

The American General Media Foundation

Financial Statements

December 31, 2018

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Independent Auditors' Report

Board of Directors
The American General Media Foundation
Bakersfield, California

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

**BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation**



Bakersfield, California
March 14, 2019

The American General Media Foundation

*Statement of Financial Position
December 31, 2018*

ASSETS

Current Assets:

Cash and cash equivalents	\$ 93,241
Accounts receivable	30,475
Unconditional promises to give	5,121
	<u>128,837</u>

Property and Equipment, net of accumulated depreciation 10,786

Intangible Asset 1,100,000

\$ 1,239,623

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 5,656
Accounts payable, related parties	18,909
Other accrued expenses	6,025
	<u>30,590</u>

Net Assets:

With donor restrictions	5,121
Without donor restrictions	1,203,912
	<u>1,209,033</u>

\$ 1,239,623

See Notes to Financial Statements.

The American General Media Foundation

*Statements of Activities
For the Year Ended December 31, 2018*

Change in net assets without donor restrictions:

Revenues:

Station revenue	\$ 287,853
Contributions from public	246,225
Contributions from foundations and grants	<u>20,250</u>
Total revenues	<u>554,328</u>

Expenses:

Program expense	427,018
Management and general	<u>65,626</u>
Total expenses	<u>492,644</u>

Change in net assets without donor restrictions 61,684

Change in donor restricted net assets:

Unconditional promises to give	<u>5,121</u>
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Change in net assets 66,805

Net assets, beginning of year 1,142,228

Net assets, end of year \$ 1,209,033

See Notes to Financial Statements.

The American General Media Foundation

*Statement of Functional Expenses
For the Year Ended December 31, 2018*

	<u><i>Program Expense</i></u>	<u><i>Management and General</i></u>	<u><i>Total</i></u>
Auto expense	\$ -	\$ 131	\$ 131
Bad debt expenses	651	-	651
Bank fees	7,612	-	7,612
Cleaning and janitorial	2,880	720	3,600
Contract labor	80,088	20,022	100,110
Depreciation	4,977	300	5,277
Dues and subscriptions	3,493	50	3,543
Insurance	9,182	1,855	11,037
Miscellaneous	524	-	524
Office supplies	20,045	6,000	26,045
Other sales expenses	3,543	-	3,543
Other taxes and licenses	61	121	182
Payroll taxes	7,109	1,777	8,886
Professional fees	8,537	2,485	11,022
Programming expenses	11,300	-	11,300
Rent	29,004	3,600	32,604
Repairs and maintenance	27,095	2,400	29,495
Salaries and wages	101,070	25,267	126,337
Sales commissions	43,921	-	43,921
Sales promotions	11,522	-	11,522
Trade expenses	37,820	-	37,820
Telephone	3,592	898	4,490
Utilities	12,992	-	12,992
	<u>\$ 427,018</u>	<u>\$ 65,626</u>	<u>\$ 492,644</u>

See Notes to Financial Statements.

The American General Media Foundation

*Statement of Cash Flows
For the Year Ended December 31, 2018*

<i>Cash flows from operating activities:</i>	
Change in net assets	\$ 66,805
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>	
Depreciation	5,277
<i>Changes in operating assets and liabilities:</i>	
Accounts receivable	16,343
Unconditional promises to give	(5,121)
Accounts payable	(12,627)
Accounts payable, related parties	(45,857)
Other accrued expenses	(305)
Net cash provided by operating activities	<u>24,515</u>
<i>Cash flows used in investing activities:</i>	
Purchase of office equipment	<u>(3,663)</u>
<i>Net increase in cash and cash equivalents</i>	20,852
<i>Cash and cash equivalents at beginning of year</i>	<u>72,389</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 93,241</u></u>

See Notes to Financial Statements.

