FAMILY STATIONS, INC.

(A California Not-For-Profit Corporation)

And Its Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND DECEMBER 31, 2015

FAMILY STATIONS, INC.
And Its Affiliates

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DECEMBER 31, 2016 AND 2015

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RINA

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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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.

Oakland • Walnut Creek • San Francisco Member of MGI

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedule I and Schedule II starting on page 18 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RINA accountancy corporation

Certified Public Accountants

San Francisco, California
April 12, 2017

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS		December 31, 2016		December 31, 2015
CURRENT:				
Cash and cash equivalents		$ 13,702,715		$ 16,084,929
Investments		28,109		27,274
Funds held in trust		331,645		365,754
Receivables				
Accounts receivable		65,041		86,699
Employee receivables		13,826		8,738
Note receivable		-		17,000
Inventory for equipment on hand		12,530		12,530
Prepaid expenses		198,600		113,077
TOTAL CURRENT ASSETS		14,352,466		16,716,001
PROPERTY AND EQUIPMENT, net		16,809,765		15,734,980
OTHER:				
Federal Communications Commission licenses, net		38,442,227		44,192,019
Charitable remainder trusts		99,939		92,180
Escrow deposits and prepaid expenses		58,781		39,031
		$ 69,763,178		$ 76,774,211
LIABILITIES				
CURRENT:				
Accounts payable		$ 252,838		$ 576,345
Accrued liabilities		302,954		310,651
Tenant deposits		22,245		19,612
Listener and sponsor notes payable		331,645		365,754
Deferred revenue		200,000		200,000
TOTAL CURRENT LIABILITIES		1,109,682		1,472,362
LONG-TERM:				
Term loan debt financing, net of debt financing fees of $599,269 and $960,014, respectively		50,074,492		43,975,652
Revolving loan debt financing		1,174,958		1,036,809
Accrued loan fees		117,876		82,521
TOTAL LIABILITIES		52,477,008		46,567,344
NET ASSETS				
Unrestricted	$ 17,286,170		$ 30,206,867	
Temporarily restricted	-		-	
Permanently restricted	-		-	
		17,286,170		30,206,867
		$ 69,763,178		$ 76,774,211

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016		Year Ended December 31, 2015	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Decrease in net assets		$ (12,920,697)		$ (7,311,474)
Adjustments to reconcile changes in net assets to net cash provide (used) by operating activities:				
Depreciation	$ 672,919		$ 639,374	
Interest expense - amortization of debt financing fees	360,744		359,759	
Loss on impairment of station licenses- non-cash item	5,746,290		-	
Funds held in trust for others	34,109		1,087,333	
Gain on sale of property, equipment and station licenses	(2,177,051)		(838,378)	
Unrealized gain on marketable securities	(237)		(5,067)	
Capitalized interest on loan proceeds - non-cash item	5,911,599		5,199,395	
Unrealized (gain) loss on charitable remainder trusts	(7,759)		51,587	
Decrease (increase) in:				
Receivables	16,570		21,389	
Prepaid expenses	(85,523)		31,387	
Increase (decrease) in:				
Accounts payable	(323,507)		461,670	
Accrued liabilities	(7,697)		(185,453)	
Tenant deposits	2,633		19,612	
Deferred revenue	-	10,143,090	200,000	7,042,608
NET CASH USED BY OPERATING ACTIVITIES		(2,777,607)		(268,866)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of station licenses, property and equipment	2,428,025		1,853,246	
Acquisition of property, equipment and station licenses	(1,995,175)		(17,835,486)	
Acquisition of marketable securities	(598)		-	
Note receivable	17,000		1,000	
Decrease (increase) in deposits and other prepaids	(19,750)		645,351	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		429,502		(15,335,889)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from notes payable	-		100,000	
Payments on notes payable	(34,109)		(1,087,333)	
NET CASH USED BY FINANCING ACTIVITIES		(34,109)		(987,333)
NET DECREASE IN CASH		(2,382,214)		(16,592,088)
CASH AND CASH EQUIVALENTS, beginning of year		16,084,929		32,677,017
CASH AND CASH EQUIVALENTS, end of year		$ 13,702,715		$ 16,084,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest		$ 1,942		$ 5,360
Income taxes		$ -		$ -

See notes to consolidated financial statements.

