

Educational Media Foundation

Rocklin, California

CONSOLIDATED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2018



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Educational Media Foundation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Educational Media Foundation
Rocklin, California

We have audited the accompanying consolidated financial statements of Educational Media Foundation and subsidiaries (EMF), which comprise the consolidated statement of financial position as of December 31, 2018; the related consolidated statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to EMF's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EMF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Educational Media Foundation and subsidiaries as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KCoe Jrom, LLP

May 16, 2019
Chico, California

Educational Media Foundation
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 28,250,661
Unconditional promises to give	3,857,032
Prepaid expenses	2,711,821
Current portion of notes receivable	62,496
Inventories	2,246,008
Other receivables	522,028

Total Current Assets 37,650,046

Property and Equipment

Net of accumulated depreciation	53,807,181
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Other Assets

Deposits and other	20,688,499
Notes receivable - net of current portion	188,548
Long-term investments	67,308,379
FCC licenses, permits, and application costs	470,603,654
Trademarks	13,865,241
Goodwill	225,000

Total Other Assets 572,879,321

TOTAL ASSETS \$ 664,336,548

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 9,829,062
Current portion of long-term debt	9,783,459

Total Current Liabilities 19,612,521

Long-Term Debt

Net of current portion	37,736,408
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Total Liabilities 57,348,929

Net Assets

Without donor restrictions:	
Board designated	66,796,029
Undesignated	538,558,499
With donor restrictions	1,633,091

Total Net Assets 606,987,619

TOTAL LIABILITIES AND NET ASSETS \$ 664,336,548

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018	Donor Restrictions		Total
	Without	With	
Revenue, Support, and Gains			
Contributions	\$ 176,958,124	\$ 3,627,651	\$ 180,585,775
Business underwriting grants	4,268,418	-	4,268,418
Interest and dividend income	2,134,532	14,097	2,148,629
Concert tours	1,348,308	-	1,348,308
Miscellaneous income	1,051,998	-	1,051,998
Net gain on disposal of assets	89,304	2,571	91,875
Net unrealized loss on investments	(4,979,854)	(72,106)	(5,051,960)
Net assets released from restriction	2,975,864	(2,975,864)	-
Transferred from board designated endowment	(452,054)	452,054	-
Total Revenue, Support, and Gains	183,394,640	1,048,403	184,443,043
Expenses			
Program	107,292,874	-	107,292,874
General administration	15,155,355	-	15,155,355
Fundraising	7,536,498	-	7,536,498
Total Expenses	129,984,727	-	129,984,727
Change in Net Assets	53,409,913	1,048,403	54,458,316
Net Assets - Beginning of Year	551,944,615	584,688	552,529,303
Net Assets - End of Year	\$ 605,354,528	\$ 1,633,091	\$ 606,987,619

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

Educational Media Foundation

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018	Program	General Administration	Fundraising	Total Expenses
Payroll and related	\$ 29,222,141	\$ 9,582,332	\$ 3,584,031	\$ 42,388,504
Occupancy	840,219	128,052	94,197	1,062,468
Listener servicing	1,340,636	530,485	709,375	2,580,496
Office	3,682,131	838,796	86,581	4,607,508
Programming	1,179,476	-	-	1,179,476
Website	2,622,997	-	-	2,622,997
Promotion and advertising	3,344,872	418,109	641,154	4,404,135
Travel and entertainment	2,041,740	633,116	336,526	3,011,382
Engineering	18,270,178	135,226	57,954	18,463,358
Donations	213,618	-	-	213,618
Interest	2,599,601	8,708	-	2,608,309
Administrative	521,628	1,322,390	775,703	2,619,721
Computers and software	3,742,601	291,091	124,753	4,158,445
Professional consulting	1,308,354	763,998	1,126,224	3,198,576
Depreciation	9,557,994	503,052	-	10,061,046
Station operations	26,804,688	-	-	26,804,688
Total Expenses	\$ 107,292,874	\$ 15,155,355	\$ 7,536,498	\$ 129,984,727

