

# **Educational Media Foundation**

**Rocklin, California**

CONSOLIDATED FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT

**December 31, 2015**



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I S O M

# Educational Media Foundation

## TABLE OF CONTENTS

December 31, 2015

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|  | <b>Page<br/>Number</b> |
|--|------------------------|
| Independent Auditors' Report                   | 1                      |
| Consolidated Statement of Financial Position   | 3                      |
| Consolidated Statement of Activities           | 4                      |
| Consolidated Statement of Natural Expenses     | 5                      |
| Consolidated Statement of Cash Flows           | 6                      |
| Notes to the Consolidated Financial Statements | 8                      |

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Educational Media Foundation  
Rocklin, California

We have audited the accompanying consolidated financial statements of Educational Media Foundation and subsidiaries (EMF), which comprise the consolidated statement of financial position as of December 31, 2015; the related consolidated statements of activities, natural expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**INDEPENDENT AUDITORS' REPORT**

(Continued)

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Educational Media Foundation and subsidiaries as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*KCoe Jam, LLP*

May 11, 2016  
Chico, California

**Educational Media Foundation**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

December 31, 2015

**ASSETS**

**Current Assets**

|                                     |               |
|-------------------------------------|---------------|
| Cash and cash equivalents           | \$ 23,040,603 |
| Unconditional promises to give      | 2,401,304     |
| Prepaid expenses                    | 1,388,536     |
| Current portion of notes receivable | 48,006        |
| Inventories                         | 1,724,713     |
| Other receivables                   | 723,302       |

**Total Current Assets** 29,326,464

**Property and Equipment**

Net of accumulated depreciation 52,235,340

**Other Assets**

|  |             |
|--|-------------|
| Deposits and other                           | 2,262,459   |
| Notes receivable - net of current portion    | 160,754     |
| Long-term investments                        | 27,730,096  |
| Bond issuance costs - net                    | 795,533     |
| FCC licenses, permits, and application costs | 363,832,302 |
| Trademarks                                   | 623,379     |

**Total Other Assets** 395,404,523

**TOTAL ASSETS** \$ 476,966,327

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

|  |              |
|--|--------------|
| Accounts payable and accrued expenses      | \$ 7,189,999 |
| Current portion of bonds and notes payable | 19,100,376   |

**Total Current Liabilities** 26,290,375

**Long-Term Debt**

Net of current portion 42,408,985

**Total Liabilities** 68,699,360

**Net Assets**

|                                   |             |
|-----------------------------------|-------------|
| Unrestricted net assets:          |             |
| Board designated                  | 6,699,136   |
| Undesignated                      | 400,103,568 |
| Temporarily restricted net assets | 1,464,263   |

**Total Net Assets** 408,266,967

**TOTAL LIABILITIES AND NET ASSETS** \$ 476,966,327

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

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

Year Ended December 31, 2015

**UNRESTRICTED NET ASSETS**

**Revenue, Support, and Gains**

|                                       |                |
|---------------------------------------|----------------|
| Contributions                         | \$ 155,011,914 |
| Business underwriting grants          | 6,121,020      |
| Interest and dividend income          | 554,542        |
| Miscellaneous income                  | 5,115,827      |
| Net assets released from restrictions | 694,924        |

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**Total Revenue, Support, and Gains** 167,498,227

**Expenses and Losses**

|                        |            |
|------------------------|------------|
| Program services       | 93,212,337 |
| Supporting services:   |            |
| General administration | 10,796,531 |
| Fundraising            | 6,473,515  |

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**Total Expenses** 110,482,383

|                                    |           |
|------------------------------------|-----------|
| Net loss on disposal of assets     | 1,944,957 |
| Net loss on extinguishment of debt | 130,574   |

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**Total Losses** 2,075,531

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**Total Expenses and Losses** 112,557,914

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**Increase in Unrestricted Net Assets** 54,940,313

**TEMPORARILY RESTRICTED NET ASSETS**

**Revenue and Support**

|                                       |           |
|---------------------------------------|-----------|
| Contributions                         | 1,013,031 |
| Net assets released from restrictions | (694,924) |

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**Increase in Temporarily Restricted Net Assets** 318,107

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**Increase in Net Assets** 55,258,420

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**Net Assets - Beginning of Year** 353,008,547

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**Net Assets - End of Year** \$ 408,266,967

