

THREE ANGELS BROADCASTING NETWORK, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2006

RECEIVED

AUG 15 2007

DEPARTMENT OF JUSTICE
PORTLAND LEGAL

I N D E X

	<u>Page</u>
Independent Auditors' Report	1 - 2
FINANCIAL STATEMENTS AS AT OR FOR THE YEAR ENDED DECEMBER 31, 2006	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2006	
Schedule of Program Service Expenses	14
Schedule of Supporting Service Expenses	15

GRAY HUNTER STENN LLP

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

CERTIFIED PUBLIC ACCOUNTANTS

2602 WEST DEYOUNG ST., P.O. BOX 1728

MARION, ILLINOIS 62959-7928

(618) 993-2647 FAX (618) 993-3981

MARION, ILLINOIS
QUINCY, ILLINOIS

OAK BROOK, ILLINOIS
SYCAMORE, ILLINOIS

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, 2006, 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 fifth 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.

As discussed in Note 16 to the financial statements, the Organization does not report its investment in Three Angels T.V. and Radio Broadcast Network (Russia). All payments made to this branch are expensed when paid. In our opinion, accounting principles generally accepted in the United States of America require the branch be accounted for on a consolidated basis. The effects of that departure on the financial statements are not reasonably determinable.

The Organization's financial statements do not disclose a presentation of summarized financial data for Tres Anjos Broadcasting Network - LTDA, Association Three Angels Broadcasting Network, and 3ABN Philippines, Inc. This information is not available to the Organization. In our opinion, disclosure of this information is required to conform with accounting principles generally accepted in the United States of America.

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 and fourth 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 fifth 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, 2006, 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.

Gray Hunter Stenn LLP

Marion, Illinois
May 16, 2007

THREE ANGELS BROADCASTING NETWORK, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2006

ASSETS

Current Assets

Cash	\$ -
Contributions receivable (Note 12)	328,408.85
Contributions receivable - Bequests	105,627.11
Accounts receivable, net of allowance for uncollectible accounts of \$6,793.00 (Note 1)	288,788.11
Investments (Note 3)	68,377.25
Employee advances (Note 14)	7,436.35
Deposits	334,789.56
Inventory (Note 1)	707,964.30
Prepaid expenses	325,046.90
Assets held for sale	<u>628,422.00</u>

Total Current Assets **\$ 2,794,860.43**

Non-Current Assets

Cash restricted to investment in capital assets (Note 19)	\$ 494,508.15
Investments (Note 3)	3,998,817.20
Deposits	271,450.75
Revocable trusts (Note 11)	28,559,622.05
Charitable gift annuities (Note 11)	12,406,918.41
Property and equipment, less accumulated depreciation (Note 2)	<u>12,666,349.91</u>

Total Non-Current Assets **\$ 58,397,666.47**

Total Assets **\$ 61,192,526.90**

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 627,730.61
Accrued wages and vacation pay	200,569.94
Accrued sales and payroll taxes	30,791.05
Accrued interest	12,800.15
Accrued real estate tax	117,624.00
Deferred revenue	6,169.00
Current portion of long-term debt (Note 5)	440,000.00
Funds due to other ministries	26,699.58
Charitable gift annuities (Note 11)	494,421.44
Liabilities under unitrust agreements (Note 11)	<u>64,999.97</u>

Total Current Liabilities **\$ 2,021,805.74**

Long-term Liabilities

Long-term debt (Note 5)	\$ -
Refundable advances (Note 11)	28,559,622.05
Charitable gift annuities (Note 11)	12,822,586.52
Liabilities under unitrust agreements (Note 11)	<u>1,552,362.56</u>

Total Long-term Liabilities **\$ 42,934,571.13**

Total Liabilities **\$ 44,956,376.87**

Net Assets

Unrestricted	\$ 11,797,601.68
Temporarily restricted (Note 6)	<u>4,438,548.35</u>