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 54,458,316
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	10,061,046
Amortization of debt issuance costs	174,151
Impairment charge on indefinite-lived assets	16,379,710
Noncash contributions	(119,190)
Net gain on disposal of assets	(91,875)
Net unrealized loss on investments	5,051,960
Forgiveness of note receivables	130,134
Net change in operating assets and liabilities:	
Decrease in unconditional promises to give	856,632
Increase in prepaid expenses	(563,010)
Increase in inventories	(202,464)
Decrease in other receivables	485,046
Increase in deposits and other	(201,411)
Increase in accrued interest on notes receivable	(6,089)
Increase in accounts payable and accrued expenses	2,751,718

NET CASH PROVIDED BY OPERATING ACTIVITIES 89,164,674

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for property and equipment	(9,506,997)
Payments for FCC licenses	(48,228,226)
Payments for deposits on future acquisition of FCC licenses	(20,083,100)
Proceeds from sale of assets	2,406,733
Principal payments received on notes receivable	73,216
Net increase in long-term investments	(2,969,487)
Net decrease in short-term investments	17,500,000
Payments for goodwill	(225,000)

NET CASH USED IN INVESTING ACTIVITIES (61,032,861)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on capital leases	(358,942)
Principal payments on bonds and notes payable	(24,878,442)

NET CASH USED IN FINANCING ACTIVITIES (25,237,384)

Change in Cash and Cash Equivalents 2,894,429

Cash and Cash Equivalents - Beginning of Year 25,356,232

Cash and Cash Equivalents - End of Year \$ 28,250,661

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)

Year Ended December 31, 2018

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest expense	\$	2,529,531
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SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

Deposits applied in the acquisition of FCC licenses and equipment	\$	169,000
Noncash exchanges of FCC licenses and equipment	\$	61,704
Capital lease obligations incurred for equipment	\$	358,942

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Presentation The consolidated financial statements of EMF have been prepared in accordance with accounting principles generally accepted in the United States of America, which require EMF to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions: Net assets in this category are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of EMF's management and the board of directors.

Net Assets With Donor Restrictions: Net assets in this category are subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of EMF or by passage of time. Other donor restrictions are perpetual in nature, whereby the donors have stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported in the statement of activities as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Fair Value of Financial Instruments The carrying value of cash and cash equivalents, promises to give, notes receivable, and other short-term assets and liabilities approximate fair value as of December 31, 2018, due to the relatively short maturity of these instruments. The carrying amount of long-term debt reported in the statement of financial position approximates fair value because EMF can obtain similar loans at the same terms.

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

Inventories Inventories, which consist primarily of broadcasting equipment parts, are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Cost is determined on the first-in, first-out method.

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

Notes Receivable Notes receivable are recorded at the amortized amount due. In determining collectability, management takes into consideration such factors as debtor history, payment history, and existing economic conditions. Once a receivable is deemed uncollectible based on these factors, it is written off. Management has determined that no allowance for potentially uncollectible notes receivable was necessary at December 31, 2018.

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

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

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

EMF performed its annual impairment tests on its indefinite-lived assets as of December 31, 2018, which resulted in a noncash impairment charge to station operations of approximately \$16,379,000. The impairment charge reduced the carrying value of thirteen stations currently carrying K-LOVE programming and nine stations carrying Air 1 programming, and included various other station write-offs.

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

Contributions EMF receives the majority of its support from contributions received in response to periodic pledge drives for the K-LOVE and Air 1 radio networks. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as net assets with donor restrictions. Unconditional promises to give are recorded as support when a valid pledge has been received. Intentions to give are recorded when the cash is received. No allowance for unconditional promises to give was deemed necessary at December 31, 2018.

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

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

Functional Allocation of Expenses The costs of providing various program and supporting activities have been summarized on a functional basis in the statement of activities. The presentation of expenses by function and nature is included in the statement of functional expenses. EMF charges direct expenses incurred for a specific function directly to the program or supporting service category. These costs can be specifically identified as being incurred for the activities of that program or supporting service. Other costs that are incurred by EMF benefit more than one program or supporting service and are allocated on a reasonable basis that is consistently applied. Payroll and related costs are allocated based on estimates of time and effort; other costs including depreciation, listener servicing, certain occupancy and office costs, promotion and marketing, engineering, and computers and software are allocated based on estimates of usage or benefit received by each function. EMF reevaluates its allocation method each year to determine if there are adjustments that are necessary to the allocation method based on actual activities conducted during the year.

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Implementation of New Accounting Standard In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities – 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. EMF has adjusted the presentation of the accompanying consolidated financial statements accordingly.