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

**Educational Media Foundation**  
CONSOLIDATED STATEMENT OF NATURAL EXPENSES

Year Ended December 31, 2015

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|                               |                       |
|-------------------------------|-----------------------|
| Payroll and related           | \$ 34,975,684         |
| Occupancy                     | 975,338               |
| Listener servicing            | 2,540,789             |
| Office                        | 4,248,018             |
| Programming                   | 619,088               |
| Website                       | 1,198,160             |
| Promotion and advertising     | 4,806,377             |
| Travel and entertainment      | 2,572,305             |
| Engineering                   | 15,539,029            |
| Donations                     | 231,800               |
| Interest                      | 2,545,499             |
| Administrative                | 2,220,094             |
| Computers and software        | 2,083,492             |
| Professional consulting       | 1,903,914             |
| Depreciation and amortization | 9,936,940             |
| Station operations            | 24,085,856            |
| <b>Total Expenses</b>         | <b>\$ 110,482,383</b> |

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

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

Year Ended December 31, 2015

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |               |
|---|---------------|
| Increase in net assets  | \$ 55,258,420 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |               |
| Depreciation  | 9,657,724     |
| Amortization  | 279,216       |
| Impairment charge on indefinite-lived assets  | 13,883,142    |
| Noncash contributions   | (40,690)      |
| Net loss on disposal of assets  | 1,944,957     |
| Net loss on extinguishment of debt  | 130,574       |
| Net change in operating assets and liabilities:   |               |
| Increase in unconditional promises to give  | (300,402)     |
| Increase in prepaid expenses  | (171,769)     |
| Increase in inventories   | (675,174)     |
| Decrease in other receivables   | 120,909       |
| Increase in deposits and other  | (3,422)       |
| Decrease in accrued interest on notes receivable  | 1,011         |
| Increase in accounts payable and accrued expenses   | 772,692       |

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 80,857,188

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |              |
|--|--------------|
| Payments for property and equipment                        | (12,166,356) |
| Payments for FCC licenses                                  | (38,677,918) |
| Payment for deposits on future acquisition of FCC licenses | (1,225,750)  |
| Proceeds from sale of assets                               | 634,687      |
| Principal payments received on notes receivable            | 20,200       |
| Net increase in long-term investments                      | (5,260,023)  |

**NET CASH USED BY INVESTING ACTIVITIES** (56,675,160)

**CASH FLOWS FROM FINANCING ACTIVITIES**

|   |              |
|---|--------------|
| Payments for bond issuance costs              | (4,000)      |
| Principal payments on bonds and notes payable | (22,072,260) |
| Payments of debt extinguishment costs         | (130,574)    |

**NET CASH USED BY FINANCING ACTIVITIES** (22,206,834)

**Increase in Cash and Cash Equivalents** 1,975,194

**Cash and Cash Equivalents - Beginning of Year** 21,065,409

**Cash and Cash Equivalents - End of Year** \$ 23,040,603

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



**Educational Media Foundation**  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Continued)

Year Ended December 31, 2015

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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

|                                    |              |
|------------------------------------|--------------|
| Cash payments for interest expense | \$ 2,601,677 |
|------------------------------------|--------------|

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**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND  
FINANCING ACTIVITIES**

|   |           |
|---|-----------|
| Deposits applied in the acquisition of FCC licenses and equipment | \$ 53,350 |
|---|-----------|

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

# Educational Media Foundation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements.

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

**Use of Estimates** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Principles of Consolidation** The consolidated financial statements include the accounts of EMF and its wholly owned subsidiaries: El Dorado Licenses, Inc.; Brockport Licenses, LLC; San Joaquin Broadcasting Company; EMF Corporation; EMF Property Holdings, LLC; K-LOVE/Air 1 Events, LLC; Crisis Response, LLC; and K-LOVE and Air 1 Foundation Trust. EMF is the sole stockholder of the corporations and the sole member of the LLC's. EMF Corporation is the sole trustee of the K-LOVE and Air 1 Foundation Trust. The subsidiaries have been organized and are operated primarily to support and carry out the purposes of EMF. All material inter-organizational transactions and balances have been eliminated in the consolidation.

**Fair Value of Financial Instruments** The carrying value of cash and cash equivalents, promises to give, notes receivable, and other short-term assets and liabilities approximate fair value as of December 31, 2015, due to the relatively short maturity of these instruments. The carrying amount of long-term debt reported in the statement of financial position approximates fair value because EMF can obtain similar loans at the same terms.

