FAMILY STATIONS, INC.

(A California Not-For-Profit Corporation)

And Its Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND DECEMBER 31, 2013

FAMILY STATIONS, INC.
And Its Affiliates

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DECEMBER 31, 2014 AND 2013

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Independent Auditors' Report

The Board of Directors
Family Stations, Inc.

We have audited the accompanying consolidated financial statements of Family Stations, Inc. (a California not-for-profit Corporation) and its affiliates, which comprise the consolidated statements of financial position as of December 31, 2014 and December 31, 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Family Stations Inc.'s management is responsible for the preparation and fair presentation of these 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 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 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 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 auditor's 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 the entity's preparation and fair presentation of the 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 entity'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Stations, Inc. and affiliates as of December 31, 2014 and December 31, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Schedule I and Schedule II starting on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RINA accountancy corporation

Certified Public Accountants

San Francisco, California
April 22, 2015

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS		December 31, 2014		December 31, 2013
CURRENT:				
Cash and cash equivalents		$ 32,677,017		$ 54,869,815
Investments		22,207		-
Funds held in trust		1,453,087		-
Receivables				
Accounts receivable		25,373		7,773
Bequest receivable		85,000		-
Officer and employees - receivable		6,453		11,157
Note receivable		18,000		19,000
Inventory for equipment on hand		12,530		12,530
Prepaid expenses		144,464		143,047
TOTAL CURRENT ASSETS		34,444,131		55,063,322
PROPERTY AND EQUIPMENT, net		6,268,931		6,675,683
OTHER:				
Federal Communications Commission licenses, net		37,476,824		38,966,600
Debt financing fees, net of amortization of $478,035 for 2014 and $118,277 for 2013		1,319,773		1,679,531
Charitable remainder trusts		143,767		569,339
Escrow deposits and prepaid expenses		684,382		36,882
		$ 80,337,808		$ 102,991,357
LIABILITIES				
CURRENT:				
Listener and sponsor notes payable		1,453,087		16,308,309
Accounts payable		114,675		145,970
Accrued liabilities		531,362		6,645,231
TOTAL CURRENT LIABILITIES		2,099,124		23,099,510
LONG-TERM:				
Term loan debt financing		39,860,225		35,358,051
Revolving loan debt financing		812,855		661,675
Accrued loan fees		47,263		14,084
TOTAL LIABILITIES		42,819,467		59,133,320
NET ASSETS				
Unrestricted	37,518,341		43,858,037	
Temporarily restricted	-		-	
Permanently restricted	-	37,518,341	-	43,858,037
		$ 80,337,808		$ 102,991,357

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2014		Year Ended December 31, 2013	
SUPPORT:				
Contributions	$ 5,409,709	93.9 %	$ 5,252,390	100.0 %
Program service fee	350,000	6.1	-	-
TOTAL SUPPORT	5,759,709	100.0	5,252,390	100.0
OPERATING EXPENSES:				
Broadcasting stations	5,890,149	102.3	7,787,671	148.3
Departments	4,431,517	76.9	6,049,597	115.2
TOTAL OPERATING EXPENSES	10,321,666	179.2	13,837,268	263.5
EXCESS OF OPERATING EXPENSES OVER SUPPORT	(4,561,957)	(79.2)	(8,584,878)	(163.5)
OTHER REVENUE (EXPENSES):				
Gain (loss) on sale of station licenses, property and equipment	(1,317,835)	(23.0)	41,805,602	795.9
Amortization of debt financing fees	(359,759)	(6.3)	(118,277)	(2.4)
Lease income and air time revenue	250,096	4.5	308,229	5.9
Unrealized gain on charitable remainder trust	1,306	0.0	90,938	1.7
Miscellaneous gain (loss)	(26,434)	(0.5)	9,155	0.2
Dividend and interest income	19,079	0.3	6,122	0.2
Unrealized loss on securities	(430)	(0.0)	-	-
Charitable remainder trust loss	(84,596)	(1.5)	-	-
Bad debt expense	(46,462)	(0.8)	(25,024)	(0.5)
Income and sales taxes recovery (expense)	5,434,695	94.4	(5,938,199)	(113.1)
Fees for sale of assets	(335,580)	(5.8)	(1,114,242)	(21.2)
Interest expense	(5,311,819)	(92.2)	(2,358,416)	(44.9)
INCREASE (DECREASE) IN NET ASSETS	(6,339,696)	(110.1) %	24,081,010	458.4 %
NET ASSETS, beginning of year	43,858,037		19,777,027	
NET ASSETS, end of year	$ 37,518,341		$ 43,858,037	