Evaluation of Subsequent Events Management has evaluated subsequent events through May 16, 2019, the date the consolidated financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY OF ASSETS

The following represents EMF's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts invested in the quasi-endowment that could be drawn upon if the governing board approves that action, reserves for station acquisitions, and other board designations. The board has also designated an operating contingency reserve in the amount of \$30,000,000 which has not been subtracted as unavailable as it is designated for the purpose of meeting general expenditures if the need arises. Additionally, the board may vote to release board-designated net assets, making them available for general expenditures, if needed.

December 31, 2018

Financial Assets - End of Year	
Cash and cash equivalents	\$ 28,250,661
Unconditional promises to give	3,857,032
Current portion of notes receivable	62,496
Investments	\$ 67,308,379
Less: Land held for sale	(2,417,000)
Less: Endowment investments	(9,697,896)
Investments available to be liquidated	55,193,483
Other receivables	522,028
Total Financial Assets - End of Year	87,885,700
Less: Amounts Not Available to be Used Within One Year	
Board-designated net assets	(66,796,029)
Add back: Operating contingency	30,000,000
Unavailable board-designated net assets	(36,796,029)
Net assets with donor restrictions	(1,633,091)
Subtotal	(38,429,120)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$ 49,456,580

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

EMF is substantially supported by donations from listeners. The majority of these donations are unrestricted and are available to meet general expenditure obligations. In order to manage liquidity, EMF has structured its financial assets to be available as its general expenditures and liabilities come due. Additionally, EMF intends to grow the operating contingency reserve to \$55,000,000 over the next twelve months which will equate to approximately six months of operating expenses.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

December 31, 2018

Broadcast equipment	\$	87,045,473
Furniture and fixtures		10,916,057
Automobiles		393,928
Software		9,029,709
Buildings		18,115,699
Leasehold improvements		1,128,064
Land		6,485,926
Capital projects in process		5,636,354
Subtotal		138,751,210
Less: Accumulated depreciation		84,944,029
Total Property and Equipment - Net	\$	53,807,181

Depreciation expense was \$10,061,046 for the year ended December 31, 2018.

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. FAIR VALUE AND INVESTMENTS

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

- Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that EMF has the ability to access.
- Level 2:* Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or, inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 inputs must be observable for substantially the full term of the asset or liability.
- Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 13,189,147	\$ -	\$ -	\$ 13,189,147
Long-term certificates of deposit	128,140	-	-	128,140
Mutual funds by investment objective:				
Growth funds	2,244,291	-	-	2,244,291
Blend funds	16,309,774	-	-	16,309,774
Bond and fixed income funds	10,182,367	-	-	10,182,367
Equity securities by industry type:				
Healthcare	2,017,886	-	-	2,017,886
Consumer staples	523,785	-	-	523,785
Information technology	2,752,286	-	-	2,752,286
Consumer discretionary	1,633,886	-	-	1,633,886
Industrials	1,437,767	-	-	1,437,767
Financial	855,220	-	-	855,220
Utilities	593,111	-	-	593,111
Energy	533,969	-	-	533,969
Blend equities	1,132,682	-	-	1,132,682
Debt and fixed income securities:				
U.S. Treasury	6,342,259	-	-	6,342,259
Corporate	-	5,014,809	-	5,014,809
Real estate	-	-	2,417,000	2,417,000
Total Investments at Fair Value	\$ 59,876,570	\$ 5,014,809	\$ 2,417,000	\$ 67,308,379

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

	Level 3
Balance - December 31, 2017	\$ 2,417,000
Unrealized gain (loss)	-
Balance - December 31, 2018	\$ 2,417,000

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. FCC LICENSES, PERMITS, AND APPLICATION COSTS

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

December 31, 2018

Operating stations and translators	\$ 470,594,042
Pending stations and translators	9,612
Total FCC Licenses, Permits, and Application Costs	\$ 470,603,654

6. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31, 2018

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging up to 5.00%, maturing at various dates through January 2023. \$ 34,389,565

A note payable, secured by a security interest in personal property, due in periodic payments, including interest at 7.30%, maturing in December 2033. 1,310,326

Trademark license agreement, secured by interest in a trademark license, due in monthly principal payments of various amounts up to \$125,000, plus imputed interest at an effective rate of 4.01%, maturing in November 2027. 11,918,056

