Matson & Isom

EDUCATIONAL MEDIA FOUNDATION

Rocklin, California

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

December 31, 2013

TABLE OF CONTENTS
December 31, 2013

MATSON & ISOM

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, 2013; 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.

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, 2013, 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.

Matson and Isom

April 21, 2014
Chico, California

December 31, 2013	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 22,128,261
Unrestricted, unconditional promises to give	2,322,380
Prepaid expenses	1,585,407
Current portion of notes receivable	1,030,072
Inventories	1,243,941
Other receivables	881,763
Total Current Assets	29,191,824
PROPERTY AND EQUIPMENT	
Net of accumulated depreciation	46,561,896
OTHER ASSETS	
Deposits and other	2,218,633
Notes receivable - net of current portion	124,009
Long-term investments	14,077,185
Bond issuance costs - net	1,241,098
FCC licenses, permits, and application costs	299,916,897
Trademarks	623,379
Total Other Assets	318,201,201
Total Assets	$ 393,954,921
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 5,886,473
Current portion of bonds and notes payable	21,558,935
Total Current Liabilities	27,445,408
LONG-TERM DEBT	
Net of current portion	77,148,222
Total Liabilities	104,593,630
NET ASSETS	
Unrestricted net assets:	
Board designated	8,634,501
Undesignated	279,811,201
Temporarily restricted net assets	915,589
Total Net Assets	289,361,291
Total Liabilities and Net Assets	$ 393,954,921

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

Year Ended December 31, 2013	
UNRESTRICTED NET ASSETS	
REVENUE, SUPPORT, AND GAINS	
Contributions	$ 133,065,624
Business underwriting grants	5,431,259
Interest income	285,308
Miscellaneous income	1,690,138
Net gain on disposal of assets	1,020,500
Net assets released from restrictions	727,845
Total Revenue, Support, and Gains	142,220,674
EXPENSES AND LOSSES	
Program services	69,492,176
Supporting services:	
General administration	7,914,741
Fundraising	5,067,444
Total Expenses	82,474,361
Net loss on extinguishment of debt	1,522,328
Total Expenses and Losses	83,996,689
Increase in Unrestricted Net Assets	58,223,985
TEMPORARILY RESTRICTED NET ASSETS	
REVENUE AND SUPPORT	
Contributions	692,253
Net assets released from restrictions	(727,845)
Decrease in Temporarily Restricted Net Assets	(35,592)
Increase in Net Assets	58,188,393
Net Assets - as Previously Reported	258,852,546
Cumulative effect of change in accounting principle	(27,679,648)
Net Assets - as Restated	231,172,898
Net Assets - End of Year	$ 289,361,291

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

Year Ended December 31, 2013	
Payroll and related	$ 30,238,128
Occupancy	944,497
Listener servicing	2,264,535
Office	3,216,757
Programming	417,704
Website	1,289,535
Promotion and donor development	1,439,141
Travel and entertainment	2,282,085
Engineering	1,825,018
Donations	642,955
Interest	5,072,444
Administrative	1,962,953
Computers and software	1,096,996
Professional consulting	1,456,859
Depreciation and amortization	8,053,237
Station operations	20,271,517
Total Expenses	$ 82,474,361

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

Year Ended December 31, 2013	
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	$ 58,188,393
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	7,865,408
Amortization	187,829
Expiration of purchase options and write-off of FCC costs	503,965
Noncash contributions	(38,613)
Net gain on disposal of assets	(1,020,500)
Net loss on extinguishment of debt	1,522,328
Net change in operating assets and liabilities:	
Increase in unrestricted, unconditional promises to give	(410,545)
Increase in prepaid expenses	(243,542)
Decrease in inventories	315,125
Increase in other receivables	(141,320)
Decrease in deposits and other	503,686
Increase in accrued interest on notes receivable	(19,095)
Increase in accounts payable and accrued expenses	881,939
Net Cash Provided by Operating Activities	68,095,058
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for property and equipment	(17,106,422)
Payments for FCC licenses	(39,433,758)
Payment for deposits on future acquisition of FCC licenses	(177,500)
Proceeds from sale of assets	1,642,094
Principal payments received on notes receivable	141,643
Advances on notes receivable	(276,500)
Net decrease in long-term investments	258,682
Net Cash Used by Investing Activities	(54,951,761)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	58,752,889
Payments for bond issuance costs	(1,001,350)
Principal payments on bonds and notes payable	(73,937,236)
Payments of debt extinguishment costs	(942,378)
Net Cash Used by Financing Activities	(17,128,075)
Decrease in Cash and Cash Equivalents	(3,984,778)
Cash and Cash Equivalents - Beginning of Year	26,113,039
Cash and Cash Equivalents - End of Year	$ 22,128,261