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014		Year Ended December 31, 2013	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase (decrease) in net assets		$ (6,339,696)		$ 24,081,010
Adjustments to reconcile changes in net assets to net cash used by operating activities:				
Depreciation and amortization	$ 989,426		$ 1,018,774	
Funds held in trust for others	(1,453,087)		-	
Loss (gain) on sale of property, equipment and station licenses	1,317,835		(41,805,602)	
Loss on disposition of charitable remainder trust - non-cash item	84,596		-	
Distribution of terminated charitable remainder trust	342,282		-	
Unrealized loss on marketable securities	430			
Donations of non-cash assets and promissory notes	(90,681)		(91,181)	
Capitalized interest on loan proceeds - non-cash item	4,603,354		1,381,918	
Unrealized gain on charitable remainder trusts	(1,305)		(90,939)	
Decrease (increase) in:				
Receivables	(97,897)		28,749	
Inventories	-		(12,530)	
Prepaid expenses	(1,417)		25,476	
Increase (decrease) in:				
Accounts payable	(31,295)		(169,209)	
Accrued liabilities	(5,990,009)	(327,768)	5,302,079	(34,412,465)
NET CASH USED BY OPERATING ACTIVITIES		(6,667,464)		(10,331,455)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of station licenses, property and equipment	297,000		50,298,401	
Acquisition of property, equipment and station licenses	(347,975)		(284,009)	
Acquisition of marketable securities	(22,637)			
Assets held for sale	-		10,365	
Debt financing fee	-		(1,797,808)	
Note receivable	1,000		(19,000)	
Increase in deposits and other prepaids	(647,500)		(1,647)	
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES		(720,112)		48,206,302
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from notes payable	50,000		34,640,420	
Payments on notes payable	(14,855,222)		(20,027,712)	
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES		(14,805,222)		14,612,709
NET INCREASE (DECREASE) IN CASH		(22,192,798)		52,487,556
CASH AND CASH EQUIVALENTS, beginning of year		54,869,815		2,382,259
CASH AND CASH EQUIVALENTS, end of year		$ 32,677,017		$ 54,869,815
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest		$ 708,465		$ 988,128
Income taxes		$ 105,286		$ 384,800

See notes to consolidated financial statements.

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

Family Stations, Inc. ("the Corporation") is a California not-for-profit corporation which proclaims the Christian message primarily through its radio and television broadcasting network. The Corporation accepts contributions from its listeners for its support.

Affiliated entities:

Family Stations of New Jersey, Inc. was incorporated in 1986 as a New Jersey not-for-profit corporation. A majority of its directors are members of the Board of Directors of Family Stations, Inc. Pursuant to the terms of the Financing Agreement described in Note 9, Family Stations of New Jersey formed two single member limited liability companies under Delaware law in 2013. Family License Co., LLC holds the WFME license and Family OpCo, LLC owns the remaining assets. Family Stations of New Jersey is the single member owner of each LLC.

Financial statement presentation:

For financial statement purposes all financial transactions are classified in accordance with professional accounting standards which require classification in one of three categories. The Corporation has three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, which consists of the following:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Corporation. There were no permanently restricted net assets at December 31, 2014 and December 31, 2013.

Temporarily restricted net assets – Net assets restricted by donor-imposed stipulations that either expire with the passage of time or the satisfaction of the stipulations by the Corporation. There were no temporarily restricted net assets at December 31, 2014 and December 31, 2013.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of the Corporation and its affiliate, Family Stations of New Jersey, Inc. Intercompany transactions and accounts have been eliminated.

Reclassifications:

Certain amounts appearing in the 2013 financial statements may have been reclassified to conform to the 2014 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Fair value measurements:

Professional accounting standards establishes a 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 are described as follows:

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan 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; • 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 input 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's 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 measure at fair value:

Equity securities and debt securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The Corporation invests in various investments. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

Income taxes:
The Corporation has received notice of exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code as well as exemption from the various states in which it operates.

