



FAMILY STATIONS, INC.

(A California Not-For-Profit Corporation)

And Its Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND DECEMBER 31, 2017



FAMILY STATIONS, INC.
And Its Affiliates

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DECEMBER 31, 2018 AND 2017

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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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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 starting on page 20 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.

Certified Public Accountants

RMA accountancy corporation

San Francisco, California

July 29, 2019

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
CURRENT:		
Cash and cash equivalents	\$ 19,835,214	\$ 25,127,544
Investments	18,158	19,845
Funds held in trust	331,645	331,645
Receivables:		
Accounts receivable	18,989	21,007
Employee receivables	8,793	7,979
Inventory of equipment on hand	38,409	12,530
Prepaid expenses	<u>215,613</u>	<u>238,133</u>
TOTAL CURRENT ASSETS	20,466,821	25,758,683
PROPERTY AND EQUIPMENT, net	18,048,576	17,078,590
OTHER:		
Federal Communications Commission licenses, net	21,603,864	38,168,851
Charitable remainder trusts	100,241	107,753
Escrow deposits	65,327	58,781
Other assets held for sale, fair market value	<u>-</u>	<u>7,500</u>
	<u>\$ 60,284,829</u>	<u>\$ 81,180,158</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 182,414	\$ 221,144
Accrued liabilities	399,679	317,496
Tenant deposits	27,454	33,390
Listener and sponsor notes payable	<u>331,645</u>	<u>331,645</u>
TOTAL LIABILITIES (ALL CURRENT)	941,192	903,675
NET ASSETS:		
Without donor restriction	\$ 59,343,637	\$ 80,276,483
With donor restriction	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>59,343,637</u>	<u>80,276,483</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 60,284,829</u>	<u>\$ 81,180,158</u>

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2018 (Without Donor Restrictions)	Year Ended December 31, 2017 (Without Donor Restrictions)
SUPPORT AND REVENUE:		
Support:		
Contributions	\$ 4,713,195	\$ 4,812,670
Revenue:		
Program service fees	-	440,410
Lease income and air time revenue	473,515	498,609
Gain on sale of station licenses, property and equipment	27,135	71,300,467
Investment return, net of fees	111,406	343
Miscellaneous revenue	83,538	25,786
TOTAL SUPPORT AND REVENUE	5,408,789	77,078,285
OPERATING EXPENSES:		
Program services	7,267,331	7,104,871
Supporting services:		
Management and general	1,673,297	6,277,625
Fundraising	836,290	786,298
TOTAL OPERATING EXPENSES	9,776,918	14,168,794
EXCESS OF OPERATING EXPENSES OVER SUPPORT AND REVENUE	(4,368,129)	62,909,491
OTHER EXPENSE:		
Impairment loss	16,564,717	310,521
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(20,932,846)	62,598,970
OTHER CHANGES IN NET ASSETS:		
Liquidation of net assets of Family Stations New Jersey	-	391,343
INCREASE (DECREASE) IN NET ASSETS	(20,932,846)	62,990,313
NET ASSETS, beginning of year	80,276,483	17,286,170
NET ASSETS, end of year	\$ 59,343,637	\$ 80,276,483

