



CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES

COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011





INDEPENDENT AUDITORS' REPORT

The Boards of Directors
Central Florida Educational Foundation, Inc. and Affiliates
Altamonte Springs, Florida

We have audited the accompanying combined and consolidated financial statements of Central Florida Educational Foundation, Inc. and Affiliates (collectively referred to herein as "the Organization"), which comprise the combined and consolidated statements of financial position as of December 31, 2012 and 2011, and the related combined and consolidated statements of activities and cash flows for the years then ended, and the related notes to the combined and consolidated financial statements.

Management's Responsibility for the Combined and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these combined and consolidated 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 and consolidated 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 and consolidated 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 audits to obtain reasonable assurance about whether the combined and consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined and consolidated financial statements referred to above present fairly, in all material respects, the combined and consolidated financial position of Central Florida Educational Foundation, Inc. and Affiliates as of December 31, 2012 and 2011, the combined and consolidated changes in its net assets and its combined and consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
October 16, 2013

BATTS MORRISON WALES & LEE, P.A. • CERTIFIED PUBLIC ACCOUNTANTS

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
 COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS		December 31,	
		2012	2011
ASSETS			
Cash and cash equivalents	\$	1,019,796	\$ 744,752
Cash held by trustees		—	1,025,000
Property and equipment, net		2,865,707	1,276,478
Broadcast licenses, net		4,362,299	4,362,299
Other assets		46,433	30,177
Total assets	\$	8,294,235	\$ 7,438,706
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$	32,688	\$ 73,003
Unearned revenue		19,452	123,700
Total liabilities		52,140	196,703
NET ASSETS			
Unrestricted		8,200,419	7,200,327
Temporarily restricted		41,676	41,676
Total net assets		8,242,095	7,242,003
Total liabilities and net assets	\$	8,294,235	\$ 7,438,706

The Accompanying Notes are an Integral
 Part of These Combined and Consolidated Financial Statements

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
 COMBINED AND CONSOLIDATED STATEMENTS OF ACTIVITIES

	For The Years Ended	
	December 31,	
	2012	2011
CHANGE IN UNRESTRICTED NET ASSETS		
Public support and revenue:		
Contributions	\$ 3,808,477	\$ 3,491,668
Sponsorship revenue	459,448	428,895
Rental income	287,000	57,000
Concert, event and other income	28,254	7,376
Total public support and revenue	4,583,179	3,984,939
Net assets released from restrictions:		
Satisfaction of use restrictions	—	28,583
Total public support and revenue and net assets released from restrictions	4,583,179	4,013,522
Expenses:		
Program activities	2,976,409	2,804,456
Supporting activities:		
General and administrative	506,687	523,797
Fundraising	99,991	94,932
Total supporting activities	606,678	618,729
Total expenses	3,583,087	3,423,185
Change in unrestricted net assets	1,000,092	590,337
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	—	(28,583)
Change in temporarily restricted net assets	—	(28,583)
CHANGE IN NET ASSETS	1,000,092	561,754
NET ASSETS - Beginning of year	7,242,003	6,680,249
NET ASSETS - End of year	\$ 8,242,095	\$ 7,242,003

The Accompanying Notes are an Integral
 Part of These Combined and Consolidated Financial Statements

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended	
	December 31,	
	2012	2011
OPERATING CASH FLOWS		
Cash received from contributors	\$ 3,808,477	\$ 3,491,668
Cash received from sponsorships, rent, concerts, events and other activities	670,454	587,876
Cash paid for operating activities and costs	(3,497,727)	(3,293,722)
Net operating cash flows	981,204	785,822
INVESTING CASH FLOWS		
Change in cash held by trustees	1,025,000	(1,025,000)
Purchases of and improvements to property and equipment	(1,731,160)	(168,013)
Net investing cash flows	(706,160)	(1,193,013)
NET CHANGE IN CASH AND CASH EQUIVALENTS	275,044	(407,191)
CASH AND CASH EQUIVALENTS - Beginning of year	744,752	1,151,943
CASH AND CASH EQUIVALENTS - End of year	\$ 1,019,796	\$ 744,752
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	\$ 1,000,092	\$ 561,754
Adjustments to reconcile change in net assets to net operating cash flows:		
Depreciation	141,931	126,542
Change in other assets	(16,256)	(2,981)
Change in accounts payable and accrued expenses	(40,315)	5,902
Change in unearned revenue	(104,248)	94,605
Net operating cash flows	\$ 981,204	\$ 785,822

The Accompanying Notes are an Integral
Part of These Combined and Consolidated Financial Statements

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

Central Florida Educational Foundation, Inc. (“CFEF”) is a not-for-profit Florida corporation. During 2010, CFEF transferred its operating assets and operating activities to Z Ministries, Inc. d/b/a Z88.3 (“Z Ministries”) in accordance with a corporate restructure. CFEF retained the broadcast license rights. Z Ministries, Inc. is a not-for-profit Florida corporation. CFEF and Z Ministries are dedicated to promoting the Christian life by playing positive Christian music, expounding Christian beliefs and promoting edifying activities twenty-four hours per day. CFEF and Z Ministries serve to uplift the body of Christ and be a light for the lost by sharing the saving knowledge of Jesus Christ. Z Ministries broadcasts to substantially all of Central Florida and is based in Altamonte Springs, Florida. The accompanying combined and consolidated financial statements include the accounts of CFEF and Z Ministries which have common boards of directors and operate under common management.

