FINANCIAL STATEMENTS

John S. and James L. Knight Foundation
Years Ended Dec. 31, 2007 and 2006
With Report of Independent Certified Public Accountants

John S. and James L. Knight Foundation

Financial Statements

Years Ended Dec. 31, 2007 and 2006

Contents

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Report of Independent Certified Public Accountants

The Trustees
John S. and James L. Knight Foundation

We have audited the accompanying statements of financial position of the John S. and James L. Knight Foundation (the foundation) as of Dec. 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the foundation at Dec. 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Feb. 20, 2008

John S. and James L. Knight Foundation

Statements of Financial Position

	Dec. 31 2007	Dec. 31 2006
Assets		
Investments:		
Cash and cash equivalents	**$ 26,289,907**	$ 18,458,633
Interest, dividends, and other investment receivables	**32,674,034**	79,178,622
Fair value of derivative instrument	**9,697,607**	(1,807,168)
U.S. government and agency obligations	**226,278,458**	254,810,619
International bonds and other obligations	**83,607,004**	84,030,856
Corporate bonds and other obligations	**84,906,143**	67,936,849
Equity securities	**989,909,369**	757,886,057
Hedge fund investments	**481,245,730**	474,635,091
Alternative equity investments	**479,439,834**	421,566,126
Real estate investments	**117,192,054**	105,101,412
Total investments	**2,531,240,140**	2,261,797,097
Program-related investments	**1,666,666**	–
Beneficial interest in remainder trusts	**85,793,200**	80,827,304
Total assets	**$ 2,618,700,006**	$ 2,342,624,401
Liabilities and net assets		
Liabilities:		
Grants payable	**$ 116,044,991**	$ 76,363,523
Other liabilities	**3,550,539**	1,606,264
Pension and other postretirement benefits	**331,510**	843,896
Deferred taxes payable	**3,809,031**	2,399,297
Total liabilities	**123,736,071**	81,212,980
Net assets:		
Temporarily restricted	**85,793,200**	80,827,304
Unrestricted	**2,409,170,735**	2,180,584,117
Total net assets	**2,494,963,935**	2,261,411,421
Total liabilities and net assets	**$ 2,618,700,006**	$ 2,342,624,401

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Activities

	Year Ended Dec. 31	
	2007	**2006**
Changes in unrestricted net assets:		
Investment activity:		
Interest	**$ 21,599,813**	$ 20,034,804
Dividends	**20,736,664**	16,894,591
Net realized gain on sale of investments	**227,815,752**	191,819,821
Net change in fair value of investments	**143,024,653**	86,561,557
Less: investment expenses	**(9,903,166)**	(8,272,948)
Total investment activity	**403,273,716**	307,037,825
Contributions received	**304,573**	540,292
Total investment activity and other support	**403,578,289**	307,578,117
Grants approved and expenses:		
Transformation grants	**54,325,100**	16,670,000
Communities grants	**52,673,674**	27,872,100
Journalism Initiative grants	**34,056,090**	21,751,750
National Fund grants	**19,037,249**	5,965,000
Other grants	**1,975,965**	1,220,444
Grant forfeitures and other	**(1,156,897)**	(2,463,967)
Change in grant payable discount	**(5,057,923)**	606,600
Direct charitable activities	**3,438,497**	3,101,317
General and administrative expenses	**12,908,768**	11,015,462
Federal excise and other taxes, net	**3,751,930**	3,347,533
Total grants and expenses	**175,952,453**	89,086,239
Increase in unrestricted net assets from operating activities	**227,625,836**	218,491,878
Effect of adoption of recognition provision of SFAS No. 158	**–**	700,881
Pension and postretirement changes other than net periodic pension and postretirement costs	**(960,782)**	–
Increase in unrestricted net assets	**228,586,618**	217,790,997
Changes in temporarily restricted net assets:		
Change in value of beneficial interest in remainder trusts	**4,965,896**	9,457,599
Total increase in net assets	**233,552,514**	227,248,596
Net assets at beginning of year	**2,261,411,421**	2,034,162,825
Net assets at end of year	**$ 2,494,963,935**	$ 2,261,411,421

