Family Radio

FAMILY STATIONS, INC.

(A California Not-For-Profit Corporation)

And Its Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND DECEMBER 31, 2014

RINA

accountancy corporation

FAMILY STATIONS, INC.
And Its Affiliates

TABLE OF CONTENTS
DECEMBER 31, 2015 AND 2014

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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, 2015 and December 31, 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Family Stations Inc.'s 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 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2015 and December 31, 2014, 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 consolidated financial statements as a whole. The accompanying supplementary information in Schedule I and Schedule II starting on page 18 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

RINA accountancy corporation

Certified Public Accountants

San Francisco, California
June 1, 2016

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS		December 31, 2015		December 31, 2014
CURRENT:				
Cash and cash equivalents		$ 16,084,929		$ 32,677,017
Investments		27,274		22,207
Funds held in trust		365,754		1,453,087
Receivables				
Accounts receivable		86,699		25,373
Bequest receivable		-		85,000
Employee receivables		8,738		6,453
Note receivable		17,000		18,000
Inventory for equipment on hand		12,530		12,530
Prepaid expenses		113,077		144,464
TOTAL CURRENT ASSETS		16,716,001		34,444,131
PROPERTY AND EQUIPMENT, net		15,734,980		6,268,931
OTHER:				
Federal Communications Commission licenses, net		44,192,019		37,476,824
Debt financing fees, net of amortization of $837,794 (2015) and $478,035 (2014)		960,014		1,319,773
Charitable remainder trusts		92,180		143,767
Escrow deposits and prepaid expenses		39,031		684,382
		$ 77,734,225		$ 80,337,808
LIABILITIES				
CURRENT:				
Accounts payable		$ 576,345		$ 114,675
Accrued liabilities		310,651		531,362
Tenant deposits		19,612		-
Listener and sponsor notes payable		365,754		1,453,087
Deferred revenue		200,000		-
TOTAL CURRENT LIABILITIES		1,472,362		2,099,124
LONG-TERM:				
Term loan debt financing		44,935,666		39,860,225
Revolving loan debt financing		1,036,809		812,855
Accrued loan fees		82,521		47,263
TOTAL LIABILITIES		47,527,358		42,819,467
NET ASSETS				
Unrestricted	30,206,867		37,518,341	
Temporarily restricted	-		-	
Permanently restricted	-		-	
		30,206,867		37,518,341
		$ 77,734,225		$ 80,337,808

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2015		Year Ended December 31, 2014	
SUPPORT AND REVENUE:				
Contributions	$ 6,134,822	93.9 %	$ 5,409,709	93.9 %
Program service fees	400,000	6.1	350,000	6.1
TOTAL SUPPORT	6,534,822	100.0	5,759,709	100.0
OPERATING EXPENSES:				
Broadcasting stations	5,406,083	82.7	5,890,149	102.3
Departments	3,956,780	60.6	4,431,517	76.9
TOTAL OPERATING EXPENSES	9,362,863	143.3	10,321,666	179.2
EXCESS OF OPERATING EXPENSES OVER SUPPORT	(2,828,041)	(43.3)	(4,561,957)	(79.2)
OTHER REVENUE (EXPENSES):				
Gain (loss) on sale of station licenses, property and equipment	838,378	12.7	(1,317,835)	(22.9)
Amortization of debt financing fees	(359,759)	(5.6)	(359,759)	(6.2)
Lease income and air time revenue	441,672	7.0	250,096	4.3
Unrealized (loss) gain on charitable remainder trust	(51,587)	(0.8)	1,306	0.0
Miscellaneous loss	(9,723)	(0.1)	(26,434)	(0.5)
Dividend and interest income	5,444	0.1	19,079	0.3
Unrealized gain (loss) on securities	5,067	0.1	(430)	(0.0)
Charitable remainder trust loss	-	-	(84,596)	(1.5)
Bad debt expense	-	-	(46,462)	(0.8)
Income and sales taxes recovery (expense)	(3,028)	(0.0)	5,434,695	94.4
Fees for sale of assets	(118,966)	(1.8)	(335,580)	(5.8)
Interest expense	(5,230,931)	(80.0)	(5,311,819)	(92.2)
DECREASE IN NET ASSETS	(7,311,474)	(111.9) %	(6,339,696)	(110.1) %
NET ASSETS, beginning of year	37,518,341		43,858,037	
NET ASSETS, end of year	$ 30,206,867		$ 37,518,341	

