

October 21, 2014

To the Board of Directors of
Mars Hill Broadcasting Co., Inc.

In planning and performing my audit of the financial statements of Mars Hill Broadcasting Co., Inc. for the year ended May 31, 2014, I considered the Organization's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. My consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

After considering the Organization's internal control, I assessed control risk at the maximum for all account balances except expenses and used the substantive approach in which my opinion is based on evidence obtained from substantive tests rather than a combination of tests of controls and substantive tests. Although the objective of substantive tests is to detect a material misstatement of an account balance, such tests can also detect material weaknesses in the internal control structure.

The size of the Organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Organization to provide oversight and independent review functions. No material weaknesses were noted in the *existing* internal controls, such as performance reviews, proper authorization of transactions, and the integrity of personnel at all levels in the Organization.

I would like to take this opportunity to thank Linda Rockefeller and the administrative staff for their support and assistance during my audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Liverpool, New York

October 20, 2014

Mars Hill Broadcasting Co., Inc.
4044 Makyes Road
Syracuse, New York 13215

Fee for accounting services provided:

Audit of financial statements for the year ended May 31, 2014.
Preparation of 2013 non-profit corporation information and tax returns.

\$5,000.00

Mars Hill Broadcasting Co., Inc.
Annual Revenue Comparisons
5/31/14

	Contribution Income			Non-Contribution Income		
	2013	2012	2011	2013	2012	2011
Syracuse	224,164.16	234,039.99	221,182.97	401,937.53	405,472.82	424,549.43
Webster	24,130.20	22,220.00	30,298.08	9,306.49	11,898.34	8,091.37
Cape Vincent	38,878.95	35,955.25	36,059.95	40,477.59	46,683.37	48,232.22
Malone	13,901.60	17,196.00	17,676.00	6,784.29	8,755.72	9,934.29
Utica	2,857.27	925.00	510.00	663.68	857.13	0.00
Richfield Springs	1,212.73	0.00	0.00	765.00	0.00	0.00
Restricted Contributions	62,418.77	52,026.75	61,498.40			
	<u>367,563.68</u>	<u>362,362.99</u>	<u>367,225.40</u>	<u>459,934.58</u>	<u>473,667.38</u>	<u>490,807.31</u>

MARS HILL BROADCASTING CO., INC.

FINANCIAL STATEMENTS

Years Ended May 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mars Hill Broadcasting Co., Inc.

I have audited the accompanying statements of financial position of Mars Hill Broadcasting Co., Inc. (a not-for-profit organization) as of May 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mars Hill Broadcasting Co., Inc. as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

James H. Doupe', CPA

Liverpool, New York
September 12, 2014

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
May 31, 2014 and 2013

ASSETS		
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 285,555	\$ 438,822
Accounts receivable, net	36,058	43,350
Contributions receivable, net	62,419	52,282
Prepaid expenses	14,547	14,513
Total current assets	398,579	548,967
OTHER ASSETS		
Broadcasting facilities and equipment, net	618,694	569,338
FCC frequency rights, net	338,153	348,410
Total other assets	956,847	917,748
TOTAL ASSETS	\$ 1,355,426	\$ 1,466,715
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 17,396	\$ 13,566
Accrued expenses	7,133	8,493
Income taxes payable	605	1,979
Unearned revenue	18,088	6,533
Total current liabilities	43,222	30,571
NET ASSETS		
Unrestricted	1,249,785	1,383,863
Temporarily restricted	62,419	52,281
Total net assets	1,312,204	1,436,144
TOTAL LIABILITIES AND NET ASSETS	\$ 1,355,426	\$ 1,466,715

See auditor's report and accompanying notes to the financial statements.