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

Year Ended December 31, 2013	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Payments for Interest Expense	$ 4,738,840
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Debt Incurred in the Acquisition of FCC Licenses and Equipment	$ 9,231,464
Deposits Applied in the Acquisition of FCC Licenses and Equipment	$ 955,425
Exchange of FCC Licenses and Equipment	$ 4,607,035

The accompanying notes are an integral part of these 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 that operates 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 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 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; 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 interorganizational transactions and balances have been eliminated in 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, 2013, 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 $1,500 and a useful life of three years or more. 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 collectibility, 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, 2013.

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.

Donor Advised Funds These assets represent amounts available for distribution in donor advised funds. The funds are established only for charitable, religious, or educational purposes and are used for the support of charitable organizations whose purposes are not inconsistent with those of EMF. Assets include the initial gift made in creating the fund and all income earned on the gift. EMF recognizes income when assets are contributed. The funds are the property of EMF and may be comingled with other funds held by EMF. EMF has ultimate authority and control over all property in the funds. For donor advised funds, donors typically recommend which other organizations should receive grants from their donor advised fund. EMF usually follows such recommendations, though it is not required to do so. All grants made to other organizations from donor advised funds are recorded as gifts to other ministries under program expenses. At December 31, 2013, EMF has $92,430 in donor advised funds which have been included in temporarily restricted net assets.

Intangible Assets EMF classifies intangible assets as definite-lived or indefinite-lived. Definite-lived assets include primarily bond issuance costs. Bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Accumulated amortization of bond issuance costs was $497,170 at December 31, 2013. Amortization expense was $187,829 for the year ended December 31, 2013, and is estimated to be approximately $296,000 for each of the next five years.

EMF tests for possible impairment of definite-lived assets whenever events and circumstances indicate that amortizable long-lived assets might be impaired. When specific assets are determined to be unrecoverable, the cost basis is reduced to reflect the current fair market value.

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 on December 31, 2013, which resulted in a noncash impairment charge of approximately $449,000. The impairment charge reduced the carrying value of two individual stations currently carrying K-LOVE programming.

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.

EMF files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2010 and beyond, and the California returns for tax years 2009 and beyond, remain subject to examination by the taxing authorities.

EMF accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in EMF's consolidated financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740, also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. EMF's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of December 31, 2013, and EMF does not expect this to change significantly over the next 12 months.

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 unrestricted 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, 2013.

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.

Subsequent Events Management has evaluated subsequent events through April 21, 2014, the date on which the consolidated financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Broadcast equipment	$ 73,897,310
Furniture and fixtures	7,267,427
Automobiles	708,199
Software	4,141,538
Buildings	14,851,278
Leasehold improvements	1,283,306
Land	5,713,246
Capital projects in process	1,983,362
Total	109,845,666
Less: Accumulated depreciation	63,283,770
Total Property and Equipment - Net	$ 46,561,896

Depreciation expense was $7,865,408 for the year ended December 31, 2013.

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.

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, 2013.

Money Market Funds: Amounts are interest-bearing deposit accounts, which at times may be in excess of the Federal Deposit Insurance Corporation insurance limit. 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.