Total Long-Term Debt **47,617,947**

Less: Unamortized debt issuance costs 98,080

Subtotal **47,519,867**

Less: Current portion 9,783,459

Total Long-Term Debt - Net **\$ 37,736,408**

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Maturities of long-term debt are as follows:

Years Ending December 31	
2019	\$ 9,783,459
2020	9,464,403
2021	9,092,538
2022	8,853,545
2023	862,431
Thereafter	9,561,571
Total Long-Term Debt	\$ 47,617,947

Debt issuance costs are amortized over the life of the related debt instrument. Amortization expense was \$174,151 for the year ended December 31, 2018, and over the next four years is expected to be \$33,580, \$25,800, \$25,800, and \$12,900.

7. OPERATING LEASES

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

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

Years Ending December 31	
2019	\$ 12,195,522
2020	10,378,045
2021	8,563,379
2022	6,300,027
2023	4,264,878
Thereafter	10,790,613
Total	\$ 52,492,464

Rent expense was \$12,007,557 for the year ended December 31, 2018.

8. AFFILIATES AND COMMITMENTS

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

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

Years Ending December 31

2019	\$	2,568,311
2020		2,043,873
2021		1,175,922
2022		972,723
2022		280,350
Thereafter		35,000
Total	\$	7,076,179

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were \$3,806,850 for the year ended December 31, 2018.

9. ENDOWMENT

EMF's endowment consists of nine individual donor-restricted funds established for the purposes of Organizational Strength, Core Growth and Excellence, and Reach and Influence. The endowment includes both donor-restricted endowment funds, and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of EMF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, EMF classifies as donor-restricted net assets in perpetuity: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment that are required to be maintained in perpetuity, made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. EMF considers a fund to be underwater when the fair value of the fund is less than the amount of the applicable donor-restricted net assets in perpetuity. EMF has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

In accordance with UPMIFA, EMF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of EMF, and (7) EMF's investment policies.

EMF has adopted an investment and spending policy, approved by the Board of Directors, of appropriating for distribution each year 3% of its endowment fund's rolling average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. This policy is designed to protect the budget from the vagaries of year-to-year fluctuations in market returns, change of yields from year to year that result from changes in interest rates, dividend levels, and pay-out rates, and provide for gradual increase in spendable earnings from year to year. Actual returns in any given year may vary from the expectations. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. EMF may appropriate for expenditure so much of endowed funds as the Finance Committee determines is prudent and in line with the restricted purpose of the funds. EMF's spending policy is designed to maintain appropriate stewardship of perpetual funds. Accordingly, investment returns in excess of the spendable amount shall be retained to offset inflation.

The following represents endowment net assets composition by type:

December 31, 2018	Donor Restrictions		Total
	Without	With	
Board-designated endowment funds	\$ 8,849,226	\$ -	\$ 8,849,226
Donor-restricted endowment funds	-	848,670	848,670
Total	\$ 8,849,226	\$ 848,670	\$ 9,697,896

Changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Specific Purpose	In Perpetuity	
Balance - December 31, 2017	\$ -	\$ -	\$ -	\$ -
Contributions	10,000,000	-	452,054	10,452,054
Investment income - net of investment fees	175,970	14,097	-	190,067
Realized gains on investments	11,131	2,571	-	13,702
Unrealized losses on investments	(885,821)	(72,106)	-	(957,927)
Transfers from board-designated endowment	(452,054)	-	452,054	-
Balance - December 31, 2018	\$ 8,849,226	\$ (55,438)	\$ 904,108	\$ 9,697,896

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires EMF to retain in perpetuity. Deficiencies of this nature exist in nine donor-restricted endowment funds, which together have an original value of \$904,108, a fair value of \$848,670, and a deficiency of \$55,438. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds.