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2014 (with Comparative Totals for 2013)

	General Fund	Capital Fund	Expansion Fund	2014 Total	2013 Total
CHANGES IN UNRESTRICTED NET ASSETS					
SUPPORT AND REVENUE					
Contributions	\$ 304,030	\$ -0-	\$ 1,115	\$ 305,145	\$ 310,336
Broadcasting	292,749	-0-	-0-	292,749	307,774
Underwriting	123,033	-0-	-0-	123,033	140,763
Tower rental	21,470	-0-	-0-	21,470	22,353
Concerts, banquet and other	32,681	-0-	-0-	32,681	2,862
Interest income	588	-0-	-0-	588	1,229
Net assets released from restrictions	52,027	-0-	-0-	52,027	61,498
Total support and revenue	826,578	-0-	1,115	827,693	846,815
EXPENSES					
Payroll and related expenses	557,422	-0-	-0-	557,422	515,764
Public relations	41,497	-0-	-0-	41,497	43,158
Engineering	57,649	-0-	-0-	57,649	61,469
Programming	52,685	-0-	-0-	52,685	48,608
Expansion	-0-	-0-	5,737	5,737	8,413
General overhead	141,508	-0-	-0-	141,508	131,134
Depreciation and amortization	78,684	-0-	22,253	100,937	95,960
Contributions	2,341	-0-	-0-	2,341	2,700
Bad debts	-0-	-0-	-0-	-0-	14,197
Provision for income taxes	2,249	-0-	-0-	2,249	1,979
Transfers	2,368	-0-	(2,368)	-0-	-0-
Total expenses	936,403	-0-	25,622	962,025	923,382
Increase in unrestricted net assets	(109,825)	-0-	(24,507)	(134,332)	(76,567)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Contributions	62,419	-0-	-0-	62,419	52,282
Net assets released from restrictions	(52,027)	-0-	-0-	(52,027)	(61,498)
Increase (decrease) in temporarily restricted net assets	10,392	-0-	-0-	10,392	(9,216)
INCREASE IN NET ASSETS	(99,433)	-0-	(24,507)	(123,940)	(85,783)
NET ASSETS - BEGINNING OF YEAR	1,124,759	-0-	311,385	1,436,144	1,521,927
NET ASSETS - END OF YEAR	\$1,025,326	\$ -0-	\$ 286,878	\$1,312,204	\$1,436,144

See auditor's report and accompanying notes to the financial statements.

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (123,940)	\$ (85,783)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items included in change in net assets:		
Depreciation and amortization	100,937	85,655
(Increase) decrease in assets:		
Accounts receivable	7,292	12,652
Pledges receivable	(10,138)	9,216
Prepaid expenses	(34)	(870)
Increase (decrease) in liabilities:		
Accounts payable	3,830	343
Accrued expenses	(1,360)	(1,120)
Income taxes payable	(1,374)	1,159
Unearned revenue	11,555	5,657
NET CASH USED/PROVIDED BY OPERATING ACTIVITIES	<u>(13,232)</u>	<u>26,909</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of broadcast facilities and equipment	(131,185)	(54,808)
Purchases of frequency rights	(8,850)	(12,100)
NET CASH USED BY INVESTING ACTIVITIES	<u>(140,035)</u>	<u>(66,908)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(153,267)	(39,999)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>438,822</u>	<u>478,821</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 285,555</u></u>	<u><u>\$ 438,822</u></u>

See auditor's report and accompanying notes to the financial statements.

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Mars Hill Broadcasting Co., Inc. (the Organization) operates non-commercial educational radio stations engaged in Christian programming. The Organization's purpose is to communicate the gospel of Jesus Christ and Biblical doctrines and to promote personal involvement in Christian service.

The Organization's primary sources of funding are paid programming by national broadcasters and contributions by individuals in New York State.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Per FASB Statement No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at May 31, 2014.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities and all net assets released from restrictions to support operating expenditures. All temporarily or permanently restricted contributions are recognized as non-operating support and revenues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 and assumptions.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

Broadcasting Facilities and Equipment

Broadcasting facilities and equipment are recorded at cost or, if donated, at the estimated fair value. The Organization's policy is to expense assets with an initial cost of less than \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Depreciation expense was \$81,829 and \$77,247, respectively, for the years ended May 31, 2014 and 2013.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FCC Frequency Rights

FCC frequency rights are recorded at cost if purchased (WMHI, WMHQ, WMHU and WMHY) or at the estimated fair value based on an independent appraisal if donated (WMHR). Amortization of frequency rights is provided using the straight-line method over forty years. Amortization expense was \$19,107 and \$18,713, respectively, for the years ended May 31, 2014 and 2013.