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2015		Year Ended December 31, 2014	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Decrease in net assets		$ (7,311,474)		$ (6,339,696)
Adjustments to reconcile changes in net assets to net cash provide (used) by operating activities:				
Depreciation and amortization	$ 999,133		$ 989,426	
Funds held in trust for others	1,087,333		(1,453,087)	
Loss (gain) on sale of property, equipment and station licenses	(838,378)		1,317,835	
Loss on disposition of charitable remainder trust - non-cash item	-		84,596	
Distribution of terminated charitable remainder trust	-		342,282	
Unrealized (gain) loss on marketable securities	(5,067)		430	
Donations of non-cash assets and promissory notes	-		(90,681)	
Capitalized interest on loan proceeds - non-cash item	5,199,395		4,603,354	
Unrealized (gain) loss on charitable remainder trusts	51,587		(1,305)	
Decrease (increase) in:				
Receivables	21,389		(97,897)	
Prepaid expenses	31,387		(1,417)	
Increase (decrease) in:				
Accounts payable	461,670		(31,295)	
Accrued liabilities	(185,453)		(5,990,009)	
Tenant deposits	19,612		-	
Deferred revenue	200,000		-	
		7,042,608		(327,768)
NET CASH USED BY OPERATING ACTIVITIES		(268,866)		(6,667,464)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of station licenses, property and equipment	1,853,246		297,000	
Acquisition of property, equipment and station licenses	(17,835,486)		(347,975)	
Acquisition of marketable securities	-		(22,637)	
Note receivable	1,000		1,000	
Decrease (increase) in deposits and other prepaids	645,351		(647,500)	
NET CASH USED BY INVESTING ACTIVITIES		(15,335,889)		(720,112)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from notes payable	100,000		50,000	
Payments on notes payable	(1,087,333)		(14,855,222)	
NET CASH USED BY FINANCING ACTIVITIES		(987,333)		(14,805,222)
NET DECREASE IN CASH		(16,592,088)		(22,192,798)
CASH AND CASH EQUIVALENTS, beginning of year		32,677,017		54,869,815
CASH AND CASH EQUIVALENTS, end of year		$ 16,084,929		$ 32,677,017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest		$ 5,360		$ 708,465
Income taxes		$ -		$ 105,286

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.

Basis of Accounting:

The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

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, 2015 and December 31, 2014.

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, 2015 and December 31, 2014.

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.

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

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:

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. During the year ended December 31, 2014, the Corporation recorded a recovery of income taxes of approximately $5.4 million related to a 2013 sale of a station. It was determined that the tax was not due so the 2013 tax provision was reversed.

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

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, 2015 or December 31, 2014. 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 from 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 are 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.

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 7.4 % 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.

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

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.

Subsequent events:

Management has evaluated subsequent events through June 1, 2016, the date which the financial statements were available for issue.

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, 2015 and 2014:

Assets at Fair Value as of December 31, 2015

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	$ 27,274	$ -	$ -	$ 27,274
Charitable remainder trusts	-	-	92,180	92,180
Assets at fair value	$ 27,274	$ -	$ 92,180	$ 119,454

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):

The following table sets forth a summary of changes in the fair value of level 3 assets for the year ended December 31, 2015:

	Charitable Remainder Trust
Balance, beginning of year	$ 143,767
Unrealized losses relating to instrument still held at the reporting date	(51,587)
Balance, at end of year	$ 92,180

Note 5. PREPAID EXPENSES:

Prepaid expenses consist of the following at December 31, 2015 and December 31, 2014:

	2015	2014
Broadcasting costs	$ 44,736	$ 30,851
Insurance	25,137	33,242
Postage	31,714	54,267
Miscellaneous	11,490	26,104
Totals	$ 113,077	$ 144,464

Note 6. PROPERTY AND EQUIPMENT:

Property and equipment at December 31, 2015 comprised the following:

	Cost	Accumulated Depreciation	Net
Land and improvements	$ 8,291,843	$ (251)	$ 8,291,592
Building	3,635,208	(438,983)	3,196,225
Leasehold improvements	2,552,256	(2,493,122)	59,134
Towers, transmitters, antenna systems and translators	8,314,704	(5,724,816)	2,589,888
Studio equipment	2,265,171	(1,965,301)	299,870
Office equipment	2,518,189	(2,454,226)	63,963
Automobiles	61,308	(61,033)	275
Satellite system	989,723	(845,185)	144,538
IT infrastructure & end-user	436,981	(121,798)	315,183
Construction in progress	774,312	-	774,312
Totals	$ 29,839,695	$ (14,104,715)	$ 15,734,980

Note 6. PROPERTY AND EQUIPMENT (Continued):

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

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, 2015 and 2014, respectively.

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

	December 31, 2015	December 31, 2014
FCC licenses, cost	$ 46,315,493	$ 39,963,603
FCC licenses held for sale, cost	184,995	-
Less accumulated amortization	(2,308,469)	(2,486,779)
Net costs	$ 44,192,019	$ 37,476,824

On December 16, 2015, Family Stations of New Jersey, Inc. ("FSINJ") filed notice with the FCC of its intent to tender its station license in connection with Incentive Auction 1001. On March 28, 2016, FSINJ submitted an Initial Commitment to the FCC to participate in the auction. The FCC has not scheduled the actual auction date for bidders who become qualified to bid. The proceeds from the auction will be used to repay the note described in Note 9. The station license assets of $184,995 have been accounted for as held for sale as of December 31, 2015.

Note 8. ACCRUED LIABILITIES:

Accrued liabilities consist of the following at December 31, 2015 and December 31, 2014:

	2015	2014
Interest payable	$ 7,689	$ 4,131
PTO	151,991	193,833
Payroll and taxes	88,358	90,632
Accrued state unemployment tax	52,271	120,337
Other	10,342	122,429
Totals	$ 310,651	$ 531,362

Note 9. NOTES PAYABLE:

On September 3, 2013, Family Stations of New Jersey, Inc. ("FSINJ") entered into a Financing Agreement with CF WFME, LLC as Administrative Agent and Lender ("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 adding 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 on September 3, 2017; provided, however, that the final maturity date may be extended to December 31, 2022, upon the provision of notice to the Lenders that the proposed FCC Auction of broadcast television spectrum has not taken place. FSINJ owns the license to WFME-TV and has filed notice to participate in the FCC Auction as described above in Note 7.

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. The Financing Agreement is secured by the assets of FSINJ and the assets of the single member LLC's described in Note 1. As of December 31, 2015, there was $1,036,809 outstanding under the revolving credit facility and $44,935,666 outstanding under the term loan. As of December 31, 2014, there was $812,855 outstanding under the revolving credit facility and $39,860,225 outstanding under the term loan.

The term loan added interest to principal totaling $5,075,441 and $4,502,175 in 2015 and 2014, respectively.

The revolving credit facility added interest to principal totaling $123,955 and $48,612 in 2015 and 2014, respectively.

Amount of interest charges to expense totaled $5,199,395 and $4,593,509 in 2015 and 2014, respectively.

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.

Note 9. NOTES PAYABLE (Continued):

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:

On December 1, 2014 the Corporation retired all promissory notes to sponsors. The total amount of funds held in trust for disbursement to sponsors totaled $365,754 and $1,453,087 at December 31, 2015 and 2014, respectively. These funds have been classified as a current liability.

Note 11. SALE OF STATION LICENSES:

During the year ended December 31, 2015, the Corporation sold the following stations and assets:

	Proceeds and Asset Exchanges	Book Value & Closing Costs	Gain/(Loss)
EMFPAC – License and Equipment Bundle	$ 552,415	$ (132,385)	$ 420,030
KEDR – FM	400,000	(189,024)	210,976
KEBR – AM	604,437	(435,170)	169,267
KQFR – FM	200,000	(40,970)	159,030
W215CG – Transmitter	40,500	4,465	44,965
K294BD – Transmitter	30,000	(2,834)	27,166
W294BX – Transmitter	15,000	-	15,000
Other smaller assets	1,800	(419)	1,381
KZTN-LD TV	3,000	(74,014)	(71,014)
KAAR – AM	6,094	(144,517)	(138,423)
Total	$ 1,853,246	$ (1,014,868)	$ 838,378

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)

Note 12. LEASE INCOME AND AIR-TIME REVENUE:

Lease income:

The Corporation leases out vacant spaces to various different tenants in locations across the US. The corporation had eight leases in 2015 and three leases in 2014, which provided lease income of $253,100 and $79,500,respectively, for the years ended December 31, 2015 and 2014.