The American General Media Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of activities:

The American General Media Foundation (the Foundation), a nonprofit organization formed under Section 501(c)(3) was created to provide classical music to New Mexican audiences on the air and online, to promote live music, the performing and visual arts, and continuing arts education in New Mexico; and to promote arts and artists in New Mexico and worldwide. On September 1, 2017, AGM-Nevada, LLC (AGMN), a related party, contributed its classical music radio station, KHFM located in Albuquerque, New Mexico, to the Foundation. AGMN continues to provide programming and other support services to the Foundation.

Basis of accounting:

Assets and liabilities, and revenue and expenses are recognized on the accrual basis of accounting.

Income taxes:

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and of the Revenue and Taxation Code of the State of New Mexico. Since the Foundation is exempt from income tax liability, no provision is made for current or deferred tax expense. Annual income returns filed with Federal and state governments use the same accounting methods as those used for financial reporting.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Basis of presentation:

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles, which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Notes to Financial Statements

Donor restricted contributions are reported as increases in net assets with donor restrictions. Donor restricted support includes the receipts of unconditional promises to give with payments due in future periods. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

At December 31, 2018, net assets with donor restrictions consisted of unconditional promises to give in future periods totaling \$5,121. When the contributions are received in future periods, the contributions will be reclassified as net assets without donor restrictions.

Cash and cash equivalents:

For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of purchase to be cash equivalents.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on managements' assessment of the credit history with customers having outstanding balances and current relationships with them, management has concluded that realized losses on balances outstanding at year end will be immaterial; accordingly, no allowance for doubtful accounts is required.

Concentration of credit risk:

In the opinion of management, concentrations of credit risk with respect to trade receivables are limited due to customers comprising the Foundation's customer base located in New Mexico. The Foundation performs ongoing credit valuations of its customers and generally requires no collateral.

Intangible asset:

Intangible asset consists of a radio broadcasting license donated during 2017. The license was recorded at the appraised fair market value at the time of donation, \$1,100,000. In accordance with FASB's authoritative guidance regarding indefinite lived intangible assets, these balances are not amortized, but are tested annually for impairment. Impairment exists when the carrying amount of intangible assets exceed the calculated fair value of these assets. The fair value of intangible assets is calculated with a discounted cash flow model using earnings before interest, taxes, depreciation and amortization for the cash flow. If the recorded value of intangible assets exceeds the implied fair value, an impairment charge is recorded for the difference between the two amounts. The Foundation performs an impairment test as of December 31 of each year, or when other conditions suggest an impairment may have occurred. The Foundation determined that its radio broadcasting license was not impaired during 2018 and, accordingly, no impairment charge has been recognized.

The radio broadcast licenses are granted to radio stations for up to eight years under the Telecommunications Act of 1996. The Act requires the FCC to renew a broadcast license if

Notes to Financial Statements

the FCC finds that the station has served the public interest, convenience and necessity, there have been no serious violations of either the Communications Act of 1934 or the FCC's rules and regulations by the licensee, and there have been no other serious violations which taken together constitute a pattern of abuse. The licenses may be renewed indefinitely at little or no cost.

Property and equipment:

Property and equipment are stated at cost. Renewals and betterments that materially extend the life of the asset or materially increase its value are capitalized.

Donated property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is computed on the straight-line basis over the depreciable lives of the related assets as follows:

	<u><i>Years</i></u>
Broadcast equipment	7
Leasehold improvements	15
Office furniture and equipment	5

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in operations.

Revenue recognition:

Contributions are recognized as revenue when they are received or unconditionally pledged.

Station revenue is recorded as advertisements are broadcasted and is generated from local, regional, and national advertising. Station revenues are shown net of agency commissions. Barter transactions represent the exchange of airtime for merchandise or services. Revenue is recorded on barter transactions when the advertisements are broadcast and recognized at the fair value of the advertisement surrendered. The barter merchandise or service received in the exchange is reported as an expense when it is received or used. Barter revenue of \$37,820 is included in station revenue for the year ended December 31, 2018.

