MARS HILL BROADCASTING CO., INC.

Financial Statements

May 31, 2019 and 2018

Fust Charles Chambers LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Mars Hill Broadcasting Co., Inc.:

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, 2019, 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.

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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, 2019, 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.

Prior Period Financial Statements

The financial statements of Mars Hill Broadcasting Co., Inc. as of May 31, 2018, were audited by other auditors whose report dated August 2, 2018, expressed an unmodified opinion on those statements.

Fust Charles Chambers LLP

September 26, 2019

MARS HILL BROADCASTING CO., INC.

Statements of Financial Position

May 31, 2019 and 2018

Assets		2019	2018
Current assets:			
Cash	$	670,640	674,268
Accounts receivable, net		51,963	42,762
Contributions receivable, net		45,922	53,242
Prepaid expenses		32,236	28,269
Total current assets		800,761	798,541
Fixed assets:			
Broadcasting facilities and equipment, net		459,997	418,172
Federal Communications Commission frequency rights, net		242,342	261,505
		702,339	679,677
Other assets:			
Assets limited as to use, net		65,950	53,460
Lease deposit		1,350	1,350
		67,300	54,810
Total assets	$	1,570,400	1,533,028
Liabilities and Net Assets			
Current liabilities:			
Accounts payable		17,986	7,170
Accrued expenses		10,714	6,376
Unearned revenue		8,571	8,488
Total current liabilities		37,271	22,034
Net assets:			
Without donor restrictions		1,533,129	1,510,994
Commitments (note 8)			
Total liabilities and net assets	$	1,570,400	1,533,028

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Activities

Years ended May 31, 2019 and 2018

		2019	2018
Support and revenue:			
Contributions	$	425,595	416,046
Broadcasting		366,984	368,322
Underwriting		137,196	157,954
Tower rental		64,502	37,946
Concerts, banquets and other		10,674	8,614
Interest income		3,886	2,147
Gain on sale of assets		-	4,100
Insurance recovery		3,222	-
Total support and revenue		1,012,059	995,129
Expenses:			
Program expenses		627,629	635,190
Management and general		354,849	363,940
Fundraising		7,446	7,496
Total expenses		989,924	1,006,626
Change in net assets		22,135	(11,497)
Net assets at beginning of year		1,510,994	1,522,491
Net assets at end of year	$	1,533,129	1,510,994

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Functional Expenses

Years ended May 31, 2019 and 2018

	2019				2018			
	Program	Management and general	Fundraising	Total	Program	Management and general	Fundraising	Total
Expenses:								
Payroll and related expenses	$ 288,907	261,127	5,556	555,590	298,635	269,920	5,743	574,298
Public relations	26,918	24,806	1,056	52,780	25,034	23,070	982	49,086
Engineering	81,144	-	-	81,144	72,436	-	-	72,436
Programming	67,493	-	-	67,493	52,168	-	-	52,168
Depreciation and amortization	58,479	5,784	-	64,263	79,643	7,877	-	87,520
Bad debts	627	-	-	627	13,310	-	-	13,310
General overhead	14,805	7,130	312	22,247	14,931	13,495	287	28,713
Rent	6,580	3,543	-	10,123	6,454	3,475	-	9,929
Utilities	17,749	9,557	-	27,306	16,355	8,807	-	25,162
Repairs and maintenance	10,399	5,600	-	15,999	7,170	3,861	-	11,031
Insurance	17,947	9,664	-	27,611	17,690	9,525	-	27,215
Telephone	16,164	14,610	311	31,085	14,137	12,778	272	27,187
Taxes	41	-	-	41	393	-	-	393
Office expenses	5,368	4,947	211	10,526	5,399	4,975	212	10,586
Dues	15,008	8,081	-	23,089	11,435	6,157	-	17,592
Total expenses	$ 627,629	354,849	7,446	989,924	635,190	363,940	7,496	1,006,626

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Cash Flows

Years ended May 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	22,135	(11,497)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		64,263	87,520
Accounts receivable, net		(9,201)	14,463
Contributions receivable, net		6,693	8,940
Provision for doubtful accounts		627	1,153
Prepaid expenses		(3,967)	(4,994)
Accounts payable		10,816	(10,219)
Accrued expenses		4,338	1,280
Income taxes payable		-	(171)
Unearned revenue		83	(9,497)
Net cash provided by operating activities		95,787	76,978
Cash flows from investing activities:			
Purchase of broadcast facilities and equipment		(86,925)	(29,655)
Assets limited as to use, net		(12,490)	(5,989)
Net cash used in investing activities		(99,415)	(35,644)
Net increase (decrease) in cash		(3,628)	41,334
Cash at beginning of year		674,268	632,934
Cash at end of year	$	670,640	674,268
Supplemental disclosures:			
Taxes paid, cash basis	$	392	564

See accompanying notes to financial statements.