Revenue Recognition

Contributions and unconditional promises to give (pledges) are recognized as revenue when they are received. Contributions with donor-imposed restrictions that are not permanent are reported as increases to temporarily restricted net assets. In the period the Organization expends the donated funds for the purposes specified, the temporarily restricted amount is reclassified to unrestricted net assets. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Pledges with payments due in future periods are recorded as temporarily restricted net assets subject to time restrictions.

Contributed Services and Materials

The Organization recognizes donated services if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The Organization utilizes volunteers during its annual fundraising campaign, and some individuals have donated significant amounts of time to the Organization. However, such services do not meet the above criteria and therefore have not been recognized. Donated services are recorded at the estimated fair value as an asset or expense and corresponding contribution in the financial statements. Donated services were \$450 for the years ended May 31, 2014 and 2013.

Donated materials are recorded at the estimated fair value as an asset or expense and a corresponding contribution in the financial statements. There were no donated materials for the years ended May 31, 2014 and 2013.

Compensated Absences

Unused vacation time cannot be carried forward from year-to-year. Accordingly, there is no accrued liability for compensated absences.

Advertising

The Organization expenses advertising costs when incurred.

Income Taxes

The Organization qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and corresponding provisions of New York law and, accordingly, is not subject to federal or state income taxes. However, income from certain activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Trade accounts receivable	\$ 39,311	\$ 52,326
Miscellaneous receivables	796	5,221
Allowance for doubtful accounts	<u>(4,049)</u>	<u>(14,197)</u>
	<u>\$ 36,058</u>	<u>\$ 43,350</u>

NOTE 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give by donors. The Organization expects these promises to give to be collected during the next year and has reported them at their net realizable value. Contributions receivable consisted of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Contributions receivable	\$ 76,965	\$ 64,134
Allowance for uncollectible contributions	<u>(14,546)</u>	<u>(11,852)</u>
	<u>\$ 62,419</u>	<u>\$ 52,282</u>

NOTE 4. BROADCASTING FACILITIES AND EQUIPMENT

Broadcasting facilities and equipment consisted of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 118,702	\$ 76,449
Buildings	390,720	379,006
Furnishings and equipment	1,447,481	1,364,931
Leasehold improvements	5,255	5,255
Work in progress	<u>6,447</u>	<u>11,778</u>
	1,968,605	1,837,419
Accumulated depreciation	<u>(1,349,911)</u>	<u>(1,268,081)</u>
	<u>\$ 618,694</u>	<u>\$ 569,338</u>

NOTE 5. FCC FREQUENCY RIGHTS

FCC frequency rights consisted of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Syracuse (WMHR)	\$ 649,460	\$ 649,460
Cape Vincent (WMHI)	52,344	52,344
Malone (WMHQ)	18,480	18,480
Utica (WMHU)	34,117	25,267
Richfield Springs (WMHY)	<u>12,100</u>	<u>12,100</u>
	766,501	757,651
Accumulated amortization	<u>(428,348)</u>	<u>(409,241)</u>
	<u>\$ 338,153</u>	<u>\$ 348,410</u>

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Restricted for subsequent period operations	\$ 62,419	\$ 52,282

NOTE 7. LEASE COMMITMENTS

The Organization leases satellite transponder capacity at an annual rate of \$17,340 under a noncancelable operating lease agreement that expires March 31, 2016. Rental expense on the lease for satellite capacity was \$17,340 for the years ended May 31, 2014 and 2013.

The Organization leases tower antenna space in Riverhead, New York at a base annual rate of \$10,629, increasing automatically by 4% annually, under a noncancelable operating lease agreement that expires September 30, 2015. Rental expense on the lease for tower space was \$10,948 and \$10,526 respectively, for the years ended May 31, 2014 and 2013.

Future minimum lease obligations under these agreements are as follows:

<u>Year ending May 31</u>		
2015		\$ 28,725
2016		18,282
		<u>\$ 47,007</u>

NOTE 8. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses presented on a functional basis for the years ended May 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Program services	\$ 544,353	\$ 517,160
Management and general	389,850	367,473
Fundraising	27,822	38,749
	<u>\$ 962,025</u>	<u>\$ 923,382</u>

NOTE 9. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2014</u>	<u>2013</u>
Cash paid for federal and state income taxes	\$ 1,979	\$ 820

NOTE 10. PRIOR-PERIOD INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by fund. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended May 31, 2013, from which the summarized information was derived.