10. NET ASSETS

The following is a reconciliation of net assets without donor restrictions:

December 31, 2018	
Board designated:	
Station acquisitions	\$ 11,701,803
Third-party giving	225,000
Major acquisitions and strategic initiatives	16,020,000
Operating contingency	30,000,000
Endowment	8,849,226
Total Board Designated	66,796,029
Undesignated	538,558,499
Total Net Assets Without Donor Restrictions	\$ 605,354,528

The following is a reconciliation of net assets with donor restrictions:

December 31, 2018	
Restricted for purpose	\$ 250,940
Subject to passage of time	264,836
Restricted in perpetuity	1,117,315
Total Net Assets With Donor Restrictions	\$ 1,633,091

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Activity for net assets with donor restrictions was as follows:

Year Ended December 31, 2018

Contributions Restricted for Purpose	
Received during the year	\$ 2,934,436
Expended during the year	(2,710,145)
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Net Restricted Contributions Received During the Year	224,291
Expenditures of prior years' purpose restricted net assets	(90,719)
Prior years' purpose restricted net assets transferred to endowment	(125,115)
Investment loss on endowment	(55,438)
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Net Decrease in Net Assets Restricted for Purpose	(46,981)
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Contributions Restricted by Passage of Time	
Received during the year	153,069
Expended during the year	(75,000)
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Net Contributions Restricted by Passage of Time	78,069
Expenditure of prior years' net assets restricted by passage of time	(100,000)
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Net Decrease in Net Assets Restricted by Passage of Time	(21,931)
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Contributions Restricted in Perpetuity	
Received during the year	540,146
Transferred from purpose-restricted net assets	125,115
Transferred from board-designated endowment	452,054
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Net Increase in Net Assets Restricted in Perpetuity	1,117,315
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Increase in Net Assets With Donor Restrictions	1,048,403
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Net Assets With Donor Restrictions - Beginning of Year	584,688
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Net Assets With Donor Restrictions - End of Year	\$ 1,633,091

11. CONCENTRATIONS AND CONTINGENCIES

Credit Risk

EMF maintains its cash accounts in depositories that are insured by the FDIC, generally to \$250,000 per institution. As of December 31, 2018, \$31,499,065 of EMF's cash accounts in depositories was uninsured.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. RETIREMENT PLAN

EMF sponsors a 401(k) defined contribution retirement plan covering all employees who meet the plan's age and service requirements. Eligible employees may elect to make salary deferral contributions to the plan up to certain annual limits. EMF may elect to make discretionary matching contributions based on employee salary deferral contributions, discretionary profit sharing contributions, or a combination of both. Employer contributions to the plan were \$1,129,035 for the year ended December 31, 2018.

13. SELF-INSURED HEALTH PLAN

EMF provides a self-insured health plan for eligible employees. EMF has purchased stop-loss insurance in order to limit its exposure, which will reimburse EMF for claims incurred for a covered individual exceeding \$125,000 annually, with an unlimited annual maximum benefit per covered person; or aggregate claims exceeding approximately \$4,381,000, up to a maximum reimbursement of \$1,000,000 annually. EMF funds its self-insurance obligations based on actual claims reported by the program's third-party administrator. Additionally, EMF has estimated a liability for claims incurred but not yet reported using industry averages and actual claims history, which is included in accrued expenses. At December 31, 2018, the accrued liability for self-insured claims incurred but not yet reported approximated \$329,000.

14. JOINT COST ALLOCATION

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

December 31, 2018

Program services	\$	440,918
General administration		214,155
Fundraising		394,217
Total	\$	1,049,290

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SUBSEQUENT EVENTS

As of May 16, 2019, EMF acquired two radio signals in separate transactions with an aggregate purchase price of \$1,415,000, which was paid in cash.

As of May 16, 2019, EMF has entered into agreements to acquire 23 radio signals in separate transactions with aggregate purchase prices totaling \$107,029,000. Of this amount, \$20,000,000 was paid as a deposit as of December 31, 2018; \$34,029,000 will be paid in cash; and \$53,000,000 will be financed through a new bank note payable. The new bank note will be amortized over 72 months at a variable interest rate equal to the three-month LIBOR rate plus 200 basis points. In addition, these transactions include the exchange of six EMF FM translators with a book value of \$62,150.

As of May 16, 2019, EMF has entered into cooperation agreements with four different parties related to the proposed relocation of a radio signal to a larger market, with an aggregate price of \$1,000,000 to be paid in cash.

16. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued ASU, 2016-02, *Leases*. This ASU intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Previous to this ASU, entities were allowed to exclude from the balance sheet leases classified as operating leases. This ASU requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. EMF's management has not yet determined the impact that implementation of this update will have on the consolidated financial statements. The ASU is effective for the year ending December 31, 2020, and will be applied retrospectively.