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:				
Salaries	\$2,230,302	\$ 729,980	\$ 258,357	\$ 3,218,639
Employee benefits	295,357	100,139	35,281	430,777
Payroll taxes	173,122	58,791	20,748	252,661
	<u>2,698,781</u>	<u>888,910</u>	<u>314,386</u>	<u>3,902,077</u>
Rent	1,283,043	9,308	-	1,292,351
Depreciation and amortization	410,371	297,235	57,024	764,630
Utilities	560,296	8,378	5,027	573,701
Service and monitor	522,247	5,347	113	527,707
Other professional services	379,025	22,322	30,314	431,661
Telephone	376,284	6,714	4,028	387,026
Legal	127,797	197,237	-	325,034
Music licenses	258,330	-	-	258,330
Printing and copying	154	1,087	248,936	250,177
Postage and shipping	11,668	9,669	154,949	176,286
Real estate taxes, fees and dues	166,250	5,260	3,156	174,666
Satellite uplink	91,301	-	-	91,301
Insurance	64,678	7,700	4,620	76,998
Air time	70,021	-	-	70,021
Other expense	29,319	40,006	-	69,325
Travel and meetings	20,749	48,091	-	68,840
Building and grounds maintenance	61,658	1,940	1,164	64,762
Accounting	-	60,000	-	60,000
Software, print and online subscriptions	50,297	3,551	2,131	55,979
Credit card merchant fees	-	26,973	-	26,973
Advertising	8,861	16,357	-	25,218
Supplies and tools	21,690	1,548	1,029	24,267
Membership dues	21,591	2,137	-	23,728
Office furniture and equipment	3,967	9,140	-	13,107
Bad debt	12,133	-	-	12,133
Equipment rental and maintenance	11,357	(1,640)	-	9,717
Fundraising	-	-	9,024	9,024
Janitorial services	5,452	649	389	6,490
Banking fees	-	4,678	-	4,678
Taxes	11	700	-	711
	<u>4,568,550</u>	<u>784,387</u>	<u>521,904</u>	<u>5,874,841</u>
Total other expenses				
Total functional expenses	<u>\$7,267,331</u>	<u>\$ 1,673,297</u>	<u>\$ 836,290</u>	<u>\$ 9,776,918</u>

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:				
Salaries	\$ 2,346,268	\$ 737,493	\$ 167,256	\$ 3,251,017
Employee benefits	140,914	80,342	5,241	226,497
Payroll taxes	273,457	259,379	19,961	552,797
	<u>2,760,639</u>	<u>1,077,214</u>	<u>192,458</u>	<u>4,030,311</u>
Legal	161,559	75,447	-	237,006
Accounting	2,580	77,063	-	79,643
Other professional services	74,271	5,244	-	79,515
Advertising and promotion	2,150	7,432	1,356	10,938
Office expenses	543,003	154,801	409,454	1,107,258
Information technology	123,049	14,443	-	137,492
Occupancy	73,098	25,089	-	98,187
Travel	71,573	42,388	1,402	115,363
Conferences	3,811	1,262	-	5,073
Interest	-	4,090,029	-	4,090,029
Depreciation and amortization	427,325	234,924	23,561	685,810
Insurance	26	63,348	-	63,374
Equipment rental	1,352,874	46,643	129,306	1,528,823
Broadcast utilities	564,938	79,199	-	644,137
Monitor and service transmitters	371,475	24,151	-	395,626
Music licensing fees	217,295	24,171	-	241,466
Satellite uplink	85,781	-	-	85,781
Air time purchased	87,986	-	27,280	115,266
Taxes	153,341	121,844	-	275,185
Software, print & online subscription	19,251	63,684	571	83,506
Other expenses	8,846	49,249	910	59,005
	<u>4,344,232</u>	<u>5,200,411</u>	<u>593,840</u>	<u>10,138,483</u>
Total other expenses				
Total functional expenses	<u>\$ 7,104,871</u>	<u>\$ 6,277,625</u>	<u>\$ 786,298</u>	<u>\$14,168,794</u>