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income taxes (Continued):

The Corporation recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of December 31, 2014 and December 31, 2013, the Corporation has had no uncertain tax positions. The Corporation recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. The Corporation is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. The Corporation's tax returns are generally subject to examination by federal and state taxing authorities for three and four years respectively.

Cash equivalents:

Cash equivalents are considered to be short-term, highly liquid investments with maturities of three months or less.

Accounts receivables:

The Corporation uses an allowance method of accounting for bad debts. The Corporation determined that no allowance was necessary for the year ended December 31, 2014 or December 31, 2013. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Assets held for sale or investment:

Donated assets that are held for sale or investment are recorded at the fair value of the item at the time of donation.

Depreciation:

The Corporation computes depreciation on its property and equipment using the straight-line method of accounting with useful lives of five to forty years.

Prepaid station acquisition costs:

Certain costs relating to the obtaining of Federal Communications Commission licenses are deferred until the status of the Corporation's FCC application is finalized. These costs are either (1) recorded as the cost of the license upon final FCC approval, or (2) recorded as an expense when the application is dismissed or abandoned. Costs treated in this manner include legal fees, engineering studies, and purchases of FCC construction permits from other parties. Primarily, internal costs relating to the acquisition of licenses, such as salaries of Corporation personnel, are charged to expense as incurred.

Recognition of support from contributions:

Mailed contributions were treated as receipts of the year in which the contributions were mailed. Gifts of assets are recorded at their estimated fair value when the Corporation is notified of the gift. Forgiven interest calculated on notes payable is at 6% and the interest amount is recorded as support from contributions when forgiven.

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Charitable remainder trusts:

The Corporation has been named as a beneficiary of two charitable remainder trusts which are administered by third parties. Payments are made to beneficiaries at 5% annually of the fair market value of trust assets until the death of the donor at which time the remaining assets will be distributed to the Corporation. The value of the trusts, using Level 3 methodologies, are reported based on the present value of the projected value of the trust at the estimated termination date, net of the present value of amounts due to the income beneficiaries over the term of the trust. The discount rate used in the present value calculation was 2 % with an assumed growth rate on investments of 5%. Changes in the calculated net present value are reported in the statement of activities annually.

Intangible assets:

Accounting principles generally accepted in the United States of America require that goodwill and intangible assets with indefinite lives are not amortized but reviewed annually for impairment. Intangible assets that are deemed to have a definite life are amortized over their useful lives.

Long-lived assets:

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Corporation places its cash and cash equivalents with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Corporation has not experienced any losses in such accounts.

Note 4. INVESTMENTS:

The following table sets forth by level, the Corporation's investment assets at fair value as of December 31, 2014 and 2013:

Assets at Fair Value as of December 31, 2014

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	$ 22,207	-	-	$ 22,207
Charitable remainder trusts	-	-	$ 143,767	143,767
Assets at fair value	$ 22,207	$ -	$ 143,767	$ 165,974

Note 4. INVESTMENTS (Continued):

Assets at Fair Value as of December 31, 2013

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Charitable remainder trusts	$ -	$ -	$ 569,339	$ 569,339
Assets at fair value	$ -	$ -	$ 569,339	$ 569,339

Level 3 Gains and Losses:
The following table sets forth a summary of changes in the fair value of level 3 assets for the year ended December 31, 2014:

	Charitable Remainder Trust
Balance, beginning of year	$ 569,339
Distribution	(342,282)
Realized loss at distribution	(84,595)
Unrealized gains relating to instrument still held at the reporting date	1,305
Balance, at end of year	$ 143,767

Note 5. PREPAID EXPENSES:
Prepaid expenses consist of the following at December 31, 2014 and December 31, 2013:

	2014	2013
Broadcasting costs	$ 30,851	$ 33,048
Insurance	33,242	28,000
Postage	54,267	61,072
Miscellaneous	26,104	20,927
Totals	$ 144,464	$ 143,047

FAMILY STATIONS, INC.
And Its Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2014 AND DECEMBER 31, 2013

Note 6. PROPERTY AND EQUIPMENT:

Property and equipment at December 31, 2014 comprised the following:

	Cost	Accumulated Depreciation	Net
Land and improvements	$ 2,208,841	$ 251	$ 2,208,590
Building	836,806	384,528	452,278
Leasehold improvements	2,545,407	2,482,746	62,661
Towers, transmitters, antenna systems and translators	8,875,533	6,434,536	2,440,997
Studio equipment	2,350,439	1,962,258	388,181
Office equipment	2,515,552	2,437,465	78,087
Automobiles	61,308	60,433	875
Satellite system	1,104,333	864,351	239,982
IT infrastructure & end-user	312,398	46,860	265,538
Construction in progress	131,742	-	131,742
Totals	$ 20,942,359	$ 14,673,428	$ 6,268,931

Property and equipment at December 31, 2013 comprised the following:

	Cost	Accumulated Depreciation	Net
Land and improvements	$ 2,208,841	$ 251	$ 2,208,590
Building	836,806	363,608	473,198
Leasehold improvements	2,531,220	2,473,362	57,858
Towers, transmitters, antenna systems and translators	9,054,476	6,134,479	2,919,997
Studio equipment	2,412,608	1,904,640	507,968
Office equipment	2,515,552	2,411,138	104,414
Automobiles	61,308	58,833	2,475
Satellite system	1,105,549	826,867	278,682
Construction in progress	122,501	-	122,501
Totals	$ 20,848,861	$ 14,173,178	$ 6,675,683

Note 7. FEDERAL COMMUNICATIONS COMMISSION LICENSES:

Prior to January 1, 2002, the costs of some of the Corporation's Federal Communication Commission licenses had been amortized by the Corporation on a straight-line basis over a period of forty years as required by generally accepted accounting principles then in effect. In accordance with accounting standards, this systematic amortization of license costs was discontinued. The Corporation evaluates these assets on an annual basis for potential impairment. The Corporation has determined that the value of these assets is not impaired as of December 31, 2014.

Note 7. FEDERAL COMMUNICATIONS COMMISSION LICENSES (Continued):

The aggregate station license costs and accumulated amortization are as follows:

	December 31, 2014	December 31, 2013
FCC licenses, cost	$ 39,963,603	$ 41,453,379
Less accumulated amortization	2,486,779	2,486,779
Net costs	$ 37,476,824	$ 38,966,600

Note 8. ACCRUED LIABILITIES:

Accrued liabilities consist of the following at December 31, 2014 and December 31, 2013:

	2014	2013
Interest payable	$ 4,131	$ 648,036
Vacation pay	193,833	231,566
Payroll and taxes	90,632	155,820
Accrued income taxes	-	5,525,454
Accrued state unemployment tax	120,337	-
Other	122,429	84,355
Totals	$ 531,362	$ 6,645,231

Note 9. NOTES PAYABLE:

On September 3, 2013, Family Stations of New Jersey, Inc. ("FSINJ") entered into a Financing Agreement with ("Lender").
Pursuant to the terms of the agreement, Lender extended credit to FSINJ consisting of (a) a revolving credit facility not to exceed $3,000,000 at any time and (b) a term loan in the aggregate amount of 34,000,000. Interest is payable at 12% annually, provided however, that interest is to be paid by capitalizing it quarterly to the outstanding principal amount outstanding under either the revolving credit facility or the term loan. The revolving credit facility and the term loan may be prepaid at any time without penalty.
Repayment of both loans is due September 3, 2017, however, the final maturity date may be extended to December 31, 2022 upon the provision of notice to the Lenders that the FCC Auction has not taken place. The FCC Auction refers to the FCC's proposed auction of broadcast television spectrum. FSINJ owns the license to WFME-TV and would be entitled to participate in the FCC Auction.

The revolving credit facility funds the ongoing operations of Family OpCo, LLC. The term loan has been made to facilitate the participation of the Lenders in the outcome of the FCC Auction as described below. The Financing Agreement is secured by the assets of FSINJ and the assets of the single member LLC's described below. As of December 31, 2014, there was $812,855 outstanding under the revolving credit facility and $39,860,225 outstanding under the term loan. As of December 31, 2013, there was $661,675 outstanding under the revolving credit facility and $35,381,918 outstanding under the term loan.

Note 9. NOTES PAYABLE (Continued):

In concert with the Financing Agreement, the parties also entered into a Participation Agreement. Under the terms of the Participation Agreement, FSINJ is obligated to sell to Lender all of FSINJ's share of license disposition proceeds. Upon completion of the FCC Auction, FSINJ is entitled to receive 14% of the proceeds of the FCC Auction (after payment of costs, expenses and transfer taxes). The remaining proceeds shall be used to repay amounts outstanding under the Financing Agreement and then to the Lenders.

