

Educational Media Foundation

Rocklin, California

CONSOLIDATED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2016



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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, 2016; the related consolidated statements of activities, natural expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Educational Media Foundation and subsidiaries as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KCoe Jam, LLP

April 26, 2017
Chico, California

Educational Media Foundation
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 24,973,101
Unconditional promises to give	3,032,245
Prepaid expenses	2,362,097
Current portion of notes receivable	183,019
Short-term investments	10,000,000
Inventories	1,846,867
Other receivables	1,395,299

Total Current Assets 43,792,628

Property and Equipment

Net of accumulated depreciation 55,232,580

Other Assets

Deposits and other	604,394
Notes receivable - net of current portion	106,559
Long-term investments	47,465,844
FCC licenses, permits, and application costs	373,460,533
Trademarks	676,766

Total Other Assets 422,314,096

TOTAL ASSETS \$ 521,339,304

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 6,912,353
Current portion of long-term debt	21,803,063

Total Current Liabilities 28,715,416

Long-Term Debt

Net of current portion 19,242,438

Total Liabilities 47,957,854

Net Assets

Unrestricted net assets:	
Board designated	7,128,426
Undesignated	465,590,315
Temporarily restricted net assets	662,709

Total Net Assets 473,381,450

TOTAL LIABILITIES AND NET ASSETS \$ 521,339,304

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

UNRESTRICTED NET ASSETS

Revenue, Support, and Gains

Contributions	\$ 162,105,599
Business underwriting grants	7,879,717
Interest and dividend income	536,364
Miscellaneous income	6,851,872
Net gain on disposal of assets	625,997
Net assets released from restrictions	1,014,958

Total Revenue, Support, and Gains 179,014,507

Expenses and Losses

Program services	95,373,250
Supporting services:	
General administration	11,165,949
Fundraising	6,462,005

Total Expenses 113,001,204

Net loss on extinguishment of debt 97,266

Total Expenses and Losses 113,098,470

Increase in Unrestricted Net Assets 65,916,037

TEMPORARILY RESTRICTED NET ASSETS

Revenue and Support

Contributions	213,404
Net assets released from restrictions	(1,014,958)

Decrease in Temporarily Restricted Net Assets (801,554)

Increase in Net Assets 65,114,483

Net Assets - Beginning of Year 408,266,967

Net Assets - End of Year \$ 473,381,450

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF NATURAL EXPENSES

Year Ended December 31, 2016

Payroll and related	\$ 36,053,003
Occupancy	1,024,742
Listener servicing	2,663,443
Office	4,243,897
Programming	450,441
Website	1,925,782
Promotion and advertising	5,929,795
Travel and entertainment	2,799,299
Engineering	14,264,629
Donations	116,982
Interest	2,192,794
Administrative	1,973,925
Computers and software	2,976,669
Professional consulting	2,743,293
Depreciation	9,470,016
Station operations	24,172,494
Total Expenses	\$ 113,001,204

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

Educational Media Foundation
CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 65,114,483
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	9,470,016
Amortization of debt issuance costs	281,287
Impairment charge on indefinite-lived assets	12,258,888
Noncash contributions	(57,872)
Net gain on disposal of assets	(625,997)
Net loss on extinguishment of debt	97,266
Net change in operating assets and liabilities:	
Increase in unconditional promises to give	(630,941)
Increase in prepaid expenses	(973,561)
Increase in inventories	(122,154)
Increase in other receivables	(671,997)
Decrease in deposits and other	306,065
Increase in accrued interest on notes receivable	(6,130)
Decrease in accounts payable and accrued expenses	(277,646)
NET CASH PROVIDED BY OPERATING ACTIVITIES	84,161,707
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for property and equipment	(13,093,615)
Payments for FCC licenses	(20,867,341)
Payments for deposits on future acquisition of FCC licenses	(263,750)
Payments for trademark costs	(53,387)
Proceeds from sale of assets	2,438,902
Principal payments received on notes receivable	17,812
Notes receivable issued	(40,000)
Net increase in short-term investments	(10,000,000)
Net increase in long-term investments	(20,320,950)
NET CASH USED IN INVESTING ACTIVITIES	(62,182,329)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	5,000,000
Payments for debt issuance costs	(25,000)
Principal payments on bonds and notes payable	(25,021,880)
NET CASH USED IN FINANCING ACTIVITIES	(20,046,880)
Increase in Cash and Cash Equivalents	1,932,498
Cash and Cash Equivalents - Beginning of Year	23,040,603
Cash and Cash Equivalents - End of Year	\$ 24,973,101

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, 2016

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest expense	\$ 1,979,929
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**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND
FINANCING ACTIVITIES**

Deposits applied in the acquisition of FCC licenses and equipment	\$ 1,615,750
Exchange of FCC licenses and equipment	\$ 467,916
Notes receivable issued in the sale of assets	\$ 52,500

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.