**Cash and Cash Equivalents** EMF considers time deposits, certificates of deposit, and all highly liquid debt instruments having an original maturity of three months or less to be cash equivalents.

**Inventories** Inventories, which consist primarily of broadcasting equipment parts, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

**Property and Equipment** Property and equipment purchased by EMF is recorded at cost. EMF capitalizes equipment with an acquisition cost in excess of \$5,000 and a useful life of more than one year. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years for equipment and 39 years for buildings and leasehold improvements.

**Notes Receivable** Notes receivable are recorded at the amortized amount due. In determining collectability, management takes into consideration such factors as debtor history, payment history, and existing economic conditions. Once a receivable is deemed uncollectible based on these factors, it is written off. Management has determined that no allowance for potentially uncollectible notes receivable was necessary at December 31, 2015.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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**Investments** Investments in money market funds, mutual funds, equity securities, debt and fixed income securities, and exchange traded funds with readily determinable fair values are presented in the consolidated financial statements at their fair values. Investments in real estate are presented at their appraised values. Unrealized gains and losses are included in the increase in net assets in the accompanying consolidated statement of activities.

**Donor Advised Funds** These assets represent amounts available for distribution in donor advised funds. The funds are established only for charitable, religious, or educational purposes and are used for the support of charitable organizations whose purposes are not inconsistent with those of EMF. Assets include the initial gift made in creating the fund and all income earned on the gift. EMF recognizes income when assets are contributed. The funds are the property of EMF and may be comingled with other funds held by EMF. EMF has ultimate authority and control over all property in the funds. For donor advised funds, donors typically recommend which other organizations should receive grants from their donor advised fund. EMF usually follows such recommendations, though it is not required to do so. All grants made by EMF to other organizations from donor advised funds are recorded as gifts to other ministries under program expenses. At December 31, 2015, EMF has \$19,109 in donor advised funds which have been included in temporarily restricted net assets.

**Intangible Assets** EMF classifies intangible assets as definite-lived or indefinite-lived. Definite-lived assets include primarily bond issuance costs. Bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Accumulated amortization of bond issuance costs was \$1,047,104 at December 31, 2015. Amortization expense was \$279,216 for the year ended December 31, 2015. Expected amortization expense for each of the next five years is as follows:

Year Ending December 31

|      |    |         |
|------|----|---------|
| 2016 | \$ | 279,502 |
| 2017 | \$ | 279,502 |
| 2018 | \$ | 161,440 |
| 2019 | \$ | 25,486  |
| 2020 | \$ | 23,778  |

EMF tests for possible impairment of definite-lived assets whenever events and circumstances indicate that amortizable long-lived assets might be impaired. When specific assets are determined to be unrecoverable, the cost basis is reduced to reflect the current fair market value.

EMF's indefinite-lived intangible assets include primarily Federal Communication Commission ("FCC") radio licenses, related construction permits and application costs, and trademarks. FCC radio licenses, construction permits, and application costs are recorded at cost. Construction permits and application costs represent legal and other related costs incurred to date to apply for FCC licenses and in preparation of going on the air.

Trademarks represent legal and other costs incurred in obtaining trademarks for the K-LOVE and Air 1 radio networks.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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EMF adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*, which provides guidance for the accounting treatment of goodwill and other intangibles and provides that goodwill and other intangibles with indefinite useful lives not be amortized; rather, they should be evaluated for impairment annually. FASB ASC 350 provides that intangible assets previously deemed to have indefinite lives be amortized over their useful lives once their lives are determined to no longer be indefinite.

EMF performed its annual impairment tests on its indefinite-lived assets on December 31, 2015, which resulted in a noncash impairment charge to station operations of approximately \$13,883,000. The impairment charge reduced the carrying value of thirteen stations currently carrying K-LOVE programming and eight stations carrying Air 1 programming, as well as various other station disposals.

**Income Taxes** EMF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. EMF has not entered into any activities that would jeopardize its tax-exempt status. EMF does enter into unrelated trade or business activities that result in unrelated business income. Historically, the expenses associated with this unrelated business income exceed the income. Accordingly, no provision for income taxes is recorded in the accompanying consolidated statement of activities.

EMF files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2012 and beyond, and the California returns for tax years 2011 and beyond, remain subject to examination by the taxing authorities.