Total Net Assets **\$ 16,236,150.03**

Total Liabilities and Net Assets **\$ 61,192,526.90**

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 9,687,311.68	\$ 3,516,520.49	\$ 13,203,832.17
Charitable gift annuities (Note 11)	1,871,288.00	-	1,871,288.00
Airtime and production fees	1,431,651.57	-	1,431,651.57
Sales of satellite equipment	1,164,615.08	-	1,164,615.08
Rental income	48,113.82	-	48,113.82
Investment income (Note 3)	10,333.09	-	10,333.09
Gain (loss) on disposal of assets	8,967.57	-	8,967.57
Net unrealized and realized gains and (losses) on investments	(217.51)	-	(217.51)
Change in value of split-interest agreements	(209,575.83)	55,358.74	(154,217.09)
Other	29,105.49	-	29,105.49
Net assets released from restrictions (Note 7)	<u>3,740,522.98</u>	<u>(3,740,522.98)</u>	<u>-</u>
Total Revenues and Other Support	<u>\$ 17,782,115.94</u>	<u>\$ (168,643.75)</u>	<u>\$ 17,613,472.19</u>
Expenses			
Program service			
Television and radio broadcasting	\$ 15,620,554.74	\$ -	\$ 15,620,554.74
Supporting service			
Management and general	<u>4,988,933.39</u>	<u>-</u>	<u>4,988,933.39</u>
Total Expenses	<u>\$ 20,609,488.13</u>	<u>\$ -</u>	<u>\$ 20,609,488.13</u>
Change in Net Assets	<u>\$ (2,827,372.19)</u>	<u>\$ (168,643.75)</u>	<u>\$ (2,996,015.94)</u>
Net assets, beginning of year as previously reported	\$ 14,863,131.26	\$ 4,607,192.10	\$ 19,470,323.36
Prior-period adjustments (Note 18)	<u>(238,157.39)</u>	<u>-</u>	<u>(238,157.39)</u>
Net assets, beginning of year as restated	<u>\$ 14,624,973.87</u>	<u>\$ 4,607,192.10</u>	<u>\$ 19,232,165.97</u>
Net assets, end of year	<u>\$ 11,797,601.68</u>	<u>\$ 4,438,548.35</u>	<u>\$ 16,236,150.03</u>

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Flows from Operating Activities:	
Cash received from contributors	\$ 16,784,083.76
Cash received from airtime and production fees	1,339,006.57
Cash received from sales	1,163,819.08
Rental receipts	48,113.82
Interest received	10,333.09
Other receipts	29,105.49
Cash paid to employees and suppliers	(4,764,827.75)
Cash paid for program service	(13,431,838.83)
Interest paid	(15,061.08)
Cash paid for school subsidy	(72,226.99)
Cash paid for rental and miscellaneous expense	(78,207.64)
	<u>1,012,299.52</u>
Net Cash Provided by Operating Activities	\$ 1,012,299.52
Cash Flows from Investing Activities:	
Purchases of property and equipment	\$ (1,028,387.54)
Proceeds from sales of property and equipment	9,600.00
Purchases of investments	(14,108.50)
Purchases of gift annuity assets	(4,016,695.54)
Proceeds from sales of investments	187,794.33
Proceeds from sales of gift annuity assets	2,520,287.50
Proceeds from assets held for sale	306,531.47
Transfer of restricted contributions to restricted cash	(53,707.45)
Release of restricted cash for designated purposes	182,877.26
Release of restricted cash for non-designated purposes	172,583.54
	<u>(1,733,224.93)</u>
Net Cash Used by Investing Activities	\$ (1,733,224.93)
Cash Flows from Financing Activities:	
Proceeds from notes payable	\$ 1,300,000.00
Retirement of notes payable	(900,000.00)
Contributions restricted for investment in equipment	53,707.45
	<u>453,707.45</u>
Net Cash Provided by Financing Activities	\$ 453,707.45
Net decrease in cash and cash equivalents	\$ (267,217.96)
Cash and cash equivalents at December 31, 2005	267,217.96
	<u>0</u>
Cash and cash equivalents at December 31, 2006	<u>0</u>
Reconciliation of Decrease in Net Assets to Net Cash Provided by Operating Activities:	
Decrease in net assets	\$ (2,996,015.94)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,915,982.04
Gain on disposal of fixed assets	(8,967.57)
Writedown of inventory	72,369.00
Provision for bad debts	6,793.00
Change in value of split-interest agreements	178,946.36
Contributions restricted to investment in equipment	(53,707.45)
Net unrealized and realized gains and losses on investments	217.51
Donated assets	(381,376.57)
Increase in accounts receivable	(92,645.00)
Increase in employee advances	(5,495.50)
Decrease in contribution receivable	203,332.41
Decrease in contribution receivable - Bequests	32,223.82
Decrease in inventory	8,918.86
Decrease in deposits	207,636.25
Increase in prepaid expense	(7,140.50)
Decrease in accounts payable	(96,528.22)
Decrease in funds due to other ministries	(5,916.16)
Decrease in liability for future medical claims	(50,232.61)
Decrease in accrued wages, taxes and other	(48,243.09)
Decrease in accrued interest payable	(24,729.27)
Increase in accrued real estate tax	12,266.61
Decrease in deferred revenue	(796.00)
Increase in charitable gift annuity liability	2,145,407.54
	<u>1,012,299.52</u>
Net Cash Provided by Operating Activities	\$ 1,012,299.52