Tower Share Rentals:

The Corporation receives tower share income for space rented on its towers. The Corporation had four and two contracts, respectively, for tower share rentals in the years ended December31, 2015 and 2014. One contract for $25,000 will terminate during 2016. The other contract will provide The Corporation with $146,000 annually until the contract terminates in 2020. The remaining two contracts expired in 2015.

The Corporation received $188,577 and $170,596 in gross revenue under these agreements during the years ended December 31, 2015 and December 31, 2014, respectively.

Television facilities:

On March 20, 2015, the Corporation entered into an agreement with Metro Chinese Network Distributors, to broadcast the networks English and foreign language television program service which features world news, informational and light entertainment programming originating from China. This agreement is for $50,000 a month and ends on April 30, 2018. The agreement called for $600,000 to be paid upfront in the first year creating $200,000 of deferred revenue.

Note 13. MUSIC ROYALTIES:

The Corporation receives royalty income from songs written and bequeathed by a donor. 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. The Corporation received $0 and $12,288 in the years ended December 31, 2015 and 2014, respectively.

Note 14. OPERATING EXPENSES:

Major categories of operating expenses are as follows:

	Years Ended December 31,	
	2015	2014
Program services	$ 6,632,908	$ 7,618,231
Management and general	1,864,743	1,773,244
Fund-raising	865,212	930,191
Totals	$ 9,362,863	$ 10,321,666

Note 15. RELATED PARTY TRANSACTIONS:

Notes payable to sponsors includes $0 owed to employees at December 31, 2015 and 2014, respectively.

All notes held by sponsors were paid in full December 1, 2014. Interest paid on these loans during the years ended December 31, 2015 and December 31, 2014 amounted to $0 and $5,883, respectively.

Note 16. COMMITMENTS:

At December 31, 2015, the Corporation has multiple long-term operating type leases for certain transmitter sites, office space, and satellite channels. These leases are subject to automatic renewal periods ranging from 5 – 10 years with annual escalations from CPI – 5% depending on the lease. A majority of these leases are restricted from subleasing. The Corporation is liable for minimum annual lease payments as follows:

Year Ending December 31,	
2016	$ 943,918
2017	736,617
2018	579,724
2019	392,278
2020	210,467
Thereafter	668,285
Total	$ 3,531,289

Rent expense was $1,496,174and $1,579,743 and for the years ended December 31, 2015 and 2014, 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.

