

MARS HILL BROADCASTING CO., INC.
AUDITED FINANCIAL STATEMENTS
For the Year ended May 31, 2018

Mars Hill Broadcasting Co., Inc.
Audited Financial Statements

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Board of Trustees
Mars Hill Broadcasting Co., Inc.
Syracuse, New York 13215

We have audited the accompanying financial statements of Mars Hill Broadcasting Co., Inc. (a nonprofit organization), which comprise the statement of financial position as of May 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.

Auditor's 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 Mars Hill Broadcasting Co., Inc. as of May 31, 2018, 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.

Respectfully submitted,

Cuddy & Ward, LLP

Cuddy & Ward, LLP
Certified Public Accountants

Auburn, NY
August 2, 2018

MARS HILL BROADCASTING CO., INC.
STATEMENT OF FINANCIAL POSITION
May 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	674,268
Restricted cash		53,460
Accounts receivable, net		42,762
Contributions receivable, net		53,242
Prepaid expenses		28,269
Total current assets		<u>852,001</u>

FIXED ASSETS

Broadcasting facilities and equipment, net		418,172
FCC frequency rights, net		261,505
Computer software, net		-
		<u>679,677</u>

OTHER ASSETS

Lease deposit		1,350
		<u>1,350</u>

TOTAL ASSETS \$ 1,533,028

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	7,170
Accrued expenses		6,376
Unearned revenue		8,488
Total current liabilities		<u>22,034</u>

TOTAL LIABILITIES 22,034

NET ASSETS

Unrestricted		1,444,442
Temporarily restricted		66,552
Total net assets		<u>1,510,994</u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,533,028

See accountants' report and notes to financial statements

MARS HILL BROADCASTING CO., INC.
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 349,494	\$ 66,552	\$ 416,046
Broadcasting	368,322	-	368,322
Underwriting	157,954	-	157,954
Tower rental	37,946	-	37,946
Concerts, banquets and other	8,614	-	8,614
Interest income	2,147	-	2,147
Gain on sale of assets	4,100	-	4,100
Net assets released from restrictions	<u>63,335</u>	<u>(63,335)</u>	<u>-</u>
Total support and revenue	<u>991,912</u>	<u>3,217</u>	<u>995,129</u>
EXPENSES			
Program expenses	635,190	-	635,190
Management and general	363,940	-	363,940
Fundraising	<u>7,496</u>	<u>-</u>	<u>7,496</u>
Total expenses	<u>1,006,626</u>	<u>-</u>	<u>1,006,626</u>
CHANGE IN NET ASSETS	(14,714)	3,217	(11,497)
NET ASSETS AT BEGINNING OF YEAR	<u>1,459,156</u>	<u>63,335</u>	<u>1,522,491</u>
NET ASSETS AT END OF YEAR	\$ <u>1,444,442</u>	\$ <u>66,552</u>	\$ <u>1,510,994</u>

See accountants' report and notes to financial statements

MARS HILL BROADCASTING CO., INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended May 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Payroll and related expenses	\$ 298,635	\$ 269,920	\$ 5,743	\$ 574,298
Public relations	25,034	23,070	982	49,086
Engineering	72,436	-	-	72,436
Programming	52,168	-	-	52,168
Depreciation and amortization	79,643	7,877	-	87,520
Bad debts	13,310	-	-	13,310
General overhead	14,931	13,495	287	28,713
Rent	6,454	3,475	-	9,929
Utilities	16,355	8,807	-	25,162
Repairs and maintenance	7,170	3,861	-	11,031
Insurance	17,690	9,525	-	27,215
Telephone	14,137	12,778	272	27,187
Taxes	393	-	-	393
Office expenses	5,399	4,975	212	10,586
Dues	11,435	6,157	-	17,592
TOTAL EXPENSES	\$ 635,190	\$ 363,940	\$ 7,496	\$ 1,006,626

See accountants' report and notes to financial statements

MARS HILL BROADCASTING CO., INC.
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (11,497)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	87,520
(Increase) decrease in:	
Accounts receivable	14,463
Pledges receivable	10,093
Prepaid expenses	(4,994)
Increase (decrease) in:	
Accounts payable	(10,219)
Accrued expenses	1,280
Income taxes payable	(171)
Unearned revenue	<u>9,497</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>76,978</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of broadcast facilities and equipment	<u>(29,655)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(29,655)</u>
NET INCREASE IN CASH	47,323
CASH AT BEGINNING OF YEAR	<u>680,405</u>
CASH AT END OF YEAR	<u>\$ 727,728</u>
SUPPLEMENTAL DISCLOSURES	
Interest paid, cash basis	<u>\$ -</u>
Taxes paid, cash basis	<u>\$ 564</u>

See accountants' report and notes to financial statements

MARS HILL BROADCASTING CO., INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 source of funding are paid programming by national broadcasters and contributions by individuals in New York State.

Basis of Accounting

The financial statements of Mars Hill Broadcasting Co., Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

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.

