MARS HILL BROADCASTING CO., INC.

FINANCIAL STATEMENTS

Years Ended May 31, 2016 and 2015

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James H. Doupe' Certified Public Accountant

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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, 2016 and 2015, 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, 2016 and 2015, 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. Doupé

Camillus, New York
September 7, 2016

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
May 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 589,380	$ 480,075
Accounts receivable, net	48,144	33,046
Contributions receivable, net	47,633	54,513
Prepaid expenses	15,668	17,900
Total current assets	700,825	585,534
OTHER ASSETS		
Broadcasting facilities and equipment, net	419,414	486,640
Lease deposit	1,350	1,350
FCC frequency rights, net	299,828	318,990
Computer Software, net	1,528	2,361
Total other assets	722,120	809,341
TOTAL ASSETS	$ 1,422,945	$ 1,394,875

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 9,183	$ 12,042
Accrued expenses	2,595	1,517
Income taxes payable	899	1,428
Unearned revenue	11,583	17,229
Total current liabilities	24,260	32,216
NET ASSETS		
Unrestricted	1,331,376	1,308,402
Temporarily restricted	67,309	54,257
Total net assets	1,398,685	1,362,659
TOTAL LIABILITIES AND NET ASSETS	$ 1,422,945	$ 1,394,875

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, 2016 (with Comparative Totals for 2015)

	General Fund	Capital Fund	Expansion Fund	2016 Total	2015 Total
CHANGES IN UNRESTRICTED NET ASSETS					
SUPPORT AND REVENUE					
Contributions	$ 352,225	$ -0-	$ 3,180	$ 355,405	$ 364,427
Broadcasting	368,709	-0-	-0-	368,709	319,713
Underwriting	144,072	-0-	-0-	144,072	142,974
Tower rental	24,062	-0-	-0-	24,062	21,343
Concerts, banquet and other	16,827	-0-	-0-	16,827	16,658
Interest income	955	-0-	-0-	955	670
Gain of sale of assets	-0-	-0-	-0-	-0-	35,043
Net assets released from restrictions	63,752	-0-	-0-	63,752	58,746
Total support and revenue	970,602	-0-	3,180	973,782	959,574
EXPENSES					
Payroll and related expenses	529,125	-0-	-0-	529,125	484,368
Public relations	72,093	-0-	-0-	72,093	48,162
Engineering	64,551	-0-	-0-	64,551	57,876
Programming	46,960	-0-	-0-	46,960	52,499
Expansion	6,447	-0-	4,513	10,960	495
General overhead	129,631	-0-	-0-	129,631	128,310
Depreciation and amortization	65,537	-0-	26,169	91,706	100,072
Contributions	3,106	-0-	-0-	3,106	2,888
Bad debts	120	-0-	-0-	120	457
Provision for income taxes	2,301	-0-	-0-	2,301	2,354
Transfers	(20,435)	(15,248)	35,683	-0-	-0-
Total expenses	899,436	(15,248)	66,365	950,553	877,481
Increase in unrestricted net assets	71,166	15,248	(63,185)	23,229	82,093
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Contributions	49,298	20,000	7,250	76,548	50,840
Net assets released from restrictions	(56,208)	(7,432)	(112)	(63,752)	(58,746)
Increase (decrease) in temporarily restricted net assets	(6,910)	12,568	7,138	12,796	(7,906)
INCREASE IN NET ASSETS	64,256	27,816	(56,047)	36,025	74,187
NET ASSETS - BEGINNING OF YEAR	1,064,618	-0-	298,041	1,362,660	1,288,473
NET ASSETS - END OF YEAR	$1,128,874	$ 27,816	$ 241,994	$1,398,685	$1,362,660

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 36,025	$ 74,187
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	91,705	99,848
(Increase) decrease in assets:		
Accounts receivable	(15,098)	2,556
Pledges receivable	6,880	7,906
Prepaid expenses	2,232	(3,353)
Increase (decrease) in liabilities:		
Accounts payable	(2,859)	(5,354)
Accrued expenses	1,078	(5,616)
Income taxes payable	(529)	836
Unearned revenue	(5,646)	(860)
NET CASH PROVIDED BY OPERATING ACTIVITIES	113,788	170,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of broadcast facilities and equipment	(4,483)	(9,130)
Sales of broadcast facilities and equipment	-0-	36,000
Purchases of computer software/frequency rights	-0-	(2,500)
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(4,483)	23,703
NET INCREASE IN CASH AND CASH EQUIVALENTS	109,305	194,520
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	480,075	285,555
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 589,380	$ 480,075

See auditor's report and accompanying 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, 2016.