The following table sets forth by level, within the fair value hierarchy, EMF's investments at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Money market funds	$ 958,508	$ -	$ -	$ 958,508
Mutual funds by investment objective:				
Growth funds	20,598	-	-	20,598
Blend funds	695,515	-	-	695,515
Bond and fixed income funds	1,406,244	-	-	1,406,244
Equity securities by industry type:				
Healthcare	677,483	-	-	677,483
Consumer staples	620,909	-	-	620,909
Information technology	1,325,904	-	-	1,325,904
Consumer discretionary	1,231,418	-	-	1,231,418
Industrials	709,976	-	-	709,976
Materials	239,512	-	-	239,512
Financial	1,145,069	-	-	1,145,069
Telecommunications services	317,429	-	-	317,429
Utilities	152,481	-	-	152,481
Energy	549,799	-	-	549,799
Commodities	197,415	-	-	197,415
Real estate	2,195	-	-	2,195
Debt and fixed income securities:				
U.S. Treasury	1,224,644	-	-	1,224,644
Corporate	40,919	-	-	40,919
Mortgage backed securities	144,167	-	-	144,167
Real estate	-	-	2,417,000	2,417,000
Total Assets at Fair Value	$ 11,660,185	$ -	$ 2,417,000	$ 14,077,185

The table below sets forth a summary of changes in the fair value of EMF's Level 3 investments for the year ended December 31, 2013:

	Level 3
Balance - December 31, 2012	$ 2,417,000
Unrealized gain (loss)	-
Balance - December 31, 2013	$ 2,417,000

4. FCC LICENSES, PERMITS, AND APPLICATION COSTS

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

Operating stations and translators	$ 299,575,848
Pending stations and translators	341,049
Total FCC Licenses, Permits, and Application Costs	$ 299,916,897

5. LONG-TERM DEBT

Long-term debt consists of the following:

Various notes payable, secured by security interests in personal property, due in periodic payments, including interest at rates ranging up to 8.00%, maturing at various dates through December 2033.	$ 28,809,267
Tax-exempt bonds payable, secured by commercial deeds of trust and security interests in personal property, due in aggregate monthly payments of approximately $239,000, including interest at rates ranging from 3.98% to 4.70%, maturing at various dates through June 2021.	14,422,890
Tax-exempt bonds payable, secured by security interests in personal property, due in quarterly principal payments of $1,290,480, plus interest at an effective rate of 2.76%, maturing in October 2018.	25,809,600
Taxable bonds payable, secured by security interests in personal property, due in quarterly principal payments of $1,439,520, plus interest at a variable rate, effectively 3.77% at December 31, 2013, maturing in October 2018.	28,790,400
Unsecured subordinated adjustable rate promissory notes to be repaid on the stated maturity dates together with any accrued but unpaid interest. Interest on the unpaid principal is paid semi-annually, in arrears, on June 30 and December 31. The notes bear interest at rates equal to the lesser of 5.5% or 200 basis points above the yield paid on U. S. Treasury notes for the original term, as determined on the last day of the semi-annual interest period, effectively ranging from 2.63% to 3.60% at December 31, 2013. The notes mature on various dates through August 2016.	875,000
Total Long-Term Debt	98,707,157
Less: Current portion	21,558,935
Long-Term Debt - Net	$ 77,148,222

Maturities of long-term debt are as follows:

Year Ending December 31	
2014	$ 21,558,935
2015	17,630,056
2016	19,453,985
2017	15,890,244
2018	15,643,418
Thereafter	8,530,519
Total	$ 98,707,157

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.
- 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.

During 2011, EMF circulated a private offering memorandum offering up to $25,000,000 in aggregate principal amount of its unsecured, subordinated promissory notes. The notes are offered in minimum principal amounts of $50,000 to qualified and eligible investors only. The outstanding balance at December 31, 2013, was $875,000.

EMF has available a station acquisition line of credit with a bank in the amount of $8,350,000. Borrowings under the line of credit accrue interest at a variable rate which is the 30-day London Interbank Offered Rate (LIBOR) as published from the *Wall Street Journal* money rates as of the last business day of the prior month end, plus 3.5 percentage points. The line of credit agreement allows EMF to convert the borrowings to term acquisition loans for any outstanding amounts upon request prior to the expiration of the agreement. Term borrowings would then reduce the available line of credit. The line of credit expires in June 2014, and any term loans outstanding would mature no later than June 2015. All borrowings are collateralized by the assets purchased with the proceeds. Borrowings under the line of credit are subject to certain financial covenants, which are similar to the covenants discussed above. There were no amounts outstanding under this line of credit at December 31, 2013.