FAMILY STATIONS, INC.
And Its Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2016	Year Ended December 31, 2015
SUPPORT AND REVENUE:		
Contributions	$ 4,793,184	$ 6,134,822
Program service fees	600,000	400,000
TOTAL SUPPORT	5,393,184	6,534,822
OPERATING EXPENSES:		
Broadcasting stations	4,736,259	5,406,083
Departments	4,326,672	3,956,780
TOTAL OPERATING EXPENSES	9,062,932	9,362,863
EXCESS OF OPERATING EXPENSES OVER SUPPORT	(3,669,748)	(2,828,041)
OTHER REVENUE (EXPENSES):		
Gain on sale of station licenses, property and equipment	2,177,051	838,378
Interest expense -amortization of debt financing fees	(360,744)	(359,759)
Lease income and air time revenue	497,726	441,672
Unrealized (loss) gain on charitable remainder trust	7,759	(51,587)
Miscellaneous revenue (expense)	132,139	(9,723)
Dividend and interest income	684	5,444
Unrealized gain on securities	237	5,067
Bad debt expense	(21,171)	-
Income and sales tax expense	(9,142)	(3,028)
Fees for sale of assets	(9,691)	(118,966)
Interest expense	(5,919,507)	(5,230,931)
Impairment loss	(5,746,290)	-
DECREASE IN NET ASSETS	(12,920,697)	(7,311,474)
NET ASSETS, beginning of year	30,206,867	37,518,341
NET ASSETS, end of year	$ 17,286,170	$ 30,206,867

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2016 AND DECEMBER 31, 2015

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. Pursuant to the terms of the Financing Agreement described in Note 9, Family Stations of New Jersey formed two single member limited liability companies under Delaware law in 2013. Family License Co., LLC holds the WFME license and Family OpCo, LLC owns the remaining assets. Family Stations of New Jersey is the single member owner of each LLC.

Financial statement presentation:

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Corporation. There were no permanently restricted net assets at December 31, 2016 and December 31, 2015.

Temporarily restricted net assets – Net assets restricted by donor-imposed stipulations that either expire with the passage of time or the satisfaction of the stipulations by the Corporation. There were no temporarily restricted net assets at December 31, 2016 and December 31, 2015.

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

Principles of consolidation:

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

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

Fair value measurements:

Professional accounting standards establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

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

Following is a description of the valuation methodologies used for assets measure at fair value:

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

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

Income taxes:

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

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

Cash equivalents:

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

Accounts receivables:

The Corporation uses an allowance method of accounting for bad debts. The Corporation determined that no allowance was necessary for the year ended December 31, 2016 or December 31, 2015. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Assets held for sale or investment:

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

Depreciation:

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

Prepaid station acquisition costs:

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

Recognition of support from contributions:

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

Charitable remainder trusts:

The Corporation has been named as a beneficiary of 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.

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

Long-lived assets:

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

Recent accounting pronouncements:

In August 2015 the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update No. 2015-15, Interest – Imputation of Interest,* which requires entities to present debt issuance costs related to recognized debt liability as a direct deduction from the carrying amount of that debt liability. Debt issuance costs represent financing fees and expenses that have been capitalized in conjunction with financing arrangements. These costs are amortized to interest expense over the term of the respective loans. Debt issuance costs are reported on the balance sheet as a direct deduction from the carrying amount of the debt. The pronouncement is effective for fiscal years beginning after December 15, 2015. The Corporation has elected to adopt the update early for the year ending December 31, 2015.