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

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 sources are 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 U.S. 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. Property, equipment 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 of explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service. The Organization's policy is to capitalize fixed assets with a cost of \$500.00 or more. Purchased fixed assets are carried at cost. Donated fixed assets are carried at fair market value as of the contribution date. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized.
- 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. Inventory on hand includes satellite dishes, receivers, literature, and music compact discs. During the year ending December 31, 2006, inventory losses from write-down to market totaled \$72,369.00. Shipping costs on inventory are included in cost of goods sold.
- i. Accounts receivable. Accounts receivable are recorded at their net realizable values. The Organization provides an allowance for uncollectible accounts. The allowance for accounts receivable is based upon management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. The aging of the accounts receivable is reviewed on an annual basis for accounts deemed to be uncollectible.
- j. Restricted support. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. PROPERTY AND EQUIPMENT

Fixed assets and accumulated depreciation at December 31, 2006 are summarized as follows:

Land	\$ 842,687.77
Land improvements	534,046.94
Buildings	6,225,418.03
Houses	447,580.07
Downlink equipment	7,870,762.58
Broadcast and office equipment	12,611,811.81
Vehicles	1,468,521.30
Construction in progress	<u>156,367.83</u>
<u>Total</u>	<u>\$ 30,157,196.33</u>
Accumulated depreciation	<u>17,490,846.42</u>
<u>Fixed Assets - Net</u>	<u>\$ 12,666,349.91</u>

Depreciation expense for the year ended December 31, 2006 was \$1,915,982.04.

3. INVESTMENTS

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

Fair values of the investments were provided by dealer or bank quotes, or appraisals. 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	\$ 73,470.60	\$ 73,470.60	\$ -	\$ -
Government securities	808,818.03	804,339.35	1,298.68	5,777.36
Mutual funds	73,808.00	69,384.50	11.55	4,435.05
Real estate	<u>3,120,000.00</u>	<u>3,120,000.00</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>\$ 4,076,096.63</u>	<u>\$ 4,067,194.45</u>	<u>\$ 1,310.23</u>	<u>\$ 10,212.41</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ending December 31, 2006:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
- Interest income	\$ 10,333.09	\$ -	\$ 10,333.09
Net realized and unrealized gains (losses)	<u>(217.51)</u>	<u>-</u>	<u>(217.51)</u>
<u>Total Investment Return</u>	<u>\$ 10,115.58</u>	<u>\$ -</u>	<u>\$ 10,115.58</u>

4. LEASED PROPERTY

Three Angels Broadcasting Network, Inc. leases transponder services, various parcels of land for the establishment of downlink installations, and an aircraft under operating leases expiring in various years through 2011.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 2006 for each of the next five years and in the aggregate are:

2007	\$ 2,351,138.49
2008	2,252,076.12
2009	2,189,142.41
2010	1,168,192.12
2011	<u>282,911.26</u>
<u>Total minimum future rental payments</u>	<u>\$ 8,243,460.40</u>

Rental expense for the year ended December 31, 2006 was approximately \$3,674,814.51. These costs are included in various expense categories.