EMF also has available a revolving line of credit with a second bank which allows EMF to borrow approximately 75% of certain long-term investment balances, which serve as collateral for the line of credit, up to a maximum of $10,000,000. The available percentage fluctuates based on the composition of the portfolio. At December 31, 2013, the approximate available credit was $8,700,000. Borrowings under the line of credit accrue interest at the LIBOR Daily Floating Rate plus 1.25 percentage points. The line of credit agreement allows EMF a one-time option prior to the expiration of the agreement to convert the borrowings to a term acquisition loan up to $5,000,000. Term borrowings would then reduce the available credit. The line of credit expires in June 2014, and any term loans outstanding would mature no later than June 2019. The credit agreement requires compliance with certain financial covenants, which are similar to the covenants discussed above. There were no amounts outstanding under this line of credit at December 31, 2013.

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:

Year Ending December 31	
2014	$ 5,501,981
2015	5,727,342
2016	5,857,567
2017	6,169,018
2018	6,921,012
Thereafter	103,962,668
Total	$ 134,139,588

Rent expense was $7,339,047 for the year ended December 31, 2013.

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.

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

Year Ending December 31	
2014	$ 4,664,946
2015	3,308,021
2016	2,190,775
2017	1,709,951
2018	377,500
Total	$ 12,251,193

The total payments made under affiliate agreements requiring flat monthly fees and/or operating expense reimbursements were $5,624,712 for the year ended December 31, 2013.

8. 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 $8,634,501 at December 31, 2013.

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, 2013, $22,984,658 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 $595,093 for the year ended December 31, 2013.

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 an individual covered person exceeding $125,000 annually, with a maximum annual benefit of $4,875,000 per covered person; or aggregate claims exceeding approximately $3,916,000, 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, 2013, the accrued liability for self-insured claims incurred but not yet reported approximates $671,000.

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 for the year ended December 31, 2013:

Program services	$	333,701
General administration		207,462
Fundraising		369,894
Total	$	911,057

13. CHANGE IN ACCOUNTING PRINCIPLE

During 2013, EMF changed its method of classifying a pledge as a promise to give or an intention to give. Promises to give are recorded for one-time pledges that are pledged by the donor, but that have not yet been received at the end of the reporting period that includes the pledge. These include amounts that have been authorized to be charged to the donor's credit card but have not yet been disbursed to EMF by a third-party service provider, and donations that have been mailed by the donor prior to the end of the reporting period, but not yet received by EMF.

Recurring monthly pledges that have been authorized to be charged automatically against the donor's credit card or withdrawn automatically from the donor's bank account are now classified as intentions to give due to the fact that they can be cancelled at any time, and accordingly, are accounted for on the cash basis. Previously, one-time pledges described above, as well as certain amounts not paid until the next year but relating to a current recurring pledge, were reflected as current promises to give. EMF believes that the new method more accurately reflects the nature of donors' contributions and periodic results of operations.

Had EMF not made this change in accounting principle during 2013, unrestricted unconditional promises to give would have increased by $31,815,082 at December 31, 2013; and the change in unrestricted net assets for the year ended December 31, 2013, would have increased by $4,135,434. EMF applied this change in accounting principle retrospectively, resulting in a decrease in unrestricted unconditional promises to give of $27,679,648 at December 31, 2012, and a decrease in unrestricted net assets of the same amount at that date. This decrease in unrestricted net assets is reflected as a cumulative effect of change in accounting principle in the accompanying consolidated statement of activities.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, EMF acquired six radio stations in separate transactions with aggregate purchase prices totaling $12,582,985. These transactions required EMF to make aggregate down payments totaling $5,201,997 and to issue a note payable of $7,380,988 amortized at 5% interest over 120 months with the balance due at the end of 60 months.

In addition, as of March 24, 2014, EMF entered into agreements to acquire three radio stations in separate transactions with aggregate purchase prices totaling $1,925,000. These transactions will require EMF to make aggregate down payments totaling $1,587,500 and to issue a note payable of $337,500 due over 60 months at an interest rate of 5%.