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

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

Fair Value of Financial Instruments The carrying value of cash and cash equivalents, promises to give, notes receivable, and other short-term assets and liabilities approximate fair value as of December 31, 2016, due to the relatively short maturity of these instruments. The carrying amount of long-term debt reported in the statement of financial position approximates fair value because EMF can obtain similar loans at the same terms.

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

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

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

Notes Receivable Notes receivable are recorded at the amortized amount due. In determining collectability, management takes into consideration such factors as debtor history, payment history, and existing economic conditions. Once a receivable is deemed uncollectible based on these factors, it is written off. Management has determined that no allowance for potentially uncollectible notes receivable was necessary at December 31, 2016.

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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. Certificates of deposit that are not debt securities are carried at cost. Certificates of deposit with original maturities greater than three months and remaining maturities of less than one year are classified as short-term investments.

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.

EMF performed its annual impairment tests on its indefinite-lived assets as of December 31, 2016, which resulted in a noncash impairment charge to station operations of approximately \$12,259,000. The impairment charge reduced the carrying value of 27 stations currently carrying K-LOVE programming and 31 stations carrying Air 1 programming, as well as various other station disposals.

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

Contributions EMF receives the majority of its support from contributions received in response to periodic pledge drives for the K-LOVE and Air 1 radio networks. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, EMF reports the support as unrestricted. Unconditional promises to give are recorded as support when a valid pledge has been received. Intentions to give are recorded when the cash is received. No allowance for unconditional promises to give was deemed necessary at December 31, 2016.

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

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

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

Implementation of New Accounting Standard The Company adopted the provisions of FASB Accounting Standard Update (ASU) 2015-03, *Interest – Imputation of Interest*. This update simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of the debt liability. As a result, debt issuance costs have been reported in accordance with the guidance of this statement for December 31, 2016.

Subsequent Events Management has evaluated subsequent events through April 26, 2017, the date on which the consolidated financial statements were available to be issued.

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

December 31, 2016	
Broadcast equipment	\$ 85,818,391
Furniture and fixtures	8,502,230
Automobiles	699,047
Software	7,409,291
Buildings	17,418,862
Leasehold improvements	891,704
Land	6,210,802
Capital projects in process	6,298,686
Total	133,249,013
Less: Accumulated depreciation	78,016,433
Total Property and Equipment - Net	\$ 55,232,580

Depreciation expense was \$9,470,016 for the year ended December 31, 2016.

3. FAIR VALUE AND INVESTMENTS

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

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

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

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2016.

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.

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

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

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

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

December 31, 2016	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 15,162,332	\$ -	\$ -	\$ 15,162,332
Long-term certificates of deposit	131,354	-	-	131,354
Mutual funds by investment objective:				
Growth funds	797,862	-	-	797,862
Blend funds	6,589,431	-	-	6,589,431
Equity securities by industry type:				
Healthcare	1,234,319	-	-	1,234,319
Consumer staples	857,917	-	-	857,917
Information technology	1,856,108	-	-	1,856,108
Consumer discretionary	718,790	-	-	718,790
Industrials	2,020,587	-	-	2,020,587
Materials	247,262	-	-	247,262
Financial	1,229,755	-	-	1,229,755
Telecommunications services	268,279	-	-	268,279
Utilities	408,153	-	-	408,153
Energy	592,563	-	-	592,563
Real estate	177,261	-	-	177,261
Blend equities	2,836,245	-	-	2,836,245
Debt and fixed income securities:				
U.S. Treasury	955,807	-	-	955,807
Corporate	-	8,964,819	-	8,964,819
Real estate	-	-	2,417,000	2,417,000
Total Assets at Fair Value	\$ 36,084,025	\$ 8,964,819	\$ 2,417,000	\$ 47,465,844

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

	Level 3
Balance - December 31, 2015	\$ 2,417,000
Unrealized gain (loss)	-
Balance - December 31, 2016	\$ 2,417,000

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FCC LICENSES, PERMITS, AND APPLICATION COSTS

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

December 31, 2016

Operating stations and translators	\$ 373,097,611
Pending stations and translators	362,922
Total FCC Licenses, Permits, and Application Costs	\$ 373,460,533

5. LONG-TERM DEBT

Long-term debt consists of the following:

December 31, 2016

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging up to 5.75%, maturing at various dates through January 2023. \$ 14,416,749

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging from 7.00% to 7.33%, maturing at various dates through December 2033. 1,450,400

Tax-exempt bonds payable, secured by commercial deeds of trust and security interests in personal property, due in aggregate monthly payments of approximately \$166,000, including interest at rates ranging from 3.98% to 4.24%, maturing at various dates through January 2019. 3,780,331

Tax-exempt bonds payable, secured by security interests in personal property, due in quarterly principal payments of \$2,376,031, plus interest at an effective rate of 2.76%, maturing in October 2018. 19,008,250