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Cash Flows

	Year Ended Dec. 31	
	2007	**2006**
Operating activities		
Change in net assets	**$ 233,552,514**	$ 227,248,596
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on sale of investments	**(227,815,752)**	(191,819,821)
Net change in fair value of investments	**(143,024,653)**	(86,561,557)
Change in value of beneficial interest in remainder trusts	**(4,965,896)**	(9,457,599)
Changes in operating assets and liabilities:		
Interest, dividends, and other investment receivables	**34,999,813**	(49,434,711)
Disbursements for program-related investments	**(1,666,666)**	–
Other assets	–	1,153,730
Grants payable	**39,681,468**	(29,419,095)
Deferred taxes	**1,409,734**	856,774
Pension and postretirement liability	**(512,386)**	941,999
Other liabilities	**1,944,274**	119,132
Net cash used in operating activities	**(66,397,550)**	(136,372,552)
Investing activities		
Proceeds from sale of investments	**642,696,730**	620,840,164
Purchases of investments	**(568,467,906)**	(529,004,410)
Net cash provided by investing activities	**74,228,824**	91,835,754
Net change in cash and cash equivalents	**7,831,274**	(44,536,798)
Cash and cash equivalents at beginning of year	**18,458,633**	62,995,431
Cash and cash equivalents at end of year	**$ 26,289,907**	$ 18,458,633

See accompanying notes.

1. The Organization

The John S. and James L. Knight Foundation (the foundation), a nonprofit corporation, promotes excellence in journalism worldwide and invests in the vitality of 26 U.S. communities.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents are composed of various operating accounts and highly liquid investments with original maturities of 90 days or less.

Property, Plant and Equipment

The foundation records property, plant and equipment as an expense in the year purchased. Property, plant and equipment purchased for 2007 and 2006 was approximately $394,000 and $132,000, respectively, of which approximately $364,000 and $121,000, respectively, are reflected in “General and administrative expenses” with the remainder being reflected in “investment expense” in the Statements of Activities.

Program-Related Investments (PRIs)

In accordance with Section 4944 of the Internal Revenue Code (the code), the foundation is permitted to make investments that are related to its philanthropic programs. These investments are anticipated to have a return lower than fair value. In the year of the investment, the foundation receives a credit toward its distribution requirement. In prior years, these investments were treated as grants in the year they were approved. To the extent the investment was recovered by the foundation, the recovery was recognized as a negative distribution. Recoveries were reflected in “Grant forfeitures and other” in the Statements of Activities.

“Program-related investments” in the Statements of Financial Position represents a below market rate loan with a principal amount of $2,500,000. This is a 13 year loan bearing interest at 1 percent per annum. The loan terms provide for interest payments only during the first 10 years and principal amortization in years 11 through 13. The foundation has open program-related investment commitments of approximately $833,000 as of Dec. 31, 2007. The foundation intends to hold this loan to maturity.

2. Significant Accounting Policies (continued)

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of investment activity and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Taxes

The foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments. The deferred federal excise tax in the accompanying financial statements represents tax provided on the net unrealized appreciation of investments.

Implementation of FASB Statement No. 158

On Sept. 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (Statement 158). Statement 158 requires entities to:

- Recognize the overfunded or underfunded status of a single employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the changes occur. The funded status of the plan is measured as the difference between the fair value of plan assets and the benefit obligation at the measurement date for each plan.

- Measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

All entities must implement the recognition and disclosure requirements related to the funding status for fiscal years ending after June 15, 2007, and the measurement date requirements for fiscal years ending after Dec. 15, 2008. As early adoption of Statement 158 was permitted by FASB, the foundation decided to adopt the provisions of Statement 158 for the fiscal year ended Dec. 31, 2006.

2. Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year's presentation.

Net Asset Accounting

The foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.

- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the foundation or that expire by the passage of time.