FSINJ has also executed an option agreement with Lender pursuant to which Lender has the option to purchase all of FSINJ's WFME assets for $1 plus the assumption by Lender of FSINJ's obligations under the Financing Agreement, the Participation Agreement and all documents evidencing or securing any loan or obligation in connection therewith. The option may be exercised at any time from the date of the Financing Agreement until the earlier of (a) the date on which the WFME license is disposed of at the FCC auction or such other disposition as may be approved by the Lender, or (b) upon written notice of the Lender to FSINJ. The option agreement is secured by all of the assets of FSINJ and its subsidiaries.

Note 10. NOTES PAYABLE TO SPONSORS:

For the year ending December 31, 2014, management has classified notes payable to sponsors as current liabilities. On December 1, 2014 the Corporation retired all promissory notes. The $1,453,087 represents funds held in trust for disbursement and have been classified as a current liability.

The Corporation has the following combined notes payable at December 31, 2014 and December 31, 2013:

	2014 Total	2013 Total
Nonnegotiable, unsecured promissory notes issued to sponsors under State of California permits, payable on demand with interest rates from 4-8%	$ -	$ 91,613
Notes payable to sponsors, unsecured, with interest from 0% to 12%, payable in installments or with principal, due on demand	1,453,087	16,074,180
Notes payable to corporate officers, secured, with 0% interest, principal due on demand	-	142,516
Totals	$ 1,453,087	$ 16,308,309

Note 11. SALE OF STATION LICENSES:

During the year ended December 31, 2014, the Corporation sold the following stations and assets:

	Proceeds and Asset Exchanges	Book Value & Closing Costs	Gain/(Loss)
KKPM - CD	$ 100,000	$ 1,582,964	$ (1,482,964)
KBFR - FM	50,000	25,725	24,275
K290AG – Transmitter	30,000	723	29,277
K270AF – Transmitter	12,000	69	11,931
K223AL – Transmitter	55,000	4,215	50,785
W269AS – Transmitter	50,000	1,139	48,861
Total	$ 297,000	$ 1,614,835	$ (1,317,835)

During the year ended December 31, 2013, the Corporation sold the following stations:

	Proceeds and Asset Exchanges	Book Value & Closing Costs	Gain/(Loss)
WFME-FM	$ 42,373,011	$ 556,795	$ 41,816,216
WFTI-FM	2,500,000	47,768	2,452,232
KHFR-FM	475,000	28,434	446,566
WFRW-FM, KXBC-FM, & KIFR FM	655,000	188,459	466,541
WYFR-FM	1	774,965	(774,964)
KFTL -TV	6,650,000	8,067,861	(1,417,861)
Other- Fixed Asset	18,400	1,201,528	(1,183,128)
Total	$ 52,671,412	$ 10,865,810	$ 41,805,602

In February 2013, Polar Broadcasting sold its station license KFTL-TV and related equipment for $6,650,000. The transaction resulted in a taxable gain for Polar which incurred Federal and California income taxes of $490,086. Polar subsequently was liquidated effective June 30, 2013. In liquidation, Family Stations received repayment of advances of $4,323,064 and $750,516 proceeds on liquidation. The liquidation resulted in a loss of $6,264,444 for Family Stations, Inc. In consolidation, the net effect was a loss $1,417,861.

Note 12. LEASE INCOME AND AIR-TIME REVENUE:

Lease income:

The Corporation has entered into four contracts for tower share and leased space with different entities. Three of the leases, with revenue during the year ended December 31, 2014 of $17,500, $24,000 and $62,000, respectively, will terminate during 2016. One with yearly revenue of $146,000 in 2014 terminates in 2020.The Corporation received $250,096 and $283,881in gross revenue under these agreements during the years ended December 31, 2014 and December 31, 2013, respectively.

Television facilities:

On June 20, 1995, the Corporation entered into an agreement with , a commercial enterprise, to broadcast in the San Francisco Bay Area their programming for the presentation, promotion and sales of products using the frequency and facilities of the Corporation's television station KFTL-CA. This agreement automatically renews annually unless terminated by either party within four weeks of the end of the term. The Corporation received $0 and $24,348 in gross revenue under these agreements during the years ended December 31, 2014 and December 31, 2013, respectively.