FAMILY STATIONS, INC.
And Its Affiliates

SUPPLEMENTARY INFORMATION

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2015			Year Ended December 31, 2014		
WFME	Kisco, NY	$ 911,293	13.95	%	$ 914,958	15.90	%
KEAR-AM	San Francisco, CA	621,442	9.51		590,693	10.26	
WKDN-AM	Philadelphia, PA	391,743	5.99		434,091	7.54	
WFSI-AM	Baltimore, MD	333,204	5.10		351,065	6.10	
KEBR-AM & KEAR FM	Sacramento, CA	253,146	3.87		274,928	4.77	
KFRN-AM	Long Beach, CA	225,847	3.46		248,158	4.31	
KECR-AM	Lakeside, CA	197,427	3.02		178,130	3.09	
WJCH-FM	Joilet, IL	185,027	2.83		180,040	3.13	
WFME-AM	Queens, NY	157,857	2.42		-	-	
WFRS-FM	Smithtown, NY	140,729	2.15		138,272	2.40	
WJFR-FM	Jacksonville, FL	107,454	1.64		68,452	1.19	
KEFR-FM	Le Grand, CA	79,964	1.22		117,988	2.05	
KYFR-AM	Shenandoah, IA	57,970	0.89		50,316	0.87	
KTBX-FM	Beaumont, TX	57,737	0.88		46,846	0.81	
KDFR-FM	Des Moines, IA	51,324	0.79		38,841	0.67	
WWFR-FM	Okeechobee, FL	48,752	0.75		46,145	0.80	
WCUE-AM	Cuyahoga Falls, OH	45,222	0.69		43,906	0.76	
WFCH-FM	Charleston, SC	39,933	0.61		32,696	0.57	
WMWK-FM	Milwaukee, WI	33,167	0.51		36,622	0.64	
KQFE-FM	Springfield, OR	33,004	0.51		25,601	0.44	
KHAP-FM	Chico, CA	31,773	0.49		38,680	0.67	
WOTL-FM	Toledo, OH	29,910	0.46		28,830	0.50	
KPHF-FM	Phoenix, AZ	29,539	0.45		48,169	0.84	
KUFR-FM	Salt Lake City, UT	29,284	0.45		25,008	0.43	
KFNO-FM	Fresno, CA	28,331	0.43		26,671	0.46	
WFBF-FM	Buffalo, NY	27,597	0.42		16,720	0.29	
WCTF-AM	Vernon, CT	26,399	0.40		29,059	0.50	
WFRJ-FM	Johnstown, PA	25,217	0.39		25,938	0.45	
WFRH-FM	Kingston, NY	22,156	0.34		22,940	0.40	
KPRA-FM	Ukiah, CA	21,919	0.34		23,604	0.41	

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2015		Year Ended December 31, 2014	
WEFR-FM	Erie, PA	21,204	0.32	10,738	0.19
KJVH-FM	Longview, WA	21,081	0.32	10,996	0.19
WBFR-FM	Birmingham, AL	20,385	0.31	18,288	0.32
WFRC-FM	Columbus, GA	20,096	0.31	22,070	0.38
WMFL	Florida City, FL	15,897	0.24	13,377	0.23
WFRP-FM	Americus, GA	14,037	0.21	10,445	0.18
WFUR-AM	Grand Rapids, MI	12,639	0.19	15,633	0.27
WYTN-FM	Youngstown, OH	9,702	0.15	10,213	0.18
KEAF	Fort Smith, AR	6,475	0.10	2,290	0.04
KEDR	Bay City, TX	5,454	0.08	17,046	0.30
KPOR-FM	Emporia, KS	4,733	0.07	1,235	0.02
WOFR	Schoolcraft, MI	3,740	0.06	3,535	0.06
KFRD	Butte, MT	3,582	0.05	3,726	0.06
KYOR-FM	Newport, OR	3,545	0.05	1,390	0.02
KXFR	Socorro, NM	3,533	0.05	677	0.01
KFRJ-FM	China Lake, CA	2,935	0.04	1,945	0.03
KFRB-FM	Bakersfield, CA	1,700	0.03	1,015	0.02
KFRY	Pueblo, CO	1,370	0.02	595	0.01
KFRW	Great Falls, MT	1,305	0.02	1,820	0.03
KPFR	Pine Grove, OR	1,290	0.02	3,070	0.05
WUFR	Bedford, PA	751	0.01	341	0.01
KQKD-AM	Redfield, SD	500	0.01	596	0.01
KIFR(KEGR)	Fortdodge, IA	395	0.01	-	-
KKAA-AM	Aberdeen, SD	347	0.01	380	0.01
KQFR-FM	Rapid City, SD	100	-	100	-
KFRP-FM	Coalinga, CA	50	-	-	-
KBFR	Bismarck, ND	34	-	1,962	0.03
WKDN-FM	State College, PA	25	-	-	-
WYFR	Okeechobee, FL	-	-	5,590	0.10
KARR-AM	Kirkland, WA	-	-	3,282	0.06
KFRS	Soledad, CA	-	-	25	-

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

	Year Ended December 31, 2015			Year Ended December 31, 2014		
SOUTH- Other *	$ 27,076	0.41	%	$ 56,314	0.98	%
WEST - Other*	5,194	0.08		10,767	0.19	
NORTHEAST - Other*	3,275	0.05		7,106	0.12	
Syndicated programming	1,608	0.02		4,465	0.08	
Unclassified	11,774	0.18		60,643	1.05	
Legacies & Royalties	1,594,430	24.40		562,176	9.76	
Donated revenue	76,461	1.17		489,232	8.49	
Program Service Fees	400,000	6.12		350,000	6.08	
Gross Support from contributions	6,541,090	100.10		5,806,450	100.81	
Contribution recalled or non-sufficient funds	(6,268)	(0.10)		(46,741)	(0.81)	
TOTAL SUPPORT FROM CONTRIBUTIONS	6,534,822	100.0	%	5,759,709	100.0	%