Unrestricted Net Assets – Unrestricted net assets consist of net assets of the Organization that are neither permanently restricted nor temporarily restricted by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of the net assets of the Organization whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. The organization held \$66,552 of temporarily restricted net assets at May 31, 2018. Amounts are restricted for subsequent period operations.

Permanently Restricted Net Assets – Permanently restricted net assets consist of the net assets of the Organization that include a donor-imposed restriction that stipulates that resources be maintained permanently but permit the Organization to use up or expend all of the income derived from the donated assets. The organization held no permanently restricted net assets at May 31, 2018.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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 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.

MARS HILL BROADCASTING CO., INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A **SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers all operating short term debt securities with an original maturity of three months or less to be cash equivalents.

Broadcasting facilities and equipment

All acquisitions of fixed assets in excess of \$1,000 and all expenditures for repairs, maintenance, renewal and betterments that materially prolong the useful lives of assets are considered for capitalization. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets. Depreciation expense for the year ended May 31, 2018 was \$67,665.

Income Taxes

The Organization has obtained exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization which is not a private foundation. Therefore, no provision for income taxes has been included in the financial statements. In accordance with FASB ASC 740, Income Taxes, the Organization recognizes the tax benefits from uncertain tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. There are no such uncertain tax positions for the Organization for the year ended May 31, 2018. The Organization's income tax filings are subject to audit by various taxing authorities.

Functional Expenses

Costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. This allocation was based on direct expenditures and analysis of personnel time, space and utilities for the related activities.

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 \$19,855 for the year ended May 31, 2018.

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 year ended May 31, 2018.

Donated materials are recorded at their estimated fair value as an asset or expense and a corresponding contribution in the financial statements. There were no donated materials for the year ended May 31, 2018.

Advertising

The Organization expenses advertising costs when incurred.

MARS HILL BROADCASTING CO., INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B RESTRICTED CASH

The Organization has set aside amounts for capital and expansion funds. The board of directors authorizes the use of the funds. The activity for the year is summarized as follows:

	Capital	Expansion	Total
Beginning balance	\$ 13,402	\$ 34,069	\$ 47,471
Contributions	6,072	2,759	8,831
Net assets released from restrictions	-	(2,842)	(2,842)
Transfers	-	-	-
Ending balance	\$ 19,474	\$ 33,986	\$ 53,460

NOTE C ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at May 31, 2018:

Trade accounts receivable	\$ 42,740
Miscellaneous receivables	22
Allowance for doubtful accounts	-
Ending balance	\$ 42,762

NOTE D 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, 2018:

Contributions receivable	\$ 66,562
Allowance for doubtful accounts	(13,320)
Ending balance	\$ 53,242

NOTE E BROADCASTING FACILITIES AND EQUIPMENT

Broadcasting facilities and equipment consisted of the following at May 31, 2018:

Land	\$ 57,621
Buildings	432,102
Furnishings and equipment	1,545,272
Leasehold improvements	5,255
	<u>2,040,250</u>
Accumulated depreciation	<u>(1,622,078)</u>
	\$ 418,172

MARS HILL BROADCASTING CO., INC.
NOTES TO FINANCIAL STATEMENTS

NOTE F FCC FREQUENCY RIGHTS

FCC frequency rights consisted of the following at May 31, 2018

Syracuse (WMHR)	\$	649,460
Cape Vincent (WMHI)		52,344
Malone (WMHQ)		18,480
Utica (WMHU)		34,117
Richfield Springs (WMHY)		12,100
		<u>766,501</u>
Accumulated amortization		<u>(504,996)</u>
	\$	<u>261,505</u>

NOTE G 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, 2019. Rental expense on the lease for satellite capacity was \$17,340 for the year ended May 31, 2018.

The Organization leases tower antenna space in Riverhead, New York at a base annual rate of \$11,496, increasing automatically by 4% annually, under a noncancelable operating lease agreement that expires August 27, 2018. Rental expense on the lease for tower space was \$11,496 for the year ended May 31, 2018.

The Organization leases tower antenna space in Jordanville, New York at an annual rate of \$1,800, increased to \$1,845 annually in November 2017, under a noncancelable operating lease agreement that expires November 21, 2022. Rental expense on the lease for tower space was \$1,845 for the year ended May 31, 2018.

The Organization leases tower antenna space in Saranac Lake, New York at an annual rate of \$6,000 under a noncancelable operating lease agreement that expires June 30, 2021. Rental expense on the lease for tower space was \$6,000 for the year ended May 31, 2018.

The Organization leases music scheduling software at an annual rate of \$1,200 under a noncancelable operating lease agreement that expires December 31, 2018. Rental expense on the lease for scheduling software was \$1,200 for the year ended May 31, 2018.

Future minimum lease obligations under these agreements are:

2019	\$	8,545
2020		7,845
2021		7,845
2022		2,345
2023		923
	\$	<u>27,503</u>

NOTE H SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 2, 2018, the date on which the financial statements were available to be issued.