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018	Year Ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (20,932,846)	\$ 62,598,970
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	\$ 764,630	\$ 685,811
Interest expense - amortization of debt financing fees	-	599,268
Loss on impairment of assets	16,564,717	310,521
Gain on sale of property, equipment and station licenses	(27,135)	(71,300,467)
Unrealized loss (gain) on marketable securities	1,687	8,264
Capitalized interest on loan proceeds - non-cash item	-	3,491,283
Unrealized gain on charitable remainder trusts	7,512	(7,814)
Decrease (increase) in:		
Receivables	1,204	49,881
Prepaid expenses	22,520	(39,533)
Assets held for sale	-	(7,500)
Deposits	(6,546)	-
Increase (decrease) in:		
Accounts payable	(38,730)	(31,694)
Accrued liabilities	82,183	14,542
Tenant deposits	(5,936)	11,145
Unearned revenue	-	(200,000)
	17,366,106	(200,000)
NET CASH USED BY OPERATING ACTIVITIES	(3,566,740)	(3,817,323)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of station licenses, property and equipment	59,782	72,162,079
Acquisition of property, equipment and station licenses	(1,785,372)	(1,462,049)
NET CASH PROVIDED (USED)A BY INVESTING ACTIVITIES	(1,725,590)	70,700,030
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	-	(55,457,878)
NET CASH USED BY FINANCING ACTIVITIES	-	(55,457,878)
NET INCREASE (DECREASE) IN CASH	(5,292,330)	11,424,829
CASH AND CASH EQUIVALENTS, beginning of year	25,127,544	13,702,715
CASH AND CASH EQUIVALENTS, end of year	\$ 19,835,214	\$ 25,127,544
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 30	\$ -
Income taxes	\$ -	\$ -

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017**

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 network and online streaming. 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. Family Stations of New Jersey and its affiliated entities were dissolved on December 5, 2017. Upon dissolution, Family Stations of New Jersey distributed all of its assets to the Corporation under the provisions of the New Jersey Nonprofit Corporation Act.

Financial statement presentation:

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958)- Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

The Organization reports information regarding its financial position and its activities according to the following net asset classifications: Without donor restrictions (including board designated amounts) and with donor restrictions. Net assets with donor restrictions are reclassified to without donor restrictions upon satisfaction of the time or purpose restrictions. The Organization has no net assets with donor restrictions.

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.

FAMILY STATIONS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017

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 – Valuation inputs are obtained from real-time quotes for transactions in active exchange markets involving identical assets and liabilities.

Level 2 – Valuation inputs are obtained from readily-available pricing sources for comparable investments.

Level 3 – Valuation inputs are obtained without observable market value and require a high level of judgment to determine the fair value.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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.

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, 2018 or December 31, 2017. 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:

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

FAMILY STATIONS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017

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

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. It is the Corporation's policy to capitalize fixed assets costing in excess of \$5,000 with an estimated useful life of greater than one year.

Charitable remainder trusts:

The Corporation has been named as a beneficiary of one charitable remainder trust which is 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. The Corporation has determined that the value of certain station licenses was impaired in value in the amount of \$16,563,217 as of December 31, 2018 and \$0 as of December 31, 2017.

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. The Corporation has determined that the value of certain equipment was impaired in value in the amount of \$1,500 as of December 31, 2018 and \$310,521 as of December 31, 2017.

Reclassifications:

Certain amounts appearing in the 2017 financial statements may have been reclassified to conform to the 2018 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Subsequent events:

Management has evaluated subsequent events through July 29, 2019, the date which the financial statements were available for issue. See Note 15 for further details.

FAMILY STATIONS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017**

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. LIQUIDITY:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 19,835,214
Investments	18,158
Receivables	<u>18,989</u>
Total	<u><u>\$ 19,872,361</u></u>

The Corporation receives contributions from donors which it considers to be central to its annual operations and available to meet cash needs for general expenditures. The Corporation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. There is a fund designated by management that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

FAMILY STATIONS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017

Note 5. INVESTMENTS:

The following table sets forth by level, the Corporation's investment assets at fair value as of December 31, 2018 and 2017:

	Assets at Fair Value as of December 31, 2018			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$ 18,158	\$ -	\$ -	\$ 18,158
Charitable remainder trusts	-	-	100,241	100,241
Assets at fair value	\$ 18,158	\$ -	\$ 100,241	\$ 118,399

	Assets at Fair Value as of December 31, 2017			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$ 19,845	\$ -	\$ -	\$ 19,845
Charitable remainder trusts	-	-	107,753	107,753
Assets at fair value	\$ 19,845	\$ -	\$ 107,753	\$ 127,598

The following table sets forth a summary of changes in the fair value of level 3 assets for the year ended December 31, 2018:

	Charitable Remainder Trust
Balance, beginning of year	\$ 107,753
Unrealized loss relating to instrument still held at the reporting date	(7,512)
Balance, at end of year	\$ 100,241

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
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Note 6. PREPAID EXPENSES:

Prepaid expenses consist of the following at December 31, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
Broadcasting costs	\$ 88,242	\$ 108,336
Insurance	38,546	41,077
Postage	16,047	17,478
Prepaid real estate taxes	<u>72,778</u>	<u>71,242</u>
Totals	<u><u>\$ 215,613</u></u>	<u><u>\$ 238,133</u></u>

Note 7. PROPERTY AND EQUIPMENT:

Property and equipment at December 31, 2018 comprised the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land and improvements	\$ 8,252,933	\$ -	\$ 8,252,933
Building	5,879,048	(828,660)	5,050,388
Leasehold improvements	2,558,406	(2,528,189)	30,217
Towers, transmitters, antenna systems and translators	7,863,392	(5,988,418)	1,874,974
Studio equipment	2,267,434	(1,979,693)	287,741
Office equipment	2,700,385	(2,532,349)	168,036
Automobiles	29,800	(29,800)	-
Satellite system	1,490,062	(892,661)	597,401
IT infrastructure & end-user	953,861	(477,893)	475,968
Website Imaging & Branding	362,760	(91,236)	271,524
In House Program Development	195,897	(32,400)	163,497
Construction in progress	<u>875,897</u>	<u>-</u>	<u>875,897</u>
Totals	<u><u>\$ 33,429,875</u></u>	<u><u>\$ (15,381,299)</u></u>	<u><u>\$ 18,048,576</u></u>

FAMILY STATIONS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017**

Note 7. PROPERTY AND EQUIPMENT (Continued):

Property and equipment at December 31, 2017 comprised the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land and improvements	\$ 8,252,933	\$ -	\$ 8,252,933
Building	5,687,846	(669,280)	5,018,566
Leasehold improvements	2,692,592	(2,525,755)	166,837
Towers, transmitters, antenna systems and translators	7,679,690	(5,887,823)	1,791,867
Studio equipment	2,266,895	(2,029,500)	237,395
Office equipment	2,666,193	(2,502,091)	164,102
Automobiles	61,308	(61,308)	-
Satellite system	1,086,083	(882,740)	203,343
IT infrastructure & end-user	776,141	(342,008)	434,133
Construction in progress	809,415	-	809,415
Totals	<u>\$ 31,979,096</u>	<u>\$ (14,900,505)</u>	<u>\$ 17,078,591</u>

Depreciation expense for the years ended December 31, 2018 and December 31, 2017 were \$764,630 and \$685,811 respectively.

Note 8. 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 three of its AM stations in San Francisco and El Cajon, California and Philadelphia, Pennsylvania and one of its FM stations in Mt. Kisco, New York were impaired in value in the aggregate amount of \$16,563,217 as of December 31, 2018. The Corporation had determined that the value of its Federal Communications Licenses were not impaired in value as of December 31, 2017.

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

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
FCC licenses, cost	\$ 23,912,197	\$ 40,477,184
Less accumulated amortization	<u>(2,308,333)</u>	<u>(2,308,333)</u>
Net costs	<u>\$ 21,603,864</u>	<u>\$ 38,168,851</u>

FAMILY STATIONS, INC.
And Its Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017

Note 9. ACCRUED LIABILITIES:

Accrued liabilities consist of the following at December 31, 2018 and December 31, 2017:

	2018	2017
Interest payable	\$ 13,298	\$ 13,329
PTO	116,857	132,555
Payroll and taxes	119,004	112,871
Accrued state unemployment tax	36,336	3,953
Other	114,184	54,788
Totals	\$ 399,679	\$ 317,496

Note 10. NOTES PAYABLE TO SPONSORS/FUNDS HELD IN TRUST:

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 \$331,645 and \$331,645 at December 31, 2018 and 2017, respectively. These funds have been classified as a current liability.

