement of notes payable	(234,893.31)
Contributions restricted for investment in equipment	(382,287.40)
Payments to due from trust accounts	(24,000.00)
Payments from due to trust accounts	81,125.85

**Net Cash Provided by Financing Activities** \$ (365,054.86)

Net increase in cash and cash equivalents \$ 783,055.09  
 Cash and cash equivalents at beginning of period 1,255,957.09

Cash and cash equivalents at December 31, 2000 \$ 2,039,012.18

**Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities:**

Increase in net assets	\$ 1,212,615.29
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Provision for bad debts	4,351.50
Debt forgiveness	12,000.00
Depreciation	1,482,975.57
Gain on sale of fixed assets	(962.49)
Change in value of split interest agreements	(15,659.23)
Net loss on investments	17,909.46
Donated assets	(71,297.17)
Increase in accounts receivable	(10,933.33)
Increase in inventory	(34,252.96)
Increase in deposits	(101,150.75)
Increase in prepaid expense	(14,247.49)
Decrease in accounts payable	(552,929.31)
Increase in funds due to other ministries	24,655.00
Increase in liability for future medical claims	37,399.30
Increase in accrued wages, taxes and other	26,708.81
Increase in accrued interest payable	10,585.00
Decrease in liabilities under unitrust agreements	(2,204.00)
Decrease in contributions restricted to investment in equipment	382,287.04

**Net Cash Provided by Operating Activities** \$ 2,407,850.24

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

1. SIGNIFICANT ACCOUNTING POLICIES

- a. Nature and purpose of operations. Three Angels Broadcasting Network, Inc. is an Illinois nonprofit corporation chartered March 26, 1985. Its purpose is exclusively religious in nature and includes, but is not limited to, the development, planning, promotion, production, and direction of all types of religious programming for electronic transmission for television and radio broadcasting throughout the world.  
  
The Organization's primary funding source is individual and corporate contributions.
- b. Principles of presentation. These financial statements are intended to present the financial position, results of operations and cash flows of Three Angels Broadcasting Network, Inc. in conformity with generally accepted accounting principles.
- c. Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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.
- d. Fixed assets and depreciation. Three Angels Broadcasting Network, Inc. reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Three Angels Broadcasting Network, Inc. reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Purchased fixed assets are carried at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives.
- e. Cash and cash equivalents. For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand, unrestricted cash in banks, and unrestricted cash invested in money market funds.
- f. Tax status. The Internal Revenue Service has determined that Three Angels Broadcasting Network, Inc. is an exempt organization within the meaning of Section 501(c)(3) of the Internal Revenue Code.
- g. Investments. The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.
- h. Inventories. Inventories are stated at the lower of cost or market, determined by the FIFO method.



- i. Accounts receivable. Accounts receivable are recorded at their net realizable values. Uncollectible accounts are written off in the year they are deemed uncollectible. Total accounts receivable are shown net of an allowance for uncollectible accounts of \$4,351.50.
- j. Self-Insurance program. The Organization maintains a self-insurance program to fund a portion of certain expected losses related to group health costs. Provisions for losses expected under this program are recorded based on estimates of the aggregate liabilities for known claims and estimated claims incurred but not reported.

**2. FIXED ASSETS**

Fixed assets and accumulated depreciation at December 31, 2000 are summarized as follows:

Land	\$ 568,564.87
Land improvements	170,909.30
Buildings	2,858,211.91
Houses	144,861.00
Downlink equipment	5,506,489.69
Broadcast and office equipment	5,839,314.15
Vehicles	1,482,718.91
Construction in progress	549,013.64
Assets held for sale	<u>93,457.05</u>
<b>Total</b>	<b>\$17,213,540.52</b>
Accumulated depreciation	<u>6,819,384.66</u>
<b>Fixed Assets - Net</b>	<b><u>\$10,394,155.86</u></b>

Depreciation expense for the year ended December 31, 2000 was \$1,482,975.57.

**3. INVESTMENTS**

The following investments consist of money market accounts, United States government securities, mutual funds, and equity securities.

Fair values of the investments were provided by dealer and bank quotes. Fair values and unrealized gains (losses) are summarized as follows:

	<u>Book Value</u>	<u>Fair Value</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>
Money market accounts	\$ 909,356.74	\$ 909,356.74	\$ -	\$ -
Government securities	1,145,550.06	1,161,572.86	16,022.80	-
Mutual funds	41,046.11	41,100.11	54.00	-
Equity securities	<u>14,043.17</u>	<u>12,197.35</u>	<u>-</u>	<u>1,845.82</u>
	<b><u>\$2,109,996.08</u></b>	<b><u>\$2,124,227.06</u></b>	<b><u>\$16,076.80</u></b>	<b><u>\$ 1,845.82</u></b>

The following summarizes investment return for the year ending December 31, 2000:

Interest income	\$ 43,497.15
Net unrealized gains	44,366.18
Net realized losses	<u>(62,275.64)</u>
<b>Total Return on Investments</b>	<b><u>\$ 25,587.69</u></b>

**4. LEASED PROPERTY**

Three Angels Broadcasting Network, Inc. leases transponder services and various parcels of land for the establishment of downlink installations under operating leases expiring in various years through 2008.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2000 for each of the next five years and in the aggregate are:

2001	\$1,974,349.67
2002	1,481,311.92
2003	997,841.72
2004	904,783.89
2005	320,665.87
Subsequent to 2006	<u>13,804.65</u>

Total minimum future rental payments \$5,692,757.72

Rental expense for the year ended December 31, 2000 was approximately \$2,229,800.00. These costs are included in various expense categories.