3. Investments

The investment goal of the foundation is to invest its assets in a manner that will achieve a total rate of return sufficient to replace the assets utilized for grants and expenses and to recoup any value lost due to inflation and to increase the spending power of the portfolio in a manner consistent with the risk and asset allocation parameters established by the investment committee. To achieve this goal, some investment risk must be taken. To minimize such risk, the foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the foundation's investment committee, which has oversight responsibility for the foundation's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category, and approves the investment strategies employed. The foundation has engaged Cambridge Associates LLC (Cambridge), an independent consulting firm, to execute the investment program, including the engagement of investment managers, legal advisers, and strategic allocations to index funds and limited partnerships. All financial assets are held in custody for the foundation in proprietary accounts by BNY Mellon, a major commercial bank, except those assets that have been invested in limited partnerships, hedge funds, or in certain products with multiple investors, such as index funds, all of which have separate custodial arrangements appropriate to their legal structure.

3. Investments (continued)

Approximately 53 percent and 49 percent of the foundation's total investments at Dec. 31, 2007 and 2006, respectively, are invested in institutional mutual funds, publicly traded securities that are listed on national exchanges, treasury and agency bonds of the U.S. government, bonds of sovereign foreign governments and investment and non-investment grade corporate bonds for which active trading markets exist. Such assets are valued at quoted closing prices at year end. Realized gains and losses and increases and decreases in fair value on such investments are reflected in the Statements of Activities.

Approximately 22 percent and 23 percent of the foundation's total investments at Dec. 31, 2007 and 2006, respectively, were invested in hedge funds and derivative instruments. The hedge funds utilize a variety of investment strategies which can be broadly categorized as absolute return and long/short equities strategies. The derivative instruments consisted of a "portable alpha" product and a swap agreement. These investments are not publicly listed or traded, and are not liquid investments. Each fund's investment manager calculates the fair value of investments on a monthly basis using the valuation guidelines stipulated in the respective investment agreements. Realized gains and losses and increases and decreases in fair value on the investments in hedge funds and derivative instruments are reflected in the Statements of Activities.

Approximately 24 percent and 23 percent of the foundation's total investments at Dec. 31, 2007 and 2006, respectively, were invested with numerous partnerships, in which the foundation is a limited partner, that specialize in making venture capital, buyout, distressed debt, and equity-based real estate investments. Such investments, typically investments in private equity or debt securities of companies or properties that are not publicly listed or traded, are not liquid investments. The value of such investments is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable company trade data, stipulated in the respective limited partnership agreements. The Dec. 31 valuations of the investments in limited partnerships are based upon the value determined by the partnerships' general partner as of Sept. 30, adjusted for capital contributions and distributions that occur during the quarter ended Dec. 31. These amounts may differ from values that would be determined if the investments in limited partnerships were publicly traded or if the Dec. 31 valuation amounts were currently available. Realized gains and losses and increases and decreases in fair value on the investments in limited partnerships are reflected in the Statements of Activities. All limited partnerships are audited annually by independent certified public accounting firms. As of Dec. 31, 2007, pursuant to its limited partnership agreements, the

3. Investments (continued)

foundation is committed to contributing approximately $357,770,000 in additional capital over the next 10 years to various partnerships. Unpaid commitments at Dec. 31, 2006, were approximately $314,972,000.

During 2006, the foundation sold all of its holdings in the common stock of Knight Ridder.

A detail of fair value and cost by investment class follows:

	Dec. 31, 2007		**Dec. 31, 2006**	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash and cash equivalents	**$ 26,289,907**	**$ 26,289,907**	$ 18,458,633	$ 18,458,633
Interest, dividends, and other investment receivables	**32,674,034**	**32,309,620**	79,178,622	77,720,723
Fair value of derivative instrument	**9,697,607**	**–**	(1,807,168)	–
U.S. government and agency obligations	**226,278,458**	**220,274,178**	254,810,619	259,379,428
International bonds and other obligations	**83,607,004**	**77,599,418**	84,030,856	83,302,780
Corporate bonds and other obligations	**84,906,143**	**85,513,951**	67,936,849	68,170,671
Equity securities	**989,909,369**	**810,011,749**	757,886,057	600,231,751
Hedge fund investments	**481,245,730**	**273,731,431**	474,635,091	294,803,297
Alternative equity investments	**479,439,834**	**542,467,642**	421,566,126	532,386,279
Real estate investments	**117,192,054**	**82,146,779**	105,101,412	87,413,906
Total	**$ 2,531,240,140**	**$ 2,150,344,675**	$ 2,261,797,097	$ 2,021,867,468

Highly liquid investments with original maturities of three months or less are reported as cash equivalents.