EMF accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in EMF's consolidated financial statements and prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740, also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. EMF's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of December 31, 2015, and EMF does not expect this to change significantly over the next 12 months.

**Contributions** EMF receives the majority of its support from contributions received in response to periodic pledge drives for the K-LOVE and Air 1 radio networks. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, EMF reports the support as unrestricted. Unconditional promises to give are recorded as support when a valid pledge has been received. Intentions to give are recorded when the cash is received. No allowance for unconditional promises to give was deemed necessary at December 31, 2015.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

**Functional Allocation of Expenses** The costs of providing certain activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs of joint activities related to program services, general administration, and fundraising have been allocated, as indicated in note 12, among the ministry and supporting services benefited.

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

## 2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

December 31, 2015

|   |           |                    |
|---|-----------|--------------------|
| Broadcast equipment                       | \$        | 84,726,177         |
| Furniture and fixtures                    |           | 8,515,718          |
| Automobiles                               |           | 684,822            |
| Software                                  |           | 7,599,464          |
| Buildings                                 |           | 17,057,376         |
| Leasehold improvements                    |           | 940,604            |
| Land                                      |           | 6,078,154          |
| Capital projects in process               |           | 6,273,876          |
| <b>Total</b>                              |           | <b>131,876,191</b> |
| Less: Accumulated depreciation            |           | 79,640,851         |
| <b>Total Property and Equipment - Net</b> | <b>\$</b> | <b>52,235,340</b>  |

Depreciation expense was \$9,657,724 for the year ended December 31, 2015.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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#### 3. FAIR VALUE AND INVESTMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that EMF has the ability to access.

*Level 2:* Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 inputs must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2015.

*Money Market Funds:* Amounts are interest-bearing deposit accounts. EMF does not consider these amounts for use in general operations; therefore, they are not classified as cash and cash equivalents.

*Mutual Funds and Equity Securities:* Each investor in a mutual fund will typically receive units of participation or shares in the mutual fund. These shares are valued daily, based on the underlying securities owned by the mutual fund, and are usually publicly traded equity securities. Equity securities are instruments that signify an ownership position in a corporation and represent a claim on its proportional share in the corporation's assets and profits. Ownership is determined by the number of shares an investor owns divided by the total number of shares outstanding. Equity securities are valued daily based on the closing market price in the active exchange markets.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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*Debt and Fixed Income Securities:* Corporate bonds, government bonds, and other debt and fixed income securities are generally valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value. Each bond series has a unique set of variables including coupon payment, number of payments, interest rate, and the maturity value. These factors are used to determine the estimated market value and can be determined daily.

*Real Estate:* Amounts are carried at the fair market value of the interests as of the dates the interests were donated and are periodically adjusted upon the performance of an appraisal or a letter of intent to purchase.

*Exchange Traded Funds:* Exchange traded funds are evaluated based on the underlying securities and presented as either equity securities or debt and fixed income securities. Accordingly, the value of these funds is determined through the methods described above.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although EMF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Alternative Investments** When a readily determinable fair value does not exist, the assets are referred to as alternative investments. Generally, investments classified in the fair value hierarchy as Levels 2 and 3 are considered to be alternative investments. The estimated fair values may differ significantly from the value that would have been used had ready markets for the investments existed, and the difference could be material.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The following table sets forth by level, within the fair value hierarchy, EMF's investments at fair value:

