MARS HILL BROADCASTING CO., INC.

Financial Statements

May 31, 2020 and 2019

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 statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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.

(Continued)

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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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As more fully described in note 10 to the financial statements, Mars Hill Broadcasting Co., Inc. may be materially impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Fust Charles Chambers LLP

October 21, 2020

MARS HILL BROADCASTING CO., INC.

Statements of Financial Position

May 31, 2020 and 2019

Assets		2020	2019
Current assets:			
Cash	$	257,337	670,640
Accounts receivable		42,981	51,963
Contributions receivable, net		48,856	45,922
Prepaid expenses		31,451	32,236
Total current assets		380,625	800,761
Broadcasting facilities and equipment, net		494,361	459,997
Federal Communications Commission frequency rights, net		785,603	242,342
		1,279,964	702,339
Other assets:			
Assets limited as to use, net		60,121	65,950
Lease deposit		1,350	1,350
		61,471	67,300
Total assets	$	1,722,060	1,570,400
Liabilities and Net Assets			
Current liabilities:			
Accounts payable		22,722	17,986
Accrued expenses		11,317	10,714
Unearned revenue		11,853	8,571
Total current liabilities		45,892	37,271
Net assets-			
Without donor restrictions		1,676,168	1,533,129
Commitments and uncertainties (notes 9 and 10)			
Total liabilities and net assets	$	1,722,060	1,570,400

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Activities

Years ended May 31, 2020 and 2019

		2020	2019
Support and revenue:			
Contributions	$	599,768	425,595
Broadcasting		360,642	366,984
Underwriting		125,865	137,196
Tower rental		65,010	64,502
Concerts, banquets and other		16,482	10,674
Interest income		634	3,886
Insurance recovery		-	3,222
Total support and revenue		1,168,401	1,012,059
Expenses:			
Program		659,811	627,629
Management and general		358,273	354,849
Fundraising		7,278	7,446
Total expenses		1,025,362	989,924
Change in net assets		143,039	22,135
Net assets at beginning of year		1,533,129	1,510,994
Net assets at end of year	$	1,676,168	1,533,129

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Functional Expenses

Years ended May 31, 2020 and 2019

	2020				2019			
	Program	Management and general	Fundraising	Total	Program	Management and general	Fundraising	Total
Expenses:								
Payroll and related expenses	$ 294,240	265,948	5,658	565,846	288,907	261,127	5,556	555,590
Public relations	25,324	23,338	993	49,655	26,918	24,806	1,056	52,780
Engineering	103,059	-	-	103,059	81,144	-	-	81,144
Programming	80,823	-	-	80,823	67,493	-	-	67,493
Depreciation and amortization	48,525	4,798	-	53,323	58,479	5,784	-	64,263
Bad debts	221	-	-	221	627	-	-	627
General overhead	16,548	8,503	181	25,232	14,805	7,130	312	22,247
Rent	6,665	3,588	-	10,253	6,580	3,543	-	10,123
Utilities	18,174	9,786	-	27,960	17,749	9,557	-	27,306
Repairs and maintenance	11,797	6,352	-	18,149	10,399	5,600	-	15,999
Insurance	19,992	10,765	-	30,757	17,947	9,664	-	27,611
Telephone	13,036	11,783	251	25,070	16,164	14,610	311	31,085
Taxes	40	-	-	40	41	-	-	41
Office expenses	4,978	4,588	195	9,761	5,368	4,947	211	10,526
Dues	16,389	8,824	-	25,213	15,008	8,081	-	23,089
Total expenses	$ 659,811	358,273	7,278	1,025,362	627,629	354,849	7,446	989,924

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Cash Flows

Years ended May 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	143,039	22,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		53,323	64,263
Changes in operating assets and liabilities:			
Accounts receivable		8,982	(9,201)
Contributions receivable, net		(3,667)	6,693
Provision for doubtful accounts		733	627
Prepaid expenses		785	(3,967)
Accounts payable		4,736	10,816
Accrued expenses		603	4,338
Unearned revenue		3,282	83
Net cash provided by operating activities		211,816	95,787
Cash flows used in investing activities-			
Purchase of equipment and Federal Communications Commission frequency rights		(630,948)	(86,925)
Net increase (decrease) in cash and restricted cash		(419,132)	8,862
Cash and restricted cash at beginning of year		736,590	727,728
Cash and restricted cash at end of year	$	317,458	736,590
Cash and restricted cash are classified in the statements of financial position as follows:			
Cash	$	257,337	670,640
Assets limited as to use, net		60,121	65,950
Total cash and restricted cash	$	317,458	736,590
Supplemental disclosures:			
Taxes paid, cash basis	$	40	392