Note 13. MUSIC ROYALTIES:

The Corporation receives royalty income from songs written and bequeathed by a donor. The Corporation recognized $12,288 and $9,167 of royalties from this income stream for the years ended December 31, 2014 and December 31, 2013, respectively. However, a value for the future royalty income payments cannot be reasonably estimated due to uncertainties concerning the lives remaining on the songs' copyrights, the number of songs in the bequest, and the amount of revenue to be generated from the songs.

Note 14. OPERATING EXPENSES:

Major categories of operating expenses are as follows:

	Years Ended December 31,	
	2014	2013
Program services	$ 7,618,231	$ 10,833,955
Management and general	1,773,244	1,998,124
Fund-raising	930,191	1,005,189
Totals	$ 10,321,666	$ 13,837,268

Note 15. RELATED PARTY TRANSACTIONS:

Certain corporate officers have loaned money to the Corporation totaling $0 and $142,516 for the years ended December 31, 2014 and December 31, 2013, respectively. These were interest free loans, and were paid back in full on January 1, 2014.

Notes payable to sponsors includes $0 and $115,063 owed to employees of the Corporation at December 31, 2014 and December 31, 2013, respectively. All notes held by sponsors were paid in full December 1, 2014. Interest paid on these loans during the years ended December 31, 2014 and December 31, 2013 amounted to $5,883 and $8,273, respectively.

Note 16. COMMITMENTS:

At December 31, 2014, the Corporation was leasing certain transmitter sites, office space, and satellite channels under long-term operating-type leases with expiration dates to 2031. The Corporation is liable for minimum annual rent payments as follows:

Year Ending December 31,	
2015	$ 1,105,342
2016	974,313
2017	826,689
2018	597,987
2019	380,214
Thereafter	614,916
Total	$ 4,499,461

Rent expense for the years ended December 31, 2014 and 2013 was $1,579,743 and $1,785,124 respectively.

Note 17. CONTINGENCIES:

The Corporation is party to various claims that arise in the normal course of business. Management believes that the resolution of any potential claims will not materially impact the financial position of the Corporation.

Note 18. SUBSEQUENT EVENTS:

The management has evaluated subsequent events through April 22, 2015, the date which the financial statements were available for issue, and believes the following required disclosure:

The Corporation entered into a purchase agreement on November 10, 2014 to purchase WQEW from

in the amount of $12,950,000. The FCC approved the purchase and the license and deed were transferred to the Company on February 20, 2015. The station went live the date of the transfer.

The Company is in the process of purchasing a new headquarters on 1350 South Loop Road in Alameda, CA for $3,850,000. The purchase agreement was executed on January 26, 2015. The Company expects to take title of the building on July 15, 2015.