| December 31, 2015                              | Level 1              | Level 2     | Level 3             | Total                |
|--|----------------------|-------------|---------------------|----------------------|
| <b>Investments</b>                             |                      |             |                     |                      |
| Money market funds                             | \$ 1,344,076         | \$ -        | \$ -                | \$ 1,344,076         |
| Mutual funds by investment objective:          |                      |             |                     |                      |
| Growth funds                                   | 939,341              | -           | -                   | 939,341              |
| Blend funds                                    | 1,207,835            | -           | -                   | 1,207,835            |
| Bond and fixed income funds                    | 1,725,848            | -           | -                   | 1,725,848            |
| Equity securities by industry type:            |                      |             |                     |                      |
| Healthcare                                     | 1,600,265            | -           | -                   | 1,600,265            |
| Consumer staples                               | 1,235,226            | -           | -                   | 1,235,226            |
| Information technology                         | 3,266,187            | -           | -                   | 3,266,187            |
| Consumer discretionary                         | 1,977,101            | -           | -                   | 1,977,101            |
| Industrials                                    | 1,515,970            | -           | -                   | 1,515,970            |
| Materials                                      | 620,844              | -           | -                   | 620,844              |
| Financial                                      | 2,715,202            | -           | -                   | 2,715,202            |
| Telecommunications services                    | 579,881              | -           | -                   | 579,881              |
| Utilities                                      | 244,928              | -           | -                   | 244,928              |
| Energy   | 646,300              | -           | -                   | 646,300              |
| Commodities                                    | 172,907              | -           | -                   | 172,907              |
| Real estate                                    | 638                  | -           | -                   | 638                  |
| Debt and fixed income securities:              |                      |             |                     |                      |
| U.S. Treasury                                  | 2,322,345            | -           | -                   | 2,322,345            |
| Corporate                                      | 1,827,934            | -           | -                   | 1,827,934            |
| Mortgage backed securities                     | 197,523              | -           | -                   | 197,523              |
| Municipal bonds - general obligation uninsured | 513,542              | -           | -                   | 513,542              |
| Municipal bonds - revenue                      | 516,950              | -           | -                   | 516,950              |
| Other bonds                                    | 142,253              | -           | -                   | 142,253              |
| Real estate                                    | -                    | -           | 2,417,000           | 2,417,000            |
| <b>Total Assets at Fair Value</b>              | <b>\$ 25,313,096</b> | <b>\$ -</b> | <b>\$ 2,417,000</b> | <b>\$ 27,730,096</b> |

The table below sets forth a summary of changes in the fair value of EMF's Level 3 investments:

|                                    | Level 3             |
|------------------------------------|---------------------|
| <b>Balance - December 31, 2014</b> | \$ 2,417,000        |
| Unrealized gain (loss)             | -                   |
| <b>Balance - December 31, 2015</b> | <b>\$ 2,417,000</b> |



## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Capitalized FCC licenses, permits, and application costs for stations and translators consist of the following:

December 31, 2015

|   |                       |
|---|-----------------------|
| Operating stations and translators                        | \$ 362,965,485        |
| Pending stations and translators                          | 866,817               |
| <b>Total FCC Licenses, Permits, and Application Costs</b> | <b>\$ 363,832,302</b> |

#### 5. LONG-TERM DEBT

Long-term debt consists of the following:

December 31, 2015

|  |                      |
|--|----------------------|
| Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging up to 5.75%, maturing at various dates through February 2023.   | \$ 21,127,992        |
| Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging from 7.00% to 8.00%, maturing at various dates through December 2033.   | 1,537,581            |
| Tax-exempt bonds payable, secured by commercial deeds of trust and security interests in personal property, due in aggregate monthly payments of approximately \$166,000, including interest at rates ranging from 3.98% to 4.24%, maturing at various dates through January 2019. | 5,583,788            |
| Tax-exempt bonds payable, secured by security interests in personal property, due in quarterly principal payments of \$2,376,031, plus interest at an effective rate of 2.76%, maturing in October 2018.   | 28,512,376           |
| Taxable bonds payable, secured by security interests in personal property, due in quarterly principal payments of \$353,969, plus interest at an effective rate of 3.79%, maturing in October 2018.  | 4,247,624            |
| <b>Balance Forward</b>   | <b>\$ 61,009,361</b> |

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

December 31, 2015

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|                                |               |
|--------------------------------|---------------|
| <b>Balance Brought Forward</b> | \$ 61,009,361 |
|--------------------------------|---------------|

Unsecured, subordinated adjustable rate promissory notes to be repaid on the stated maturity dates together with any accrued but unpaid interest. Interest on the unpaid principal is paid semi-annually, in arrears, on June 30 and December 31. The notes bear interest at rates equal to the lesser of 5.5% or 200 basis points above the yield paid on U. S. Treasury notes for the original term, as determined on the last day of the semi-annual interest period, effectively ranging from 3.26% to 3.79% at December 31, 2015. The notes mature on various dates through August 2016.