4. Derivative Financial Instruments

Some investment managers retained by the foundation have been authorized to use certain derivative financial instruments in a manner set forth by the foundation's written investment policy, specific manager guidelines, or partnership/fund agreement documents. Specifically, derivative financial instruments may be used for the following purposes: (1) currency forward contracts and options may be used to hedge nondollar exposure in foreign investments; (2) covered call options may be sold to enhance yield on major equity positions; (3) futures contracts may be used to equitize excess cash positions, rebalance asset categories within the portfolio, adjust risk exposures within the portfolio, or to rapidly increase or decrease exposure to specific investment positions in anticipation of subsequent cash trades; and (4) futures contracts and options may be used by hedge fund managers to hedge or leverage positions in portfolios in their respective funds. Authorization to use these derivative financial instruments currently is restricted to 26 hedge fund managers, who manage investments totaling approximately $481,246,000.

Cambridge is also authorized to use derivatives to execute certain investment strategies. Derivative financial instruments are recorded at fair value in the Statements of Financial Position with changes in fair value reflected in the Statements of Activities.

During 2007 and 2006, the foundation invested in a "portable alpha" product which is designed to provide a return in excess of a certain benchmark. The investment manager invests the principal in a basket of securities that replicates the benchmark, and then leverages the principal investment and invests in fixed income strategies. The foundation's equity investment is benchmarked to the Standard & Poor's 500 Index and is valued at approximately $27,039,000 at Dec. 31, 2007. The foundation's fixed income investment is benchmarked to the Lehman Brothers Treasury 5+Year Index and is valued at approximately $26,374,000 at Dec. 31, 2007. At Dec. 31, 2007 approximately $9,698,000, reflecting the fair value of the leveraged investments was reported on the Statements of Financial Position, and an equal amount was included in "Net change in fair value of investments" in the Statements of Activities.

4. Derivative Financial Instruments (continued)

During fiscal 2006, the foundation's exposure to commodities included an account administered by one manager to replicate the return of the Dow Jones AIG Commodity Index by using swaps. The account had a swap agreement with two counterparties. The agreements had three-month terms. The foundation invested collateral equal to the notional value of the swaps in an investment account also managed by this manager. At Dec. 31, 2006, the foundation was a party to swap agreements with a total notional value of approximately $80,000,000. At Dec. 31, 2006, no valuation adjustment was required related to the swap agreements.

The foundation had no futures contracts as of Dec. 31, 2007 or 2006.

In Cambridge's opinion, the use of derivative financial instruments in the foundation's investment program is appropriate and customary for the investment strategies employed. The foundation's management concurs with this opinion. Using those instruments reduces certain investment risks and generally adds value to the portfolio. The instruments themselves, however, do involve some investment and counterparty risk not fully reflected in the foundation's financial statements. Cambridge does not anticipate that losses, if any, from such instruments would materially affect the financial position of the foundation, and the foundation's management concurs.

5. Grants

The foundation records grants in full as expenses when approved. Grants payable at Dec. 31, 2007 and 2006, represents the present value of multiyear grants using a 7.25 percent and 8.25 percent discount rate, respectively. The foundation made grant payments of $121,267,122 and $104,310,919 in 2007 and 2006, respectively.

As of Dec. 31, 2007, the foundation had future grant commitments, which are scheduled for payment in future years as follows:

2008	$ 62,011,046
2009	41,335,206
2010	18,401,944
2011	8,815,117
2012	250,000
2013-16	890,000
	131,703,313
Discounted to present value	(15,658,322)
Grants payable	$ 116,044,991

6. Federal Excise and Other Taxes

The foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the code and, with the exception of unrelated business income from debt-financed, passive investments, is not subject to federal or state income tax. However, the foundation is classified as a private foundation and is subject to a federal excise tax of 2 percent (or 1 percent under certain circumstances) on net investment income and net realized gains, as defined by the code. The foundation expects to qualify for the 1 percent tax rate in 2007 and was subject to the 1 percent tax rate in 2006. An increase to the deferred excise tax provision of approximately $1,410,000 on net unrealized gains on investments was recorded during the year ended Dec. 31, 2007.