Note 11. SALE OF STATION LICENSES AND ASSETS:

During the year ended December 31, 2018, the Corporation sold the following stations and assets:

	Proceeds	Book Value & Closing Costs	Gain / (Loss)
K227	\$ 40,000	\$ 3,854	\$ 36,146
K205	5,000	7,210	(2,210)
WJCH	675	282	393
KZRO	1,500	-	1,500
Other	12,607	21,301	(8,694)
	\$ 59,782	\$ 32,647	\$ 27,135

FAMILY STATIONS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
DECEMBER 31, 2018 AND DECEMBER 31, 2017

Note 11. SALE OF STATION LICENSES AND ASSETS (Continued):

During the year ended December 31, 2017, the Corporation sold the following stations and assets:

	<u>Proceeds & Asset Exchanges</u>	<u>Book Value & Closing Costs</u>	<u>Gain / (Loss)</u>
WFME	\$ 72,393,724	\$ 957,258	\$ 71,436,466
KKAA & KQKD	84,489	284,749	(200,260)
W2874AB	37,261	-	37,261
Other	27,000	-	27,000
	<u>\$ 72,542,474</u>	<u>\$ 1,242,007</u>	<u>\$ 71,300,467</u>

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 nine leases in 2018 and seven leases in 2017, which provided lease income of \$301,727 and \$349,971 , respectively, for the years ended December 31, 2018 and 2017.

Tower Share Rentals:

The Corporation receives tower share income for space rented on its towers. The Corporation had two contracts, for tower share rentals in the years ended December 31, 2018 and 2017. One contract will provide The Corporation with \$146,000 annually until the contract terminates in 2020. The other contract is for \$5,400 annually.

The Corporation received \$171,788 and \$148,638 in gross revenue under these agreements during the years ended December 31, 2018 and December 31, 2017, respectively.

Note 13. FAMILY STATIONS INC. RETIREMENT PLAN:

Effective January 1, 2018, the Corporation established a defined contribution pension plan in the form of an IRS Section 403(b) tax deferred annuity plan. The Plan covers employees who have worked for the Corporation for at least 60 days. There is no minimum age requirement. For the 2018 calendar year, Family Stations Inc. will provide a discretionary match of \$0.50 per \$1 contributed by the employee to the 403(b) plan, to a limit of 3% maximum contribution on behalf of the employer. Amounts contributed by the Corporation for the year ended December 31, 2018 were \$12,968.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS –
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Note 14. COMMITMENTS:

At December 31, 2018, 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:

<u>Year Ending December 31,</u>	
2019	\$ 902,643
2020	808,343
2021	705,288
2022	563,080
2023	633,178
Thereafter	<u>1,262,086</u>
Total	<u><u>\$ 4,874,618</u></u>

Rent expense was \$1,292,352 and \$1,360,731 and for the years ended December 31, 2018 and 2017, respectively.

Note 15. SUBSEQUENT EVENTS:

The Corporation has determined that it will reorganize its operations in 2019. As part of the reorganization, the Corporation will move its headquarters from Alameda, California to Nashville, Tennessee. The Corporation will occupy leased office space pursuant to an executed lease beginning July 1, 2019. The amounts due under the Nashville lease have not been included in Note 14. The Corporation has approved the reorganization plan and identified certain assets that will be part of a disposal group that is being currently offered for sale. The disposal group consists of 23 translators and 26 full power stations with an aggregate net book value of \$4,134,000. Four of the licenses identified in the disposal group are currently in escrow (and the Corporation expects a gain on their sale of approximately \$1,206,000).