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|                             |               |
|-----------------------------|---------------|
| <b>Total Long-Term Debt</b> | 61,509,361    |
| Less: Current portion       | 19,100,376    |
| <b>Long-Term Debt - Net</b> | \$ 42,408,985 |

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Maturities of long-term debt are as follows:

Year Ending December 31

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|              |               |
|--------------|---------------|
| 2016         | \$ 19,100,376 |
| 2017         | 15,812,404    |
| 2018         | 15,661,426    |
| 2019         | 6,015,825     |
| 2020         | 1,578,963     |
| Thereafter   | 3,340,367     |
| <b>Total</b> | \$ 61,509,361 |

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EMF entered into financing agreements in connection with the tax-exempt and taxable bonds which require, among other things, that EMF maintain certain financial covenants, including:

- Leverage ratio of not more than 3.00 to 1.00 at any time.
- Debt service coverage ratio of not less than 1.50 to 1.00 for each fiscal year.
- Collateral coverage ratio of not less than 2.00 to 1.00 at any time.
- Unencumbered assets of not less than \$45,865,854 at any time.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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#### 6. OPERATING LEASES

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

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

| Year Ending December 31 |                      |
|-------------------------|----------------------|
| 2016                    | \$ 9,934,276         |
| 2017                    | 8,278,577            |
| 2018                    | 6,429,735            |
| 2019                    | 5,141,063            |
| 2020                    | 3,942,610            |
| Thereafter              | 7,106,423            |
| <b>Total</b>            | <b>\$ 40,832,684</b> |

Rent expense was \$8,818,986 for the year ended December 31, 2015.

#### 7. AFFILIATES AND COMMITMENTS

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

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

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

| Year Ending December 31 |                      |
|-------------------------|----------------------|
| 2016                    | \$ 3,821,791         |
| 2017                    | 3,312,113            |
| 2018                    | 1,799,954            |
| 2019                    | 867,880              |
| 2020                    | 697,607              |
| <b>Total</b>            | <b>\$ 10,499,345</b> |

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were \$5,261,920 for the year ended December 31, 2015.

#### 8. DESIGNATED NET ASSETS

The Board of Directors of EMF designates a portion of unrestricted net assets for future acquisitions and general reserves. The amount of this designation was \$6,699,136 at December 31, 2015.

#### 9. CONCENTRATIONS AND CONTINGENCIES

##### Credit Risk

EMF maintains its cash accounts in depositories that are insured by the FDIC, generally to \$250,000 per institution. As of December 31, 2015, \$23,114,892 of EMF's cash accounts in depositories was uninsured.

#### 10. RETIREMENT PLAN

EMF sponsors a 401(k) defined contribution retirement plan covering all employees who meet the plan's age and service requirements. Eligible employees may elect to make salary deferral contributions to the plan up to certain annual limits. EMF may elect to make discretionary matching contributions based on employee salary deferral contributions, discretionary profit sharing contributions, or a combination of both. Employer contributions to the plan were \$801,883 for the year ended December 31, 2015.

## Educational Media Foundation

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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#### 11. SELF-INSURED HEALTH PLAN

EMF provides a self-insured health plan for eligible employees. EMF has purchased stop-loss insurance in order to limit its exposure, which will reimburse EMF for claims incurred for an individual covered person exceeding \$125,000 annually, with an unlimited annual maximum benefit per covered person; or aggregate claims exceeding approximately \$4,763,000, up to a maximum reimbursement of \$1,000,000 annually. EMF funds its self-insurance obligations based on actual claims reported by the program's third-party administrator. Additionally, EMF has estimated a liability for claims incurred but not yet reported using industry averages and actual claim history, which is included in accrued expenses. At December 31, 2015, the accrued liability for self-insured claims incurred but not yet reported approximates \$817,000.

#### 12. JOINT COST ALLOCATION

EMF incurred expenses that were identifiable with a particular function but served joint purposes. Expenses related to certain donor communications jointly supported program services, general administration, and fundraising. These expenses were allocated by their functional classification as follows:

Year Ended December 31, 2015

|                        |           |                  |
|------------------------|-----------|------------------|
| Program services       | \$        | 458,951          |
| General administration |           | 273,643          |
| Fundraising            |           | 385,323          |
| <b>Total</b>           | <b>\$</b> | <b>1,117,917</b> |

#### 13. SUBSEQUENT EVENTS

On January 15, 2016, EMF acquired a radio station with a purchase price of \$12,000,000, which was paid in cash. EMF partially funded this payment with a new bank note payable of \$5,000,000. The new bank note is amortized over 36 months at a variable interest rate equal to the prime rate as published in the *Wall Street Journal* (3.5% at the date of issuance).

As of May 10, 2016, EMF has entered into agreements to acquire five radio stations in separate transactions with an aggregate purchase price totaling \$3,500,000. All transactions will be paid in cash.