(1) 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.

(2) Summary of Significant Accounting Policies

(a) New Accounting Pronouncement

On June 1, 2018 the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which makes targeted changes to the not-for-profit financial reporting model and applied these changes retrospectively. The existing three category classification of net assets has been replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." New disclosures have been incorporated to highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. ASU 2016-14 also imposes several new requirements related to reporting expenses. ASU 2016-14 was effective for fiscal years beginning after December 15, 2017. As a result of adopting this standard, $66,552 of prior year temporarily restricted amounts were reclassified to net assets without donor restrictions to conform to the presentation requirements.

(b) Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present net assets and revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes in net assets are as follows:

Net assets without donor restrictions are available for general use and not subject to donor-imposed restrictions. These net assets may be used at the discretion of the Organization's management and board of directors and may be subject to self-imposed limits by action of the governing board.

(2) Summary of Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

Net assets with donor restrictions are those that are subject to stipulations imposed by donors and grantors. Some donor restrictions may be temporary in nature and are limited by donors to a specific time period or purpose. Other donor restrictions may be perpetual in nature, as stipulated by the donor.

At May 31, 2019 and 2018, the Organization did not have any net assets with donor restrictions.

(c) Revenue and Support

The Organization accounts for contributions as support without donor restrictions or support with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are recognized as revenues when the restrictions, if any, are substantially met. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts. Donor-restricted contributions whose restrictions are met in the same reporting period 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.

Broadcasting and underwriting revenues are recognized at the time the related programs are broadcast. Unearned revenue consists primarily of payments received from underwriting sponsors which has not yet been earned under the terms of the agreement.

(d) Accounts Receivable

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

(e) Contributions Receivable

Contributions receivable are donations expected to be collected in fiscal 2020. These receivables are unsecured. The Organization accounts for its contributions receivable at the pledge amount, adjusted for doubtful accounts. The Organization estimates its allowance for doubtful accounts and bad debts based on management's assessment of the collectability of receivables and prior experience. If accounts become uncollectible, they will be charged to operations when that determination is made.

(Continued)

(2) Summary of Significant Accounting Policies, Continued

(f) 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.

(g) Concentrations

The Organization maintains their cash accounts with various financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation. While the Organization attempts to limit any financial exposure, their deposit balances may, at times, exceed federal insured limits.

(h) Broadcasting Facilities and Equipment

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 estimated useful lives of the related assets. Depreciation expense for the years ended May 31, 2019 and 2018 was $45,100 and $67,665, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment loss has been recorded by the Organization for the years ended May 31, 2019 and 2018.

(i) Income Taxes

The Organization is a not-for-profit organization and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. It has been determined that the Organization is not a private foundation. As of May 31, 2019 and 2018, the Organization did not have any unrecognized tax benefits or any related accrued interest or penalties. The tax years open to examination by federal and New York State taxing authorities are May 31, 2016 through May 31, 2019.

(Continued)

(2) Summary of Significant Accounting Policies, Continued

(j) Functional Expenses

Costs of providing programs and other activities have been summarized on a functional basis in the statements 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.

(k) Federal Communications Commission (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 $19,163 and $19,855 for the years ended May 31, 2019 and 2018, respectively.

(l) 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. Donated services are recorded at the estimated fair value as an asset or expense and corresponding contribution in the financial statements. Donated services were $565 and $450 for the years ended May 31, 2019 and 2018, respectively.

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 years ended May 31, 2019 and 2018.

(m) Advertising

The Organization expenses advertising costs when incurred.

(n) Assets Limited as to Use

Assets limited as to use consists of cash the Organization has set aside for capital and expansion purposes. The board of directors authorizes the use of the funds.