FAMILY STATIONS, INC.
And Its Affiliates

SUPPLEMENTARY INFORMATION

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2014		Year Ended December 31, 2013	
WFME	Kisco, NY	$ 914,958	15.90 %	$ 1,138,610	21.68 %
KEAR-FM	San Francisco, CA	590,693	10.26	544,664	10.38
WKDN-AM	Philadelphia, PA	434,091	7.54	430,528	8.20
WFSI-AM	Baltimore, MD	351,065	6.10	378,873	7.21
KEBR-AM & KEAR FM	Sacramento, CA	274,928	4.77	213,704	4.07
			-		-
KFRN-AM	Long Beach, CA	248,158	4.31	270,127	5.14
WJCH-FM	Joilet, IL	180,040	3.13	163,851	3.12
KECR-AM	Lakeside, CA	178,130	3.09	177,472	3.39
WFRS-FM	Smithtown, NY	138,272	2.40	142,042	2.70
KEFR-FM	Le Grand, CA	117,988	2.05	88,376	1.68
			-		-
WJFR-FM	Jacksonville, FL	68,452	1.19	56,726	1.08
KYFR-AM	Shenandoah, IA	50,316	0.87	44,248	0.84
KPHF-FM	Phoenix, AZ	48,169	0.84	27,625	0.53
KTBX-FM	Beaumont, TX	46,846	0.81	35,376	0.67
WWFR-FM	Okeechobee, FL	46,145	0.80	44,181	0.84
			-		-
WCUE-AM	Cuyahoga Falls, OH	43,906	0.76	47,297	0.90
KDFR-FM	Des Moines, IA	38,841	0.67	41,801	0.80
KHAP-FM	Chico, CA	38,680	0.67	60,215	1.15
WMWK-FM	Milwaukee, WI	36,622	0.64	33,310	0.63
WFCH-FM	Charleston, SC	32,696	0.57	28,451	0.54
			-		-
WCTF-AM	Vernon, CT	29,059	0.50	17,966	0.34
WOTL-FM	Toledo, OH	28,830	0.50	19,307	0.37
KFNO-FM	Fresno, CA	26,671	0.46	24,769	0.47
WFRJ-FM	Johnstown, PA	25,938	0.45	20,097	0.38
KQFE-FM	Springfield, OR	25,601	0.44	18,292	0.35
			-		-
KUFR-FM	Salt Lake City, UT	25,008	0.43	2,328	0.04
KPRA-FM	Ukiah, CA	23,604	0.41	22,705	0.43
WFRH-FM	Kingston, NY	22,940	0.40	22,798	0.43
WFRC-FM	Columbus, GA	22,070	0.38	18,118	0.34
WBFR-FM	Birmingham, AL	18,288	0.32	7,687	0.15

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2014		Year Ended December 31, 2013	
KEDR	Bay City, TX	$ 17,046	0.30 %	$ 5,565	0.11 %
WFBF-FM	Buffalo, NY	16,720	0.29	15,791	0.30
WFUR-AM	Grand Rapids, MI	15,633	0.27	12,767	0.24
WMFL	Florida City, FL	13,377	0.23	2,699	0.05
KJVH-FM	Longview, WA	10,996	0.19	6,552	0.12
			-		-
WEFR-FM	Erie, PA	10,738	0.19	60,358	1.15
WFRP-FM	Americus, CA	10,445	0.18	7,016	0.13
WYTN-FM	Youngstown, OH	10,213	0.18	9,869	0.19
WYFR	Okeechobee, FL	5,590	0.10	39,232	0.75
KFRD	Butte, MT	3,726	0.06	-	-
			-		-
WOFR	Schoolcraft, MI	3,535	0.06	2,225	0.04
KARR-AM	Kirkland, WA	3,282	0.06	23,918	0.46
KPFR	Pine Grove, OR	3,070	0.05	-	-
KEAF	Fort Smith, AR	2,290	0.04	-	-
KBFR	Bismarck, ND	1,962	0.03	-	-
			-		-
KFRJ-FM	China Lake, CA	1,945	0.03	1,585	0.03
KFRE	Great Falls, MT	1,820	0.03	-	-
KYOR-FM	Newport, OR	1,390	0.02	-	-
KPOR-FM	Emporia, KS	1,235	0.02	-	-
KFRB-FM	Bakersfield, CA	1,015	0.02	105	0.01
			-		-
KXFR	Socorro, NM	677	0.01	-	-
KQKD-AM	Redfield, SD	596	0.01	-	-
KFRY	Pueblo, CO	595	0.01	-	-
KKAA-AM	Aberdeen, SD	380	0.01	-	-
WUFR	Bedford, PA	341	0.01	-	-
			-		-
KQFR-FM	Rapid City, SD	100	-	-	-
KFRS	Soledad, CA	25	-	-	-
WFRW-FM	Webster, NY	-	-	17,903	0.34
WFTI-FM	St. Petersburg, FL	-	-	54,831	1.04
KFTL-TV	Stockton, CA	-	-	4,600	0.09

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

	Year Ended December 31, 2014		Year Ended December 31, 2013	
SOUTH- Other *	$ 56,314	0.98 %	$ -	- %
WEST - Other*	10,767	0.19	-	-
NORTHEAST - Other*	7,106	0.12	-	-
Syndicated programming	4,465	0.08	6,878	0.13
Unclassified	60,643	1.05	293,782	5.59
Legacies & Royalties	562,176	9.76	470,218	8.95
Donated revenue	489,232	8.49	91,181	1.74
Program Service Fees	350,000	6.08	-	-
Gross Support from contributions	5,806,450	100.81	5,268,619	100.31
Contribution recalled or non-sufficient funds	(46,741)	(0.81)	(16,229)	(0.31)
TOTAL SUPPORT FROM CONTRIBUTIONS	5,759,709	100.0 %	5,252,390	100.0 %

* - Donations not specified to any certain station are classified by region.