Reclassifications:

Certain amounts appearing in the 2015 financial statements may have been reclassified to conform to the 2016 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 April 12, 2017, the date which the financial statements were available for issue.

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

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

Note 4. INVESTMENTS:

The following table sets forth by level, the Corporation's investment assets at fair value as of December 31, 2016 and 2015:

Assets at Fair Value as of December 31, 2016

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	$ 28,109	$ -	$ -	$ 28,109
Charitable remainder trusts	-	-	99,939	99,939
Assets at fair value	$ 28,109	$ -	$ 99,939	$ 128,048

Assets at Fair Value as of December 31, 2015

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

The following table sets forth a summary of changes in the fair value of level 3 assets for the year ended December 31, 2016:

	Charitable Remainder Trust
Balance, beginning of year	$ 92,180
Unrealized gains relating to instrument still held at the reporting date	7,759
Balance, at end of year	$ 99,939

Note 5. PREPAID EXPENSES:

Prepaid expenses consist of the following at December 31, 2016 and December 31, 2015:

	2016	2015
Broadcasting costs	$ 28,776	$ 44,736
Insurance	27,724	25,137
Postage	3,380	31,714
Prepaid real estate taxes	130,380	-
Miscellaneous	8,340	11,490
Totals	$ 198,600	$ 113,077

Note 6. PROPERTY AND EQUIPMENT:

Property and equipment at December 31, 2016 comprised the following:

	Cost	Accumulated Depreciation	Net
Land and improvements	$ 8,291,843	$ (251)	$ 8,291,592
Building	5,765,630	(548,507)	5,217,123
Leasehold improvements	2,558,406	(2,507,191)	51,215
Towers, transmitters, antenna systems and translators	7,919,721	(5,769,268)	2,150,453
Studio equipment	2,271,142	(1,997,643)	273,499
Office equipment	2,667,818	(2,475,232)	192,586
Automobiles	61,308	(61,308)	-
Satellite system	1,080,559	(853,529)	227,030
IT infrastructure & end-user	494,049	(208,270)	285,779
Construction in progress	120,488	-	120,488
Totals	$ 31,230,964	$ (14,421,199)	$ 16,809,765

Note 6. PROPERTY AND EQUIPMENT (Continued):

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

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

Note 7. FEDERAL COMMUNICATIONS COMMISSION LICENSES:

Prior to January 1, 2002, the costs of some of the Corporation's Federal Communication Commission licenses had been amortized by the Corporation on a straight-line basis over a period of forty years as required by generally accepted accounting principles then in effect. In accordance with accounting standards, this systematic amortization of license costs was discontinued. The Corporation evaluates these assets on an annual basis for potential impairment. The Corporation has determined that the value of two of its AM stations in the Baltimore area were impaired in value in the amount of $ 5,746,290 as of December 31, 2016 . The Corporation did not consider its station licenses to be impaired as of December 31, 2015.

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

	December 31, 2016	December 31, 2015
FCC licenses, cost	$ 40,565,565	$ 46,315,493
FCC licenses held for sale, cost	184,995	184,995
Less accumulated amortization	(2,308,333)	(2,308,469)
Net costs	$ 38,442,227	$ 44,192,019

Note 7. FEDERAL COMMUNICATIONS COMMISSION LICENSES (Continued):

On December 16, 2015, Family Stations of New Jersey, Inc. ("FSINJ") filed notice with the FCC of its intent to tender its station license in connection with Incentive Auction 1001. On March 28, 2016, FSINJ submitted an Initial Commitment to the FCC to participate in the auction. The FCC has announced that the auction has satisfied the requirements of the incentive auction's Final Stage Rule and the Forward Auction was concluded on February 10, 2017. The Corporation estimates that the amount to be received from the Spectrum Auction will be approximately $121,000,000, of which 14% will be paid to FSINJ. The remaining proceeds will used to repay amounts outstanding under the Financing Agreement and then to the Lenders. The station license assets of $184,995 have been accounted for as held for sale as of December 31, 2016.