(2) Summary of Significant Accounting Policies, Continued

(o) Subsequent Event

On June 1, 2019, the Organization purchased a broadcasting facility and equipment in Albany, New York. The purchase price was approximately $600,000 and was funded with approximately $500,000 from Organization operations and approximately $100,000 from a private supporter.

Management has evaluated subsequent events through September 26, 2019, the date on which the financial statements were available to be issued.

(3) Liquidity and Availability of Financial Assets

As of May 31, 2019, financial assets available within one year for general expenditure are as follows:

Cash	$	670,640
Accounts receivable, net		51,963
Contributions receivable, net		45,922
Total	$	768,525

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

(4) Assets Limited as to Use

The activity for the year ended May 31 is summarized as follows:

		2019		
		Capital	Expansion	Total
Beginning balance	$	19,474	33,986	53,460
Contributions		4,625	7,865	12,490
Ending balance	$	24,099	41,851	65,950

		2018		
		Capital	Expansion	Total
Beginning balance	$	13,402	34,069	47,471
Contributions		6,072	2,759	8,831
Amounts expended		-	(2,842)	(2,842)
Ending balance	$	19,474	33,986	53,460

(5) 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:

		2019	2018
Contributions receivable	$	57,403	66,562
Allowance for doubtful accounts		(11,481)	(13,320)
Contributions receivable, net	$	45,922	53,242

(6) Broadcasting Facilities and Equipment

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

		2019	2018
Land	$	57,621	57,621
Buildings		432,102	432,102
Furnishings and equipment		1,632,197	1,545,272
Leasehold improvements		5,255	5,255
		2,127,175	2,040,250
Accumulated depreciation		(1,667,178)	(1,622,078)
Broadcasting facilities and equipment, net	$	459,997	418,172

(7) FCC Frequency Rights

FCC frequency rights consisted of the following at May 31:

		2019	2018
Syracuse (WMHR)	$	649,460	649,460
Cape Vincent (WMHI)		52,344	52,344
Malone (WMHQ)		18,480	18,480
Utica (WMHU)		34,117	34,117
Richfield Springs (WMHY)		12,100	12,100
		766,501	766,501
Accumulated amortization		(524,159)	(504,996)
	$	242,342	261,505

(Continued)

(8) Lease Commitments

The Organization leases satellite transponder capacity at an annual rate of $17,340 under a noncancellable operating lease agreement that expires March 31, 2024. Rental expense on the lease for satellite capacity was $17,340 for the years ended May 31, 2019 and 2018.

The Organization leases tower antenna space in Riverhead, New York at a base annual rate of $11,956, increasing automatically by 4% annually, under a noncancellable operating lease agreement that expires August 27, 2020. Rental expense on the lease for tower space was $11,956 and $11,496 for the years ended May 31, 2019 and 2018, respectively.

The Organization leases tower antenna space in Jordanville, New York at an annual rate of $1,845 under a noncancellable operating lease agreement that expires November 21, 2022. Rental expense on the lease for tower space was $1,845 for the years ended May 31, 2019 and 2018.

The Organization leases tower antenna space in Saranac Lake, New York at an annual rate of $6,000 under a noncancellable operating lease agreement that expires June 30, 2021. Rental expense on the lease for tower space was $6,000 for the years ended May 31, 2019 and 2018.

The Organization leases tower antenna space in Norwich, New York at an annual rate of $600 under a noncancellable operating lease agreement that expires November 1, 2021. Rental expense on the lease for tower space was $350 and $0 for the year ended May 31, 2019 and 2018, respectively.

The Organization leases tower antenna space in Gouverneur, New York at an annual rate of $1,800 under a noncancellable operating lease agreement that expires July 31, 2021. Rental expense on the lease for tower space was $1,800 for the years ended May 31, 2019 and 2018.

The Organization leases tower antenna space in Rochester, New York at an annual rate of $2,700 under a noncancellable operating lease agreement that expires September 4, 2024. Rental expense on the lease for tower space was $2,700 for the years ended May 31, 2019 and 2018.

Future minimum lease obligations under these agreements for the years ended May 31, are:

2020	$	42,719
2021		22,935
2022		20,963
2023		20,040
2024		20,040
	$	126,697