Notes to Financial Statements

Contributions:

The Foundation receives contributions and grants from different public sources, including individuals, businesses, community organizations, and affiliated agencies. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated materials and services:

No amounts have been included in the financial statements for donated volunteer services, since no objective basis is available to measure the value of such services. However, volunteers have donated their time in the Foundation's program services. Volunteers serve as members of the Board of Directors and our Community Advisory Board; assist with events, studio editing and clerical tasks.

Methods used for allocation of expense from management and general:

Directly identifiable expenses are charged to program expenses on the statement of functional expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Advertising costs:

Advertising costs are charged to operations when incurred. Advertising expense was \$28,367 for the year ended December 31, 2018. Of the total advertising expense, \$16,820 resulted from barter transactions in which the Foundation exchanged airtime in exchange for advertising services. Advertising expenses are included in programming, sales and trade expenses on the statement of functional expenses.

Recently adopted accounting pronouncements:

In August 2016, the FASB issued Accounting Standards Updates 2016-14, *Not-for-Profit Entities (Topic 958)*. The primary objective of the Update is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendment in the Update are effective for annual financial statements issued for years beginning after December 15, 2017. The Foundation has adjusted the presentation of the financial statements accordingly.

Notes to Financial Statements

Note 2. Cash and Cash Equivalents

Cash accounts consisted of the following at December 31, 2018:

Checking account	\$ 92,841
Petty cash	400
	\$ 93,241
	\$ 93,241

Note 3. Availability and Liquidity

The following represents the Foundation's financial assets at December 31, 2018:

Cash and cash equivalents	\$ 93,241
Accounts receivable	30,475
Unconditional promises to give	5,121
	\$ 128,837
	\$ 128,837

All of the Foundation's financial assets are available within one year of the statement of financial position date for general expenditures.

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31, 2018:

Broadcast equipment	\$ 7,202
Leasehold improvements	5,025
Office furniture and equipment	3,836
	16,063
Less accumulated depreciation	(5,277)
	\$ 10,786

Note 5. Operating Leases

The Foundation leases from related and unrelated parties, operating facilities and tower sites under operating leases. The future minimum rental payments required under operating leases that have initial terms in excess of one year as of December 31, 2018 are as follows:

<i>Years Ending December 31,</i>	
2019	\$ 21,222
2020	21,859
2021	22,515
2022	23,190
2023	23,886
Thereafter	93,965
	\$ 206,637

Notes to Financial Statements

Rent expense for all operating leases, including month-to-month leases, were as follows for the year ended December 31, 2018:

Rent expense to related parties	\$ 12,000
Rent expense to unrelated parties	20,604
	<u>\$ 32,604</u>

Note 6. Related Party Transactions

The following are related parties through common ownership and/or management:

AGM California, Inc.
AGM-Nevada, LLC

Related party transactions not already disclosed in the financial statements are as follows:

AGM California, Inc. performs corporate services and incurs expenses on behalf of the Foundation. In 2018, the Foundation paid \$33,182 for corporate services and for the reimbursement of expenses incurred by AGM California, Inc. These amounts are included in expenses on the statement of activities.

AGM-Nevada, LLC performs management services as well as incurs expenses on behalf of the Foundation. In 2018, the Foundation paid \$108,218 for management services and for the reimbursement of expenses incurred by AGM Nevada, LLC. Additionally, the Foundation rents office space from AGM Nevada, LLC. The Foundation paid \$12,000 in rent to AGM-Nevada, LLC for the year ended December 31, 2018. These amounts are included in expenses on the statement of activities.

Note 7. Retirement Plan

The Foundation is a participating employer in the American General Media Profit Sharing and 401(k) Plan, which it maintains for all eligible employees. The Plan enables the employees to defer, through salary reduction, a percentage of their compensation each year. The Foundation may make matching contributions at their own discretion. For the year ended December 31, 2018, the Foundation made discretionary matching contributions in the amount of \$94.

Note 8. Subsequent Events

The Foundation has evaluated events and transactions subsequent to December 31, 2018 through, March 14, 2019, the date the financial statements were available to be issued, noting no other significant items requiring further discussion.