**5. LONG-TERM DEBT**

Following is a summary of long-term debt at December 31, 2000:

Note payable to individual, due within 30 days after demand, interest at 7.0% due quarterly. Debt is relieved in the event of lender's death. \$ 20,000.00

Line of credit payable to bank for maximum of \$251,573.33, due in monthly installments, interest at 7.50%, collateralized by real estate and rents/leases, due November 3, 2004. 99.99

Note payable to individual, due within 30 days after demand, interest at 6.00% due quarterly. Debt is relieved in the event of lender's death. 100,000.00

Less: Current maturities \$120,099.99  
120,000.00

Long-Term Portion of Debt \$ 99.99

Total interest expense for notes payable and other obligations during the year ended December 31, 2000 was \$19,822.71.

**6. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2000:

Downlink installations and equipment	\$ 250,777.69
Transponder fee - Asia	351,695.46
Miscellaneous projects	95,223.93
Contributions made for future periods	<u>1,051,195.80</u>
<u>Total</u>	<u>\$1,748,892.88</u>

**7. CONCENTRATION OF CREDIT RISK**

Three Angels Broadcasting Network, Inc. maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.00. At December 31, 2000, the Organization's uninsured cash balances were approximately \$1,587,000.00. The Organization also maintains cash balances in money market funds. Such balances are not insured. At December 31, 2000, cash balances in money market funds were approximately \$6,400.00.

**8. CONTRIBUTED ASSETS**

During the year ended December 31, 2000, the Organization received donated assets valued at \$71,297.00. The assets received are recorded at fair market value and are included in contribution revenue.

**9. ADVERTISING COST**

Advertising costs are charged to operations when incurred. Advertising costs for the year ended December 31, 2000 were \$60,145.23.

**10. SPLIT INTEREST AGREEMENTS**

Three Angels Broadcasting Network, Inc. is the beneficiary of several irrevocable charitable remainder unitrust agreements under which the assets funding the trusts were transferred to the Organization. Under these agreements, the Organization is to pay fixed amounts for specified periods of time to the donors. The assets received are recorded at fair market value in the financial statements. The liabilities under unitrust agreements are recorded at the present value of expected future cash flows to be paid to the donors. A discount rate of 7.0%, as established by the IRS, was used in calculating the present value of the liabilities under unitrust agreements. The present value calculations are based upon single or joint life expectancy as applicable.

The Organization is the beneficiary of several revocable trust agreements. Assets received under revocable trust agreements are recorded as assets and refundable advances at fair value when received. Contribution revenue for the assets received is recognized when the agreements become irrevocable or when the assets are distributed to the Organization for its unconditional use.

The Organization is the beneficiary of several charitable gift annuity agreements. Assets received under charitable gift annuity agreements are recorded as assets and liabilities at fair value when received. Contribution revenue is recognized upon death of the donor.

**11. LETTERS OF CREDIT**

At December 31, 2000, the Organization had a letter of credit issued for an amount up to \$54,000.00, none of which was drawn upon.

**SUPPLEMENTARY INFORMATION**

THREE ANGELS BROADCASTING NETWORK, INC.

SCHEDULE OF PROGRAM SERVICE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2000

Television and Radio Broadcasting Expenses

Advertising	\$ 60,195.23
Airtime	1,851,467.75
Broadcast services	49,319.63
Cable promotion and expense	22,431.18
Depreciation	1,482,975.57
Downlink	878,101.18
Dues	10,535.78
Love gifts	24,283.69
Newsletter	114,936.03
Program schedules	29,943.20
Provision for bad debts	4,351.50
Registration	19,618.07
Skyangel purchases	2,995,088.49
Special projects	924,392.39
Supplies - broadcasting	398,275.86
Telephone	191,380.38
Utilities	83,988.08
<b>Total Television and Radio Broadcasting Expenses</b>	<b><u>\$9,141,284.01</u></b>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.  
SCHEDULE OF SUPPORTING SERVICE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2000

<b>Management and General Expenses</b>	
Auto	
Camp meeting expense	\$ 19,968.72
Contract labor	22,882.71
Credit card fees	32,103.28
Insurance	66,743.43
Interest	388,089.17
Literature	19,822.71
Miscellaneous	139,459.55
Other	16,523.07
Postage	3,684.36
Professional fees	496,002.58
Repair and maintenance - Building	186,350.72
Repair and maintenance - Equipment	35,282.29
Rental expense	101,908.81
School subsidy	13,295.49
Small tools and equipment	17,088.79
Supplies - office	48,813.16
Taxes - payroll	131,420.74
Taxes - real estate	132,045.47
Travel	59,528.67
Trust promotion and expense	262,433.61
Wages	102,865.80
	<u>1,802,307.48</u>
<b>Total Management and General Expenses</b>	<b><u>\$4,098,620.61</u></b>

See accompanying notes.