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 Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASC 606) and has issued subsequent amendments, which superseded all prior revenue recognition methods and industry-specific guidance. The core principle of ASC 606 is an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or at a point in time). ASC 606 further requires that an entity disclose sufficient information to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Effective June 1, 2019, the Organization adopted the requirements of ASC 606 using the modified retrospective method, and it did not have a material impact on the Organization's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires entities to show the changes in the total of cash and restricted cash in the statements of cash flows and reconcile those amounts to the statements of financial position. The Organization adopted ASU No. 2016-18 for the year ended May 31, 2020 and applied the provisions retrospectively to all periods presented in the financial statements. For the years ended May 31, 2020 and 2019, the Organization added $60,121 and $65,950, respectively, of restricted cash to the total cash and restricted cash presented in the statements of cash flows. The adoption of ASU No. 2016-18 had no impact to total support and revenue, change in net assets or total net assets.

(2) Summary of Significant Accounting Policies, Continued

(a) New Accounting Pronouncements, Continued

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. Effective June 1, 2019, the Organization adopted ASU No. 2018-08 and applied the provisions using the modified prospective method of application. The adoption of ASU No. 2018-08 did not have an impact on the Organization's financial statements.

(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.

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, 2020 and 2019, the Organization did not have any net assets with donor restrictions.

(Continued)

(2) Summary of Significant Accounting Policies, Continued

(c) Revenue Recognition

The Organization enters into contracts with its customers to provide specific services. A contract exists once the Organization receives and accepts an agreement that is enforceable with a customer that defines each party's rights regarding the services to be performed and identifies the payment terms related to these services, the contract has commercial substance and the Organization determines that collection of substantially all consideration for the sale is probable based on the customer's intent and ability to pay the promised consideration. The Organization's payment terms are generally 30 days. The length of the Organization's contracts vary but are typically less than a month.

The Organization recognizes revenue as performance obligations under contracts are satisfied. Performance obligations in a contract are identified based on the services that will be performed for the customer. As contracts contain a single performance obligation (performance of services) the transaction price is allocated to that single performance obligation.

The transaction price is determined based on the consideration to which the Organization will be entitled in exchange for performing the services to the customer, and is stated on the approved agreement. The transaction price is generally a fixed fee.

The Organization recognizes revenue from the sale of broadcasting as performance obligations are satisfied, which generally occurs at the point in time the related programs are broadcast.

The Organization recognizes revenue from the sale of underwriting (advertising) as performance obligations are satisfied, which generally occurs at the point in time the ads are transmitted.

Tower rental represents a series of recurring services that the Organization performs over the contract term whereby the Organization provides access to its tower infrastructure, including space or transmitting capacity. Contract terms are generally limited to an annual basis and are subject to customer cancellation. Tower rental revenue is recognized over time as the customer simultaneously receives and consumes the tower rental services on a straight-line basis.

Revenue from services performed for customers at a point in time was $502,989 and $514,854 in 2020 and 2019, respectively. Revenue from services performed for customers over time was $65,010 and $64,502 in 2020 and 2019, respectively.

(2) Summary of Significant Accounting Policies, Continued

(c) Revenue Recognition, Continued

The Organization receives advances (deposits) from customers on contracts that exceed revenue earned to date, resulting in contract liabilities, consisting primarily of payments received from underwriting sponsors which have not yet been earned under the terms of the agreement. Contract liabilities typically are not considered a significant financing component because they are used to meet working capital demands that can be higher in the early stages of a contract and they protect the Organization from the customer failing to adequately complete some or all of its obligations under the contract. Contract liabilities are reported on the statements of financial position on a net contract basis at the end of each reporting period. Contract liabilities, classified as unearned revenue, were $11,853 and $8,571 at May 31, 2020 and 2019, respectively.

(d) Accounts Receivable and Allowance for Doubtful Accounts

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

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.

Contributions receivable are donations expected to be collected in fiscal 2021. 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.

(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, 2020 and 2019 was $53,323 and $45,100, 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, 2020 and 2019.

(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, 2020 and 2019, 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, 2017 through May 31, 2020.