Note 8. ACCRUED LIABILITIES:

Accrued liabilities consist of the following at December 31, 2016 and December 31, 2015:

	2016	2015
Interest payable	$ 13,329	$ 7,689
PTO	138,978	151,991
Payroll and taxes	104,074	88,358
Accrued state unemployment tax	2,398	52,271
Other	44,169	10,342
Totals	$ 302,948	$ 310,651

Note 9. NOTES PAYABLE:

On September 3, 2013, Family Stations of New Jersey, Inc. ("FSINJ") entered into a Financing Agreement with CF WFME, LLC as Administrative Agent and Lender ("Lender"). Pursuant to the terms of the agreement, Lender extended credit to FSINJ consisting of (a) a revolving credit facility not to exceed $3,000,000 at any time and (b) a term loan in the aggregate amount of $34,000,000. Interest is payable at 12% annually, provided however, that interest is to be paid by adding it quarterly to the principal amount outstanding under either the revolving credit facility or the term loan.

The revolving credit facility and the term loan may be prepaid at any time without penalty. Repayment of both loans is due on September 3, 2017; provided, however, that the final maturity date may be extended to December 31, 2022, upon the provision of notice to the Lenders that the proposed FCC Auction of broadcast television spectrum has not taken place. The Corporation has filed an extension notice to extend the maturity date of the loans to September 3, 2018. FSINJ owns the license to WFME-TV and has filed notice to participate in the FCC Auction as described above in Note 7.

The revolving credit facility funds the ongoing operations of Family OpCo, LLC. The term loan has been made to facilitate the participation of the Lenders in the outcome of the FCC Auction. The Financing Agreement is secured by the assets of FSINJ and the assets of the single member LLC's described in Note 1. As of December 31, 2016, there was $1,174,958 outstanding under the revolving credit facility and $50,673,761 outstanding under the term loan. As of December 31, 2015, there was $1,036,809 outstanding under the revolving credit facility and $44,935,666 outstanding under the term loan.

Note 9. NOTES PAYABLE (Continued):

The term loan added interest to principal totaling $5,738,096 and $5,075,441 in 2016 and 2015, respectively.

The revolving credit facility added interest to principal totaling $138,149 and $124,143 in 2016 and 2015, respectively.

Amount of interest charges to expense totaled $5,911,600 and $5,199,395 in 2016 and 2015, respectively.

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

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

In 2016, the Corporation retroactively adopted the requirements of Accounting Standards Update No. 2015-15, Interest – Imputation of Interest to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Long term debt as of December 31, 2015 was previously reported on the consolidated statement of financial position as $44,935,666 with the associated $960,014 unamortized debt issuance costs included in other assets.

Amortization of the debt issuance costs is reported as interest expense in the consolidated statement of activities.

Note 10. NOTES PAYABLE TO SPONSORS:

On December 1, 2014 the Corporation retired all promissory notes to sponsors. The total amount of funds held in trust for disbursement to sponsors totaled $331,645and $365,754 at December 31, 2016 and 2015, respectively. These funds have been classified as a current liability.

Note 11. SALE OF STATION LICENSES AND ASSETS:

During the year ended December 31, 2016, the Corporation sold the following stations and assets:

	Proceeds and Asset Exchanges	Book Value & Closing Costs	Gain / (Loss)
Office building	$ 1,312,216	$ (61,721)	$ 1,250,495
Real property - parking	361,535	(2,500)	359,035
KPOR	315,000	(24,863)	290,137
W241BK/W239	80,000	(25,677)	54,323
K236AA	60,000	(2,500)	57,500
K201CQ; W208BU	55,000	(8,879)	46,121
W287AB	53,150	(2,502)	50,648
W255BC	50,000	(15,911)	34,089
W286BJ	50,000	(7,782)	42,218
W243CT; AJEJMC	40,000	(7,837)	32,163
K225BB	40,000	(25,560)	14,440
K211FX	35,000	(2,504)	32,496
K11VZ-D - KRDT	22,000	(50,905)	(28,905)
SMYRNA	17,000	(2,500)	14,500
KYTL	5,000	(75,912)	(70,912)
Other Smaller Assets	2,500	(3,798)	(1,298)
	$ 2,498,401	$ (321,350)	$ 2,177,051