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES - BROADCASTING STATIONS

	Year Ended December 31, 2014			Year Ended December 31, 2013		
PERSONNEL:						
Salaries and wages	$ 1,304,765	22.7	%	$ 1,884,200	35.9	%
Employee benefits	71,219	1.2		96,732	1.8	
Payroll taxes	213,971	3.7		221,390	4.2	
Totals	1,589,955	27.6		2,202,322	41.9	
DIRECT BROADCASTING:						
Rentals	1,435,202	24.9		1,700,597	32.4	
Utilities	585,755	10.2		737,750	14.0	
Depreciation	536,439	9.3		731,655	13.9	
Satellite Rental expense	292,895	5.1		385,843	7.3	
Service Monitor-Stations	275,926	4.8		452,993	8.6	
Telephone lines	245,780	4.3		293,768	5.6	
Time purchases	158,008	2.7		265,311	5.0	
Repairs and parts	46,806	0.8		61,887	1.2	
Automobile expenses	37,707	0.7		34,952	0.7	
Advertising	761	-		1,922	-	
Professional services	-	-		65,701	1.3	
Other expense	-	-		29,004	0.6	
Miscellaneous	-	-		9,221	0.2	
Totals	3,615,279	62.8		4,770,604	90.8	
GENERAL:						
Professional services	286,302	5.0		448,501	8.5	
Dues and fees	263,581	4.6		237,045	4.5	
Rentals and property taxes	97,604	1.7		51,373	1.0	
Travel and auto	17,416	0.3		31,411	0.5	
Office supplies, postage, and printing	14,386	0.2		42,496	0.8	
Repairs and maintenance	3,268	-		960	0.0	
Insurance	2,358	-		2,409	0.0	
Miscellaneous	-	-		550	-	
Totals	684,915	11.8		814,745	15.4	
TOTAL OPERATING EXPENSES - BROADCASTING STATIONS	$ 5,890,149	102.2	%	$ 7,787,671	148.1	%

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES - DEPARTMENTS

	Year Ended December 31, 2014		Year Ended December 31, 2013	
PERSONNEL:				
Salaries and wages	$ 1,308,542	22.7 %	$ 1,559,100	29.7 %
Payroll taxes	97,399	1.7	225,834	4.3
Employee benefits	158,856	2.8	146,179	2.8
Totals	1,564,797	27.2	1,931,113	36.8
DIRECT BROADCASTING:				
Professional services	71,296	1.2	625,567	11.9
Telephone lines	45,225	0.8	71,787	1.4
Depreciation	37,761	0.7	311,036	5.9
Repairs and parts	9,285	0.2	85,384	1.6
Travel	4,493	0.1	15,770	0.3
Miscellaneous	3,418	0.1	3,976	0.1
Totals	171,478	3.1	1,113,520	21.2
ADVERTISING AND PROMOTIONAL:				
Miscellaneous	2,338	-	830	-
Totals	2,338	-	830	-
GENERAL:				
Salaries and wages	1,148,966	19.9	1,319,969	25.1
Professional services	281,131	4.9	220,991	4.2
Utilities and telephone	275,021	4.8	335,586	6.4
Postage and printing for direct mail	250,649	4.4	210,775	4.0
Payroll taxes	229,693	4.0	228,245	4.3
Office supplies, postage and printing	184,896	3.2	51,033	1.0
Rents and property taxes	95,117	1.7	99,093	1.9
Employee benefits	69,933	1.2	99,362	1.9
Depreciation	49,816	0.9	49,218	0.9
Insurance	37,405	0.6	40,885	0.8
Repairs and maintenance	33,330	0.6	278,098	5.3
Dues and fees	30,487	0.5	56,676	1.1
Travel and auto	6,460	0.1	14,203	0.3
Totals	2,692,904	46.8	3,004,134	57.2
TOTAL OPERATING EXPENSES DEPARTMENTS	$ 4,431,517	77.1 %	$ 6,049,597	115.2 %

See notes to consolidated financial statements.