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

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES - BROADCASTING STATIONS

	Year Ended December 31, 2015		Year Ended December 31, 2014	
PERSONNEL:				
Salaries and wages	$ 1,126,519	17.2 %	$ 1,304,765	22.7 %
Employee benefits	43,416	0.7	71,219	1.2
Payroll taxes	109,669	1.7	213,971	3.7
Totals	1,279,604	19.6	1,589,955	27.6
DIRECT BROADCASTING:				
Rentals	1,464,855	22.4	1,435,202	24.9
Utilities	628,372	9.6	585,755	10.2
Depreciation	470,569	7.2	536,439	9.3
Satellite rental expense	128,102	2.0	292,895	5.1
Service monitor-stations	341,688	5.2	275,926	4.8
Telephone lines	299,938	4.6	245,780	4.3
Time purchases	143,792	2.2	158,008	2.7
Repairs and parts	18,048	0.3	46,806	0.8
Automobile expenses	33,478	0.5	37,707	0.7
Advertising	2,135	-	761	-
Totals	3,530,977	54.0	3,615,279	62.8
GENERAL:				
Professional services	177,426	2.7	286,302	5.0
Dues and fees	290,842	4.5	263,581	4.6
Rentals and property taxes	100,102	1.5	97,604	1.7
Travel and auto	18,706	0.3	17,416	0.3
Office supplies, postage, and printing	5,479	0.1	14,386	0.2
Repairs and maintenance	1,685	-	3,268	-
Insurance	1,262	-	2,358	-
Totals	595,502	9.1	684,915	11.8
TOTAL OPERATING EXPENSES - BROADCASTING STATIONS	$ 5,406,083	82.7 %	$ 5,890,149	102.2 %

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES - DEPARTMENTS

	Year Ended December 31, 2015			Year Ended December 31, 2014		
PERSONNEL:						
Salaries and wages	$ 904,317	13.8	%	$ 1,308,542	22.7	%
Payroll taxes	82,021	1.3		97,399	1.7	
Employee benefits	80,333	1.2		158,856	2.8	
Totals	1,066,671	16.3		1,564,797	27.2	
DIRECT BROADCASTING:						
Professional services	43,147	0.7		71,296	1.2	
Telephone lines	29,562	0.6		45,225	0.8	
Depreciation	72,228	1.1		37,761	0.7	
Repairs and parts	3,511	0.1		9,285	0.2	
Travel	11,254	0.2		4,493	0.1	
Miscellaneous	450	-		3,418	0.1	
Totals	160,152	2.5		171,478	3.0	
ADVERTISING AND PROMOTIONAL:						
Miscellaneous	-	-		2,338	-	
Totals	-	-		2,338	-	
GENERAL:						
Salaries and wages	1,220,584	18.7		1,148,966	19.9	
Professional services	254,026	3.9		281,131	4.9	
Utilities and telephone	229,290	3.5		275,021	4.8	
Postage and printing for direct mail	268,174	4.1		250,649	4.4	
Payroll taxes	117,800	1.8		229,693	4.0	
Office supplies, postage and printing	184,122	2.8		184,896	3.2	
Rents and property taxes	64,187	1.0		95,117	1.7	
Employee benefits	95,984	1.5		69,933	1.2	
Depreciation	96,577	1.5		49,816	0.9	
Insurance	64,920	1.0		37,405	0.6	
Repairs and maintenance	43,827	0.7		33,330	0.6	
Dues and fees	78,913	1.2		30,487	0.5	
Travel and auto	11,553	0.2		6,460	0.1	
Totals	2,729,957	41.8		2,692,904	46.8	
TOTAL OPERATING EXPENSES DEPARTMENTS	$ 3,956,780	60.6	%	$ 4,431,517	76.9	%