Total excise and other taxes paid by the foundation for the years ended Dec. 31, 2007 and 2006, amounted to approximately $2,856,000 and $2,544,000, respectively.

7. Employee Pension Plan and Other Postretirement Benefit Plans

The foundation sponsors a pension plan with defined benefit and cash balance features for its eligible employees. The pension benefits for all employees hired prior to Jan. 1, 2000, will be the greater of the benefits as determined under the defined benefit feature of the pension plan or the cash balance feature of the pension plan. The pension benefits for all employees hired on or subsequent to Jan. 1, 2000, will be determined under the cash balance feature of the pension plan. The foundation also sponsors postretirement medical and life insurance benefit plans.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

The following table sets forth the pension and other postretirement benefits plans' funded status and amounts recognized in the foundation's Statements of Activities and Financial Position:

	Pension Plan Year Ended Dec. 31		Other Postretirement Benefit Plans Year Ended Dec. 31	
	2007	**2006**	**2007**	**2006**
Funded status				
Fair value of plan assets	**$ 9,489,569**	$ 9,337,058	**$ 906,683**	$ 762,365
Benefit obligation	**(9,304,161)**	(9,536,751)	**(1,423,601)**	(1,406,568)
Funded status of the plan	**$ 185,408**	$ (199,693)	**$ (516,918)**	$ (644,203)
Prior service cost	**$ (136,060)**	$ (178,858)	**$ –**	$ –
Accumulated gain (loss)	**(27,945)**	(756,254)	**423,906**	234,231
Effect of FAS158 implementation on unrestricted net assets	**–**	(935,112)	**–**	234,231
Pension and postretirement changes other than net periodic pension and postretirement costs	**(164,005)**	–	**423,906**	–
Cumulative employer contribution in excess (deficiency) of net periodic benefit costs	**349,413**	735,419	**(940,824)**	(878,434)
Accrued benefit asset (liability) recognized in the statements of financial position (after FAS 158)	**$ 185,408**	$ (199,693)	**$ (516,918)**	$ (644,203)

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

	Pension Plan Year Ended Dec. 31		Other Postretirement Benefit Plans Year Ended Dec. 31	
	2007	**2006**	**2007**	**2006**
Components of net periodic benefit cost				
Service cost	**$ 466,228**	$ 463,735	**$ 217,424**	$ 180,825
Interest cost	**531,197**	499,207	**75,474**	67,584
Expected return on plan assets	**(684,586)**	(663,734)	**(62,189)**	(49,024)
Amortization of prior service cost	**42,798**	42,798	**–**	84,972
Recognized actuarial loss (gain)	**30,369**	76,305	**(10,740)**	–
Net periodic benefit cost	**$ 386,006**	$ 418,311	**$ 219,969**	$ 284,357
Actual return on plan assets	**$ 877,186**	$ 1,152,568	**$ 37,833**	$ 107,816
Employer contributions	**–**	–	**157,579**	130,688
Employee contributions	**–**	–	**8,740**	1,187
Benefits paid	**724,675**	640,232	**59,834**	32,855
Actuarial assumptions				
Discount rate	**6.32%**	5.75%	**6.52%**	5.75%
Expected return on plan assets	**8.00**	8.00	**8.00**	8.00
Rate of compensation increase	**5.00**	4.50	**5.00**	4.50
Health care cost trend rate assumptions				
Initial trend rate	**N/A**	N/A	**12.00%**	12.00%
Ultimate trend rate	**N/A**	N/A	**5.25**	5.25
Year ultimate trend is reached	**N/A**	N/A	**2014**	2014

The expected long-term rate of return on plan assets for determining net periodic pension cost is chosen by the foundation from a best estimate range determined by the actuary by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plan.