Balance Forward **\$ 38,655,730**

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

December 31, 2016

Balance Brought Forward	\$ 38,655,730
Taxable bonds payable, secured by security interests in personal property, due in quarterly principal payments of \$353,969, plus interest at an effective rate of 3.91%, maturing in October 2018.	2,831,750
Total Long-Term Debt	41,487,480
Less: Unamortized debt issuance costs	441,979
Subtotal	41,045,501
Less: Current portion	21,803,063
Total Long-Term Debt - Net	\$ 19,242,438

Maturities of long-term debt are as follows:

Years Ending December 31

2017	\$ 21,803,063
2018	16,003,409
2019	1,198,330
2020	846,596
2021	420,297
Thereafter	1,215,785
Total Long-Term Debt	\$ 41,487,480

Debt issuance costs are amortized over the life of the related debt instrument. Amortization expense was \$281,287 for the year ended December 31, 2016, and over the next three years is expected to be \$285,848, \$149,527, and \$6,604.

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. OPERATING LEASES

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

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

Years Ending December 31	
2017	\$ 10,475,894
2018	8,695,493
2019	7,392,309
2020	5,543,471
2021	3,843,687
Thereafter	6,605,219
Total	\$ 42,556,073

Rent expense was \$10,133,025 for the year ended December 31, 2016.

7. AFFILIATES AND COMMITMENTS

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

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

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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	
2017	\$ 3,415,042
2018	2,070,742
2019	1,026,605
2020	761,104
2021	41,753
Total	\$ 7,315,246

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were \$4,486,411 for the year ended December 31, 2016.

8. NET ASSETS

Designated Net Assets

The Board of Directors of EMF designates a portion of unrestricted net assets for future acquisitions and general reserves. The amount of this designation was \$7,128,426 at December 31, 2016.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the balance of donor restricted contributions that have not been expended for their restricted purpose at the end of the year. The following is a reconciliation of temporarily restricted net assets as of December 31, 2016:

Designated Contributions	
Received during the year	\$ 450,054
Expended during the year	(236,650)
Net Designated Contributions Received During the Year	213,404
Expenditures of prior years' temporarily restricted net assets during the current year	(1,014,958)
Net Decrease in Temporarily Restricted Net Assets	(801,554)
Temporarily Restricted Net Assets - Beginning of Year	1,464,263
Temporarily Restricted Net Assets - End of Year	\$ 662,709

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. CONCENTRATIONS AND CONTINGENCIES

Credit Risk

EMF maintains its cash accounts in depositories that are insured by the FDIC, generally to \$250,000 per institution. As of December 31, 2016, \$25,023,365 of EMF's cash accounts in depositories was uninsured.

10. RETIREMENT PLAN

EMF sponsors a 401(k) defined contribution retirement plan covering all employees who meet the plan's age and service requirements. Eligible employees may elect to make salary deferral contributions to the plan up to certain annual limits. EMF may elect to make discretionary matching contributions based on employee salary deferral contributions, discretionary profit sharing contributions, or a combination of both. Employer contributions to the plan were \$829,686 for the year ended December 31, 2016.

11. SELF-INSURED HEALTH PLAN

EMF provides a self-insured health plan for eligible employees. EMF has purchased stop-loss insurance in order to limit its exposure, which will reimburse EMF for claims incurred for a covered individual exceeding \$125,000 annually, with an unlimited annual maximum benefit per covered person; or aggregate claims exceeding approximately \$4,753,000, up to a maximum reimbursement of \$1,000,000 annually. EMF funds its self-insurance obligations based on actual claims reported by the program's third-party administrator. Additionally, EMF has estimated a liability for claims incurred but not yet reported using industry averages and actual claim history, which is included in accrued expenses. At December 31, 2016, the accrued liability for self-insured claims incurred but not yet reported approximates \$509,000.

12. JOINT COST ALLOCATION

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

Year Ended December 31, 2016

Program services	\$	470,546
General administration		251,669
Fundraising		365,010
Total	\$	1,087,225

Educational Media Foundation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SUBSEQUENT EVENTS

During 2017, EMF acquired four radio stations in three separate transactions with an aggregate purchase price of \$3,730,000, which was paid in cash.

As of April 26, 2017, EMF entered into agreements to acquire seven radio signals in separate transactions with an aggregate purchase price totaling \$8,595,000. EMF has also entered into an agreement to sell equipment totaling \$905,000. All of these transactions will be paid in cash. EMF has also agreed to acquire a station for \$700,000 cash plus 75% of the net proceeds from a station sale, which is expected to sell for \$130,000.

14. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2015, FASB issued ASU, 2015-11, *Inventory (Topic 330) Simplifying the Measurement of Inventory*. This ASU changes the valuation of inventory from the lower of cost and market to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU intends to reduce the complexity in valuing inventory. EMF's management has not yet determined the impact the implementation of this update will have on the consolidated financial statements. The ASU is effective for the year ending December 31, 2017, and will be applied prospectively.

In February 2016, FASB issued ASU, 2016-02, *Leases (Topic 842)*. 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.