(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. FCC frequency rights are accounted for as indefinite-lived intangible assets. Intangible assets with indefinite lives are not amortized; rather, they are evaluated for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable.

(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 $450 and $565 for the years ended May 31, 2020 and 2019, 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, 2020 and 2019.

(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.

(o) Subsequent Events

Management has evaluated subsequent events through October 21, 2020, the date on which the financial statements were available to be issued.

(3) Liquidity and Availability of Financial Assets

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

		2020	2019
Cash	$	257,337	670,640
Accounts receivable		42,981	51,963
Contributions receivable, net		48,856	45,922
Total	$	349,174	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:

		2020		
		Capital	Expansion	Total
Beginning balance	$	24,099	41,851	65,950
Contributions		6,397	23,896	30,293
Amounts expended		(29,667)	(6,455)	(36,122)
Ending balance	$	829	59,292	60,121

		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

(Continued)

(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:

		2020	2019
Contributions receivable	$	61,070	57,403
Allowance for doubtful accounts		(12,214)	(11,481)
Contributions receivable, net	$	48,856	45,922

(6) Broadcasting Facilities and Equipment

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

		2020	2019
Land	$	57,621	57,621
Buildings		481,117	432,102
Furnishings and equipment		1,670,113	1,632,197
Leasehold improvements		5,890	5,255
		2,214,741	2,127,175
Accumulated depreciation		(1,720,380)	(1,667,178)
Broadcasting facilities and equipment, net	$	494,361	459,997

(7) FCC Frequency Rights

FCC frequency rights consisted of the following at May 31:

		2020	2019
Albany (WMHH)	$	543,261	-
Syracuse (WMHR)		168,723	168,723
Cape Vincent (WMHI)		24,863	24,863
Malone (WMHQ)		10,626	10,626
Utica (WMHU)		28,147	28,147
Richfield Springs (WMHY)		9,983	9,983
	$	785,603	242,342

(Continued)

(8) Asset Acquisition

On July 23, 2019, the Organization closed on the purchase of FCC frequency rights and equipment in Albany, New York (WMHH) from DJRA Broadcasting, LLC. 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. The primary reason for the acquisition was to expand into the capital district of New York.

Amounts recognized for each major class of asset acquired are as follows:

FCC frequency rights	$ 543,261
Equipment	56,633

In addition, the Organization assumed a noncancellable operating lease agreement for tower antennae space (note 9).

(9) 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, 2020 and 2019.

The Organization leases tower antenna space in Riverhead, New York at a base annual rate of $13,852, increasing automatically by 4% annually, under a noncancellable operating lease agreement that expires August 27, 2020. The agreement provides for annual one year renewal options that the Organization exercised for fiscal 2021. Rental expense on the lease for tower space was $13,852 and $13,195 for the years ended May 31, 2020 and 2019, respectively.

The Organization leases tower antenna space in Jordanville, New York at an annual rate of $2,565 under a noncancellable operating lease agreement that expires November 21, 2022. Rental expense on the lease for tower space was $2,565 for the years ended May 31, 2020 and 2019.

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. The agreement provides for a five-year renewal option whereby the annual rate increases 3% annually. Rental expense on the lease for tower space was $6,000 for the years ended May 31, 2020 and 2019.

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. The agreement provides for a three-year renewal option that the Organization plans to exercise. Rental expense on the lease for tower space was $600 and $350 for the years ended May 31, 2020 and 2019, respectively.

(Continued)

(9) Lease Commitments, Continued

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. The agreement provides for a three-year renewal option. Rental expense on the lease for tower space was $1,800 for the years ended May 31, 2020 and 2019.

The Organization leases tower antenna space in Rochester, New York at an annual rate of $3,000 under a noncancellable operating lease agreement that expires September 4, 2024. Rental expense on the lease for tower space was $2,925 and $2,700 for the years ended May 31, 2020 and 2019, respectively.

The Organization leases tower antenna space in Albany, New York at a base annual rate of $32,054, increasing automatically by 4% annually, under a noncancellable operating lease agreement that commenced on October 1, 2019 and expires October 1, 2020. The agreement provides for annual one year renewal options that the Organization exercised for fiscal 2021. Rental expense on the lease for tower space was $21,369 for the year ended May 31, 2020.

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

2021	$ 78,739
2022	31,589
2023	26,896
2024	24,203
2025	7,706
	$ 169,133

(10) Coronavirus Pandemic

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to fully estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity. Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Organization's results of future operations, financial position and liquidity.