5. LONG-TERM DEBT

Following is a summary of long-term debt at December 31, 2006:

Note payable to bank, due January 18, 2007, plus interest at prime rate, secured by real estate	\$ 400,000.00
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
Note payable to individual, due upon demand, non-interest bearing. Debt is relieved in the event of lender's death.	10,000.00
Note payable to individual, due within 30 days after demand, interest at 6.80%, due quarterly. Debt is relieved in the event of lender's death	<u>10,000.00</u>
	\$ 440,000.00
<u>Less:</u> Current maturities	<u>440,000.00</u>
Long-Term Portion of Debt	<u>\$ -</u>

Total interest expense for notes payable and other obligations during the year ended December 31, 2006 was \$9,284.16

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2006:

Capital assets	\$ 1,123,885.44
Operations	52,097.44
Special projects and other	828,910.96
Charitable unitrusts	<u>2,433,654.51</u>
<u>Total</u>	<u>\$ 4,438,548.35</u>

7. RELEASE OF TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:

Capital assets	\$ 251,083.51
Operations	1,161,891.25
Special projects and other	1,805,234.02
Transponder fees	<u>522,314.20</u>
<u>Total</u>	<u>\$ 3,740,522.98</u>

8. 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, 2006, the Organization's uninsured cash balances were approximately \$271,172.34.

9. DONATED ASSETS

During the year ended December 31, 2006, the Organization received donated assets valued at \$381,376.57. The assets received are recorded at fair market value and are included in contribution revenue.

10. ADVERTISING COSTS

Advertising costs are charged to operations when incurred. Advertising costs for the year ended December 31, 2006 were \$101,051.10.

11. 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 certain 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. Discount rates range from 4.6% to 7.4% 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 annuities under which the assets funding the agreements 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 annuity liabilities are recorded at the present value of expected future cash flows to be paid to the annuity beneficiaries. Various discount rates are used in calculating the present values of the annuity liabilities. Present value calculations on some annuities are based upon single life expectancy, while others are based upon double life expectancy.

California requires gift annuity assets be maintained in separate reserve funds adequate to meet future payments under outstanding California annuity agreements. The Organization has separately invested funds sufficient to meet the California reserve requirements. A summary of gift annuity assets at December 31, 2006 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
California	\$ 5,048,702.37	\$ 4,996,983.85
All other states	<u>7,521,586.32</u>	<u>7,409,934.56</u>
<u>Total</u>	<u>\$ 12,570,288.69</u>	<u>\$ 12,406,918.41</u>

California requires that 50% of the required reserves be maintained in specified governmental fixed income investments. The remaining 50% can be invested in securities traded on the New York and American Stock Exchanges, regional exchanges, and NASDAQ.

12. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent December, 2006 contributions received in January, 2007.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments, none of which are held for trading purposes, include cash, investments, accounts receivable, contributions receivable, charitable gift annuities, accounts payable, notes payable, funds due to other ministries, accrued expenses, and liabilities under unitrust agreements. The Organization estimates that the fair values of all financial instruments at December 31, 2006, other than investments which are recorded at fair value, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimates, however, are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

14. RELATED PARTY TRANSACTIONS

The Organization regularly engages in transactions with various related parties. Following is a summary of related party transactions for the year ending December 31, 2006:

	<u>Due From</u>	<u>Contributions To</u>
Employee advances	\$ 7,436.35	\$ -
Three Angels T.V. and Radio Broadcast (Russia)	-	377,414.15
3ABN Philippines, Inc. (Philippines)	-	126,147.81
Association Three Angels Broadcasting Network (Peru)	-	16,876.00
Tres Anjos Broadcasting Network - LTDA (Brazil)	<u>-</u>	<u>30,805.11</u>
<u>Total</u>	<u>\$ 7,436.35</u>	<u>\$ 551,243.07</u>

Tres Anjos Broadcasting Network - LTDA (Brazil), Association Three Angels Broadcasting Network (Peru), and 3ABN Philippines, Inc. (Philippines) are separate legal entities. Three Angels Broadcasting Network, Inc. exercises control over these entities by providing the majority of their revenues. See Note 16 regarding Three Angels T.V. and Radio Broadcast Network (Russia).