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

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

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 seven leases in 2016 and eight leases in 2015, which provided lease income of $345,900 and $253,100, respectively, for the years ended December 31, 2016 and 2015.

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 December31, 2016 and 2015. 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 $151,788 and $188,577 in gross revenue under these agreements during the years ended December 31, 2016 and December 31, 2015, respectively.

Television facilities:

On March 20, 2015, the Corporation entered into an agreement with Metro Chinese Network Distributors, to broadcast the networks English and foreign language television program service which features world news, informational and light entertainment programming originating from China. This agreement is for $50,000 a month and ends on April 30, 2018.

Note 13. OPERATING EXPENSES:

Major categories of operating expenses are as follows:

	Years Ended December 31, 2016	Years Ended December 31, 2015
Program Services	$ 6,472,573	$ 6,632,906
Management & General	1,683,733	1,864,743
Fundraising	906,626	865,212
Totals	$ 9,062,932	$ 9,362,861

Note 14. COMMITMENTS:

At December 31, 2016, the Corporation has multiple long-term operating type leases for certain transmitter sites, office space, and satellite channels. These leases are subject to automatic renewal periods ranging from 5 – 10 years with annual escalations from CPI – 5% depending on the lease. A majority of these leases are restricted from subleasing. The Corporation is liable for minimum annual lease payments as follows:

Year Ending December 31,	
2017	$ 825,360
2018	704,848
2019	460,200
2020	278,600
2021	156,126
Thereafter	659,244
Total	$ 3,084,378

Rent expense was $1,391,388 and $1,496,174 and for the years ended December 31, 2016 and 2015, respectively.

Note 15. CONTINGENCIES:

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

FAMILY STATIONS, INC.
And Its Affiliates

SUPPLEMENTARY INFORMATION

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2016		Year Ended December 31, 2015	
WFME	Kisco, NY	$ 843,380	17.60 %	$ 911,293	14.85 %
KEAR-AM	San Francisco, CA	666,039	13.90	621,442	10.13
WKDN-AM	Philadelphia, PA	371,941	7.76	391,743	6.39
WFSI-AM	Baltimore, MD	340,717	7.11	333,204	5.43
WFME-AM	Queens, NY	223,981	4.67	157,857	2.57
KEBR-AM & KEAR FM	Sacramento, CA	220,705	4.60	253,146	4.13
KFRN-AM	Long Beach, CA	210,980	4.40	225,847	3.68
KECR-AM	Lakeside, CA	185,475	3.87	197,427	3.22
WJCH-FM	Joilet, IL	155,710	3.25	185,027	3.02
WFRS-FM	Smithtown, NY	127,223	2.65	140,729	2.29
KEFR-FM	Le Grand, CA	88,033	1.84	79,964	1.30
WJFR-FM	Jacksonville, FL	78,451	1.64	107,454	1.75
WWFR-FM	Okeechobee, FL	76,739	1.60	48,752	0.79
KTXB-FM	Beaumont, TX	54,271	1.13	57,737	0.94
WEFR-FM	Erie, PA	50,194	1.05	21,204	0.35
WFCH-FM	Charleston, SC	46,162	0.96	39,933	0.65
KYFR-AM	Shenandoah, IA	45,834	0.96	57,970	0.94
WCUE-AM	Cuyahoga Falls, OH	43,032	0.90	45,222	0.74
KPHF-FM	Phoenix, AZ	37,848	0.79	29,539	0.48
WOTL-FM	Toledo, OH	37,344	0.78	29,910	0.49
WMWK-FM	Milwaukee, WI	35,490	0.74	33,167	0.54
KDFR-FM	Des Moines, IA	34,743	0.72	51,324	0.84
KHAP-FM	Chico, CA	32,513	0.68	31,773	0.52
WMFL	Florida City, FL	31,614	0.66	15,897	0.26
KJVH-FM	Longview, WA	30,711	0.64	21,081	0.34
KPRA-FM	Ukiah, CA	30,037	0.63	21,919	0.36
KUFR-FM	Salt Lake City, UT	29,389	0.61	29,284	0.48
WCTF-AM	Vernon, CT	29,155	0.61	26,399	0.43