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SUPPLEMENTARY INFORMATION

FAMILY STATIONS, INC.
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SCHEDULE I - CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended		Year Ended	
		December 31, 2018		December 31, 2017	
WFME-AM	Queens, NY	\$ 1,055,924	22.40 %	\$ 1,064,482	22.12 %
KEAR-AM	San Francisco, CA	522,388	11.08	521,676	10.84
ONLINE & MOBILE		441,186	9.36	413,117	8.58
WFSI-AM	Baltimore, MD	329,139	6.98	319,651	6.64
WKDN-AM	Philadelphia, PA	300,927	6.38	318,588	6.62
KEBR-AM & KEAR FM	Sacramento, CA	277,140	5.88	285,985	5.94
KFRN-AM	Long Beach, CA	183,969	3.90	168,512	3.50
KECR-AM	El Cajon, CA	159,021	3.37	162,316	3.37
WJCH-FM	Joilet, IL	162,220	3.44	136,771	2.84
WFRS-FM	Smithtown, NY	116,275	2.47	111,420	2.32
WMWK-FM	Milwaukee, WI	49,743	1.06	39,477	0.82
WJFR-FM	Jacksonville, FL	49,030	1.04	47,147	0.98
WFME	Kisco, NY	41,193	0.87	41,604	0.86
KDFR-FM	Des Moines, IA	35,637	0.76	32,581	0.68
WFRC-FM	Columbus, GA	33,839	0.72	112,555	2.34
WYTN-FM	Youngstown, OH	32,912	0.70	33,649	0.70
KYFR-AM	Shenandoah, IA	29,872	0.63	21,550	0.45
KFNO-FM	Fresno, CA	27,798	0.59	22,403	0.47
KEFR-FM	Le Grand, CA	26,692	0.57	24,667	0.51
WBFR-FM	Birmingham, AL	25,794	0.55	8,771	0.18
KFRB-FM	Bakersfield, CA	24,466	0.52	15,582	0.32
WFCH-FM	Charleston, SC	23,858	0.51	122,292	2.54
WWFR-FM	Stuart, FL	23,601	0.50	30,005	0.62
K238AC-FX	Salida, CA	23,202	0.49	41,384	0.86
WFBF-FM	Buffalo, NY	22,173	0.47	27,079	0.56
WOTL-FM	Toledo, OH	21,816	0.46	26,053	0.54
WFRJ-FM	Johnstown, PA	17,809	0.38	15,602	0.32
K211GA-FX	Carson City, NV	15,900	0.34	4,800	0.10
KHAP-FM	Chico, CA	11,938	0.25	11,344	0.24
K205CI-FX	Phoenix, AZ	11,155	0.24	24,474	0.51

See notes to consolidated financial statements.

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SCHEDULE I - CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		<u>Year Ended</u> <u>December 31, 2018</u>			<u>Year Ended</u> <u>December 31, 2017</u>		
KTXB-FM	Beaumont, TX	\$ 9,829	0.21	%	\$ 17,600	0.37	%
W213AC-FX	Hyde Park, NY	9,632	0.20		7,334	0.15	
KQFE-FM	Springfield, OR	9,027	0.19		10,609	0.22	
KPHF-FM	Phoenix, AZ	8,846	0.19		8,796	0.18	
W280CV-FX	Scranton, PA	7,585	0.16		6,385	0.13	
KFRP-FM	Coalinga, CA	7,460	0.16		8,230	0.17	
WEFR-FM	Erie, PA	7,289	0.15		5,263	0.11	
WCUE-AM	Cuyahoga Falls, OH	5,955	0.13		29,108	0.60	
K254AK-FX	Reno, NV	5,950	0.13		5,126	0.11	
KPFR	Pine Grove, OR	5,905	0.13		2,506	0.05	
K219BX-FX	El Paso, TX	5,389	0.11		6,954	0.14	
K220GM-FX	Placitas, NM	5,097	0.11		4,168	0.09	
KFRY	Pueblo, CO	5,036	0.11		5,552	0.12	
WOFR	Schoolcraft, MI	4,751	0.10		6,327	0.13	
K220EY-FX	Porterville, CA	4,475	0.09		5,005	0.10	
WFRH-FM	Kingston, NY	3,984	0.08		3,881	0.08	
W220BD-FX	Roanoke, VA	3,980	0.08		3,600	0.07	
WMFL	Florida City, FL	3,945	0.08		4,458	0.09	
KUFR-FM	Salt Lake City, UT	3,644	0.08		2,701	0.06	
W252AQ-FX	Lake Charles, LA	2,959	0.06		2,555	0.05	
KFRD	Butte, MT	2,865	0.06		4,836	0.10	
K223AO-FX	Florence, OR	2,834	0.06		2,361	0.05	
WUFR	Bedford, PA	2,802	0.06		2,341	0.05	
KJVH-FM	Longview, WA	2,789	0.06		2,265	0.05	
KYOR-FM	Newport, OR	2,600	0.06		2,305	0.05	
W214AB-FX	Bedford, PA	2,435	0.05		2,420	0.05	
WCTF-AM	Vernon, CT	2,285	0.05		7,803	0.16	
W233AD-FX	Rockford, IL	2,040	0.04		2,023	0.04	
KPRA-FM	Ukiah, CA	1,674	0.04		1,040	0.02	
K219AO	Fairmont, CA	1,623	0.03		2,134	0.04	