The calculations related to other postretirement benefit plans do not anticipate any savings from the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

Expected benefit payments are as follows:

	Pension Plan	Other Postretirement Benefit Plans
2008	$ 663,401	$ 50,572
2009	972,885	65,903
2010	655,551	75,665
2011	618,460	80,666
2012	902,971	92,152
2013-2017	5,530,054	561,336

During 2008, the foundation is not required to make any contributions to the pension or to the other postretirement benefit plans. The foundation may choose to make a contribution during 2008.

The investment goal for plan assets is to provide sufficient liquidity to meet payout requirements while maintaining safety of principal through prudent diversification. During 2007 asset allocation targets for the pension plan were large-cap domestic equity, 40 percent, small-cap domestic equity, 10 percent, international equity, 20 percent, domestic fixed income, 20 percent, and Treasury Inflation-Protected Securities, 10 percent. During 2007 asset allocation targets for the other postretirement benefit plans were large-cap domestic equity, 65 percent, small-cap domestic equity, 10 percent, international equity, 10 percent, domestic fixed income, 10 percent, and domestic high yield, 5 percent.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

A detail of the fair value of plan assets by investment class follows:

	Pension Plan		Other Postretirement Benefit Plans	
	Dec. 31		Dec. 31	
	2007	**2006**	**2007**	**2006**
Cash and cash equivalents	**$ 169,859**	$ 96,878	**$ 174,601**	$ 29,123
Interest, dividends and other investment receivables	**27,371**	25,905	**646**	104
U.S. government and agency obligations	**1,953,373**	1,760,568	**–**	–
Corporate bonds and other obligations	**701,285**	703,453	**72,946**	87,038
Equity securities	**6,637,681**	6,750,254	**658,490**	646,100
Total	**$ 9,489,569**	$ 9,337,058	**$ 906,683**	$ 762,365

In addition, the foundation sponsors a defined contribution plan for its eligible employees for which it has no fixed liabilities. Effective Jan. 1, 2002, the foundation's defined contribution plan was amended to add an employer matching contribution component. During 2007 and 2006, the foundation made contributions to the defined contribution plan of approximately $177,000 and $155,000, respectively.

8. Leases

The foundation has a lease for approximately 21,300 square feet of office space in Miami, Florida, which expires in 2013. The foundation also had one equipment lease, which expired in 2006. Rental expense for office and equipment leases for 2007 and 2006 was approximately $897,000 and $799,000, respectively. Future minimum lease payments for the office lease are as follows:

2008	$ 721,029
2009	736,993
2010	752,957
2011	768,921
2012	784,884
2013	459,401
Total	$ 4,224,185

9. Beneficial Interest in Remainder Trusts

The foundation has a beneficial interest in charitable remainder trusts established by John S. Knight. Under the terms of the trusts, distributions are made from the trusts to designated beneficiaries for the remainder of their lives. The remainder of the assets in the trusts will be transferred to the foundation. All of the assets of the trusts are administered and held in the custody of First Merit bank. The trusts were established in 1975 and became irrevocable in 1981.

The foundation values its interest in the trusts using the methodology described in the National Committee on Planned Giving's 2007 publication, *Valuation Standards for Charitable Planned Gifts*. This methodology is a two-step process starting with the fair market value of the assets. The first step uses a 5 percent payout rate, life expectancy based on IRS Mortality Tables, and assumed investment returns to determine the value of the interest at its projected termination. The second step discounts this future value using the Consumer Price Index. As of Dec. 31, 2007 and 2006, the value of the foundation's estimated interest in the remainder trusts was approximately $85,793,000 and $80,827,000, respectively.

10. Contributions Received

During 2007, the foundation received a grant commitment of $480,000 from a private for-profit corporation, of which $300,000 has been received. The outstanding grant commitment of $180,000 will be received by the foundation by Oct. 2008. The foundation has agreed to use the funds to supplement a grant made by the foundation to a journalism grantee. Accordingly, the foundation made a payment to the grantee for $300,000 after receiving the contribution payment. The foundation did not incur any fundraising or collection costs association with this grant.