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

		Year Ended December 31, 2016		Year Ended December 31, 2015	
WFBF-FM	Buffalo, NY	$ 26,371	0.55 %	$ 27,597	0.45
KFNO-FM	Fresno, CA	24,027	0.50	28,331	0.46
WFRC-FM	Columbus, GA	22,203	0.46	20,096	0.33
WFRJ-FM	Johnstown, PA	19,236	0.40	25,217	0.41
KQFE-FM	Springfield, OR	18,753	0.39	33,004	0.54
WFRP-FM	Americus, GA	18,188	0.38	14,037	0.23
WYTN-FM	Youngstown, OH	16,953	0.35	9,702	0.16
WBFR-FM	Birmingham, AL	16,676	0.35	20,385	0.33
WFUR-AM	Grand Rapids, MI	13,735	0.29	12,639	0.21
WFRH-FM	Kingston, NY	11,026	0.23	22,156	0.36
KFRD	Butte, MT	6,042	0.13	3,582	0.06
KXFR	Socorro, NM	4,080	0.09	3,533	0.06
KYOR-FM	Newport, OR	3,898	0.08	3,545	0.06
KFRJ-FM	China Lake, CA	3,549	0.07	2,935	0.05
KFRY	Pueblo, CO	2,952	0.06	1,370	0.02
WOFR	Schoolcraft, MI	1,984	0.04	3,740	0.06
KKAA-AM	Aberdeen, SD	1,766	0.04	347	0.01
KFRW	Great Falls, MT	1,740	0.04	1,305	0.02
KFRB-FM	Bakersfield, CA	1,352	0.03	1,700	0.03
WUFR	Bedford, PA	1,036	0.02	751	0.01
KPFR	Pine Grove, OR	1,005	0.02	1,290	0.02
KFRP-FM	Coalinga, CA	492	0.01	50	-
KQKD-AM	Redfield, SD	355	0.01	500	0.01
KIFR(KEGR)	Fortdodge, IA	-	-	395	0.01
KEAF	Fort Smith, AR	-	-	6,475	0.11
KEDR	Bay City, TX	-	-	5,454	0.09
KQFR-FM	Rapid City, SD	-	-	100	-
KBFR	Bismarck, ND	-	-	34	-
WKDN-FM	State College, PA	-	-	25	-
KPOR-FM	Emporia, KS	-	-	4,733	0.08

FAMILY STATIONS, INC.
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SCHEDULE I
CONSOLIDATED SUPPORT FROM CONTRIBUTIONS

	Year Ended December 31, 2016		Year Ended December 31, 2015	
SOUTH- Other *	$ -	- %	$ 27,076	0.44 %
WEST - Other*	-	-	5,194	0.08
NORTHEAST - Other*	-	-	3,275	0.05
Syndicated programming	4,565	0.10	1,608	0.03
Unclassified	9,206	0.19	11,774	0.19
Legacies & Royalties	407,591	8.50	1,594,430	25.99
Donated revenue	-	-	76,461	1.25
Gross Support from contributions	4,796,492	100.07	6,141,090	100.10
Contribution recalled or non-sufficient funds	(3,308)	(0.07)	(6,268)	(0.10)
TOTAL SUPPORT FROM CONTRIBUTIONS	4,793,184	100.0 %	6,134,822	100.0 %