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
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SCHEDULE I - CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		<u>Year Ended</u> <u>December 31, 2018</u>		<u>Year Ended</u> <u>December 31, 2017</u>	
K240ET-FX	Billings, MT	\$ 1,548	0.03 %	\$ 1,961	0.04 %
W207AB-FX	Atlantic City, NJ	1,485	0.03	2,405	0.05
KFRW	Great Falls, MT	1,390	0.03	1,215	0.03
K213BZ-FX	Richvale, CA	1,389	0.03	1,456	0.03
W207AG-FX	Freeland, PA	1,295	0.03	1,920	0.04
WFRP-FM	Americus, GA	1,234	0.03	940	0.02
K227AH-FX	Riverpines, CA	1,140	0.02	790	0.02
WKDN-FM	State College, PA	1,070	0.02	400	0.01
K217CD-FX	Great Falls, MT	1,050	0.02	1,075	0.02
W282BT-FX	Bellefonte, PA	1,019	0.02	3,824	0.08
K214CA-FX	Grand Junction, CO	1,000	0.02	-	-
K220EI-FX	Ogden, UT	900	0.02	800	0.02
KXFR	Socorro, NM	750	0.02	65	-
W207AX-FX	Burlington, VT	575	0.01	597	0.01
K206DU-FX	Lafayette, LA	405	0.01	405	0.01
W207AE-FX	Reading, PA	302	0.01	92	-
K214BO-FX	Ashland, OR	260	0.01	1,540	0.03
W208AF-FX	Nanticoke, PA	260	0.01	355	0.01
W282AD-FX	East Windham, NY	250	0.01	-	-
K203BE-FX	Roseburg, OR	120	-	90	-
K241AJ	Palmdale, CA	92	-	100	-
W282BI-FX	Catskill, NY	50	-	60	-
W249BD-FX	West View, PA	30	-	659	0.01
K268AJ-FX	Redding, CA	2	-	5	-
KFRJ-FM	China Lake, CA	-	-	2,100	0.04
K261BF	Black Butte, OR	-	-	710	0.01
W295AF-FX	La Porte, IN	-	-	500	0.01
K213CH-FX	Ridgecrest, CA	-	-	340	0.01
KQKD-AM	Redfield, SD	-	-	40	-
K254AG	Gonzales, CA	-	-	25	-
Syndicated programming		53,400	1.13	-	-
Unclassified		37,691	0.80	25,803	0.54
Legacies & Royalties		374,448	7.94	385,760	8.02
Gross Support from contributions		<u>4,724,457</u>	<u>100.24</u>	<u>4,817,255</u>	<u>100.10</u>
Contribution recalled or non-sufficient funds		<u>(11,262)</u>	<u>(0.24)</u>	<u>(4,584)</u>	<u>(0.10)</u>
TOTAL SUPPORT FROM CONTRIBUTIONS		<u>\$ 4,713,195</u>	<u>100.0 %</u>	<u>\$ 4,812,670</u>	<u>100.0 %</u>

See notes to consolidated financial statements.