The Organization periodically purchases books which are authored by a member of management. The books are purchased from the publisher for giveaway or for a suggested donation. For the year ending December 31, 2006, purchases of these books totaled \$2,982,793.71. Royalties are paid by the publisher to the author.

15. CONTINGENT LIABILITY

Management has agreed to return a portion of an \$800,000.00 contribution in the event of a major medical need by the donor.

16. BRANCH

The Organization established a branch of Three Angels Broadcasting Network, Inc. in Nizhny Novgorod, Russia. The official name of the branch is Three Angels TV & Radio Broadcasting Network. The branch is not a separate legal entity, and acts on behalf, by order, and under the responsibility of the Organization. The Organization pays for the majority of operating costs and capital improvements of the branch. All of these costs are expensed as incurred by the Organization. Transactions of the branch are not included in these financial statements.

17. SUBSEQUENT EVENTS

On April 19, 2007, Three Angels Broadcasting Network, Inc. and Amazing Facts issued a media release announcing that the two organizations have agreed to merge. The Board of Directors of Three Angels Broadcasting Network, Inc. approved the merger on April 16, 2007.

18. PRIOR-PERIOD ADJUSTMENTS

The Organization determined that the accrual for real estate taxes was understated for the year ended December 31, 2005, by \$105,357.39.

The Organization determined that Cost of Goods Sold – Satellite Equipment was understated for the year ended December 31, 2005, by \$132,800.00. This resulted in total liabilities being understated and net assets being overstated by \$132,800.00.

The Organization determined that Cash Restricted to Investment in Capital Assets was overstated for the year ended December 31, 2005, by \$133,777.60. This resulted in a reclassification between Cash Restricted to Investment in Capital Assets and Cash, with no effect on total assets, liabilities, net assets, or change in net assets.

19. RESTRICTED CASH

The Organization has not maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions. As of December 31, 2006, donations restricted for investment in capital assets totaled \$667,091.69 while total cash on hand was \$494,508.15.

SUPPLEMENTARY INFORMATION

RECEIVED

AUG 15 2007

DEPARTMENT OF JUSTICE
PORTLAND LEGAL

THREE ANGELS BROADCASTING NETWORK, INC.
SCHEDULE OF PROGRAM SERVICE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

Television and Radio Broadcasting Expenses

Airplane operation	\$ 929,066.75
Airtime	2,322,256.00
Auto	30,012.02
Broadcast services	444,984.12
Cable promotion	5,229.00
Contract labor	187,919.96
Cost of goods sold and given away - Satellite equipment	1,001,811.09
Cost of goods given away - Other	3,167,235.49
Depreciation	1,915,982.04
Downlink	1,064,810.77
Dues and subscriptions	2,695.16
-Inventory write-down	72,369.00
Music production	93,069.94
Newsletter	301,266.04
Registration	45,594.59
Special projects	768,798.15
Supplies - broadcasting	121,590.44
Telephone	180,321.85
Travel and entertainment	249,709.64
Utilities	213,446.14
Wages and benefits	<u>2,502,386.55</u>

Total Television and Radio Broadcasting Expenses **\$ 15,620,554.74**

See accompanying notes.

THREE ANGELS BROADCASTING NETWORK, INC.
SCHEDULE OF SUPPORTING SERVICE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

Management and General Expenses

Advertising and promotion	\$ 101,051.10
Auto	64,394.29
Bad debts	10,501.46
Bank and credit card fees	97,158.90
Camp meeting	37,286.58
Contract labor	1,756.00
Insurance	373,735.34
Interest	15,061.08
Love gifts	156,257.44
Miscellaneous	76,642.73
Postage	898,132.30
-Professional fees	193,411.68
Rental	1,564.91
Repair and maintenance - Building	91,919.36
Repair and maintenance - Equipment	140,212.80
School subsidy	72,226.99
Special projects	38,349.07
Supplies - office	190,097.50
Taxes - payroll	278,881.30
Taxes - real estate	125,437.94
Travel and entertainment	220,366.25
Trust promotion	162,830.24
Wages and benefits	<u>1,641,658.13</u>
Total Management and General Expenses	<u>\$ 4,988,933.39</u>

See accompanying notes.