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

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES – BROADCASTING STATIONS

	Year Ended December 31, 2016		Year Ended December 31, 2015	
PERSONNEL:				
Salaries and wages	$ 744,106	13.8 %	$ 1,126,519	17.2 %
Employee benefits	38,826	0.7	43,416	0.7
Payroll taxes	72,002	1.3	109,669	1.7
Totals	854,934	15.9	1,279,604	19.6
DIRECT BROADCASTING:				
Rentals	1,312,969	24.3	1,464,855	22.4
Utilities	585,544	10.9	628,372	9.6
Depreciation	498,059	9.2	470,569	7.2
Satellite rental expense	123,790	2.3	128,102	2.0
Service monitor-stations	295,670	5.5	341,688	5.2
Telephone lines	328,608	6.1	299,938	4.6
Time purchases	118,782	2.2	143,792	2.2
Repairs and parts	3,106	0.1	18,048	0.3
Automobile expenses	39,281	0.7	33,478	0.5
Advertising	2,752	-	2,135	-
Totals	3,308,562	61.3	3,530,977	54.0
GENERAL:				
Professional services	135,491	2.5	177,426	2.7
Dues and fees	294,663	5.5	290,842	4.5
Rentals and property taxes	112,194	2.1	100,102	1.5
Travel and auto	18,581	0.3	18,706	0.3
Office supplies, postage, and printing	7,355	0.1	5,479	0.1
Repairs and maintenance	4,480	-	1,685	-
Insurance	-	-	1,262	-
Totals	572,764	10.6	595,502	9.0
TOTAL OPERATING EXPENSES - BROADCASTING STATIONS	$ 4,736,259	87.8 %	$ 5,406,083	82.6 %

FAMILY STATIONS, INC.
And Its Affiliates

SCHEDULE II
CONSOLIDATED OPERATING EXPENSES – DEPARTMENTS

	Year Ended December 31, 2016		Year Ended December 31, 2015	
PERSONNEL:				
Salaries and wages	$ 1,337,745	24.8 %	$ 904,317	13.8 %
Payroll taxes	128,177	2.4	82,021	1.3
Employee benefits	87,598	1.6	80,333	1.2
Totals	1,553,520	28.8	1,066,671	16.3
DIRECT BROADCASTING:				
Professional services	111,718	2.1	43,147	0.7
Telephone lines	19,262	0.5	29,562	0.5
Depreciation	46,436	0.9	72,228	1.1
Repairs and parts	1,657	0.0	3,511	0.1
Travel	3,721	0.1	11,254	0.2
Miscellaneous	-	-	450	0.0
Totals	182,794	3.7	160,152	2.5
GENERAL:				
Salaries and wages	997,379	18.5	1,220,584	18.7
Professional services	270,688	5.0	254,026	3.9
Utilities and telephone	184,171	3.4	229,290	3.5
Postage and printing for direct mail	292,731	5.4	268,174	4.1
Payroll taxes	119,317	2.2	117,800	1.8
Office supplies, postage and printing	178,844	3.3	184,122	2.8
Rents and property taxes	99,285	1.8	64,187	1.0
Employee benefits	108,020	2.0	95,984	1.5
Depreciation	128,424	2.4	96,577	1.5
Insurance	35,501	0.7	64,920	1.0
Repairs and maintenance	74,182	1.4	43,827	0.7
Dues and fees	74,600	1.4	78,913	1.2
Travel and auto	27,217	0.5	11,553	0.2
Totals	2,590,359	48.0	2,729,957	41.8
TOTAL OPERATING EXPENSES DEPARTMENTS	$ 4,326,672	80.3 %	$ 3,956,780	60.5 %