In conformity with accounting principles generally accepted in the United States, the combined and consolidated financial statements of the Organization also include the accounts of the following organizations, which are separate legal entities:

- Event Ministries, Inc. (“EM”) is a not-for-profit Florida corporation, whose purposes and activities include the operation of Christian musical concerts and special events related to the broadcasting of Z Ministries. EM carries out its purposes primarily by pursuing and organizing Christian music events. CFEF controls the appointment of EM’s board of directors.
- Easter Sunrise Service, Inc. (“ESS”) is a not-for-profit Florida corporation, whose purposes and activities include advancing the Christian faith through an annual Easter worship service. ESS shares a common board of directors and operates under common management with CFEF, Z Ministries and CMS.
- Charitable Ministry Support, Inc. (“CMS”) is a not-for-profit Florida corporation, whose purpose is to operate for the benefit of and to perform the functions of Z Ministries. CMS shares a common board of directors and operates under common management with CFEF, Z Ministries and ESS.

All significant interorganization balances and transactions have been eliminated in combination and consolidation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined and consolidated statements of activities as “net assets released from restrictions.”

Cash and cash equivalents

The Organization considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Cash held by trustees

Cash held by trustees was held in escrow at December 31, 2011 for the future purchase of a broadcasting tower. During 2012, CMS purchased land and a broadcasting tower for \$1,500,000.

Property and equipment

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using either a straight line or an accelerated method over the estimated useful lives of the related assets.

Unearned revenue

Unearned revenue consists primarily of sponsorship fees collected in advance of the related airtime.

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
 NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2012 and 2011, were restricted for the purchase of a vehicle.

Income taxes

CFEF, Z Ministries, EM, ESS and CMS are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to Florida law. The organizations are further classified as public charities and not private foundations for federal tax purposes. The organizations have not incurred any unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying combined and consolidated financial statements. The organizations have not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America. Federal and state tax authorities may generally examine the organizations' income tax positions or (if applicable) returns for periods of approximately three to six years.

Use of estimates

Management uses estimates and assumptions in preparing these combined and consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these combined and consolidated financial statements include those used in determining the useful lives of property and equipment and the determination of the useful lives of broadcast licenses. Actual results could differ from the estimates.

NOTE C – CONCENTRATION OF CREDIT RISK

CFEF, Z Ministries, EM, ESS and CMS maintain their cash and cash equivalents in deposit and escrow accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The organizations have not experienced any losses in such accounts, and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	December 31,	
	2012	2011
Land	\$ 1,298,435	\$ 250,000
Buildings and improvements	1,584,950	1,129,902
Broadcasting equipment	1,427,540	1,252,420
Office equipment	233,638	234,205
Vehicles	40,812	40,812
Total property and equipment	4,585,375	2,907,339
Less: Accumulated depreciation	(1,719,668)	(1,630,861)
Net property and equipment	\$ 2,865,707	\$ 1,276,478

Depreciation expense on property and equipment amounted to \$141,931 and \$126,542 during 2012 and 2011, respectively.

CENTRAL FLORIDA EDUCATIONAL FOUNDATION, INC. AND AFFILIATES
 NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – BROADCAST LICENSES

CFEF has purchased the broadcast license rights for various non-commercial radio broadcast licenses and construction permits, granted by the Federal Communications Commission (“the FCC”). As of December 31, 2012 and 2011, the carrying amount of all broadcast licenses was \$4,362,299. During a prior year, CFEF changed its assessment as to whether its broadcast licenses have finite or indefinite lives in accordance with accounting principles generally accepted in the United States, concluding that the licenses have indefinite lives. This change in accounting estimate was accounted for on a prospective basis. Accordingly, the net book value at the time of the change became the carrying amount of the licenses, which are no longer subject to amortization. The Organization’s future cash flows could be materially impacted by CFEF’s ability to extend or renew agreements related to its broadcast licenses.

NOTE F – ADVERTISING COSTS

Z Ministries uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. During 2012 and 2011, Z Ministries incurred total advertising costs of approximately \$502,000 and \$517,000, respectively. Such amounts are included in “program activities” expense in the accompanying combined and consolidated statements of activities.

NOTE G – LEASES

CFEF, Z Ministries and CMS lease tower and office space to several companies under non-cancelable operating leases. Following is a schedule by year of future minimum rentals to be received under the leases at December 31, 2012:

<u>Year Ending December 31,</u>		
2013	\$	128,000
2014		133,000
2015		129,000
2016		113,000
2017		118,000
Thereafter		<u>956,000</u>
Total	\$	<u>1,577,000</u>

NOTE H – COMMITMENTS

As of December 31, 2012, Z Ministries was obligated under various noncancellable contracts for advertising and promotions in the approximate amount of \$212,000.

NOTE I – SUBSEQUENT EVENTS

Subsequent to December 31, 2012, CFEF entered into a non-revolving line of credit with a bank up to \$1,190,000 for operating needs. The line of credit bears interest at 3.75% per annum. The interest rate adjusts at certain dates as described in the agreement. The line of credit requires monthly payments of interest only until August 2014. Monthly payments of principal and interest begin September 2014 and continue through maturity. A balloon payment is due at maturity in February 2018. The line of credit is secured by a mortgage and requires certain financial and other covenants, the most restrictive of which requires CFEF to maintain a minimum debt service coverage ratio as defined in the agreement.

The Organization has evaluated for possible financial reporting and disclosure subsequent events through October 16, 2013, the date as of which the combined and consolidated financial statements were available to be issued.