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 $71,710 and $80,770 respectively for the years ended May 31, 2016 and 2015.

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 $19,995 and $19,301 respectively for the years ended May 31, 2016 and 2015.

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 $560 and $481 respectively for the years ended May 31, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015:

	2016	2015
Trade accounts receivable	$ 48,946	$ 35,303
Miscellaneous receivables	1,118	-0-
Allowance for doubtful accounts	(1,920)	(2,257)
	$ 48,144	$ 33,046

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, 2016 and 2015:

	2016	2015
Contributions receivable	$ 59,135	$ 67,845
Allowance for uncollectible contributions	(11,502)	(13,332)
	$ 47,633	$ 54,513

NOTE 4. BROADCASTING FACILITIES AND EQUIPMENT

Broadcasting facilities and equipment consisted of the following at May 31, 2016 and 2015:

	2016	2015
Land	$ 57,621	$ 57,621
Buildings	400,861	398,915
Furnishings and equipment	1,450,636	1,449,083
Leasehold improvements	5,255	5,255
Work in progress	7,432	6,447
	1,921,805	1,917,321
Accumulated depreciation	(1,502,391)	(1,430,681)
	$ 419,414	$ 486,640

NOTE 5. FCC FREQUENCY RIGHTS

FCC frequency rights consisted of the following at May 31, 2016 and 2015:

	2016	2015
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	(466,673)	(447,511)
	$ 299,828	$ 318,990

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at May 31, 2016 and 2015:

	2016	2015
Restricted for subsequent period operations	$ 47,603	$ 54,257
Restricted for capital projects	12,568	-0-
Restricted for expansion	7,138	-0-
	$ 67,309	$ 54,257

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, 2019. Rental expense on the lease for satellite capacity was $17,340 for the years ended May 31, 2016 and 2015.

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 31, 2018. Rental expense on the lease for tower space was $11,841 and $11,385 respectively for the years ended May 31, 2016 and 2015.

Future minimum lease obligations under these agreements are as follows:

Year ending May 31	
2017	$ 29,655
2018	30,147
2019	17,683
	$ 77,485

NOTE 8. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses presented on a functional basis for the years ended May 31, 2016 and 2015 were as follows:

	2016	2015
Program services	$ 528,844	$ 517,484
Management and general	395,479	335,976
Fundraising	26,230	24,021
	$ 950,553	$ 877,481

NOTE 9. SUPPLEMENTAL CASH FLOW INFORMATION

	2016	2015
Cash paid for federal and state income taxes	$ 3,848	$ 2,444

NOTE 10. CONTINGENT LIABILITIES

In September 2015, the Organization became aware that the May 2015 sale of a translator license in Gates, New York for $40,000 was invalid due to the FCC license agreement having lapsed prior to the sale date. The Organization offered to refund the $40,000 sale price to the Purchaser, but the Purchaser declined that offer and has instead applied to the FCC for reinstatement of the license. The Organization believes there is a 90% chance the Purchaser will succeed in this appeal. If the appeal is unsuccessful, the Organization believes its legal counsel is responsible for the license expiration and expects the lost sale proceeds to be fully covered by the counsel's errors and omissions insurance. Therefore, no adjustment has been made to the financial statements.

NOTE 11. PRIOR-PERIOD ADJUSTMENTS

In the fiscal year ending May 31, 2009, the Organization received the donation of a translator in Cortland, New York. Based on documentation at the time, it was understood that the transaction included the donation of land associated with the translator. It was recently discovered that the land was never legally donated. The effect of this adjustment is to reduce Broadcasting Facilities and Unrestricted Net Assets by $25,081 respectively.

In the fiscal year ending May 31, 2006, the Organization received a refund from its satellite provider in the amount $130 of its security deposit of $1,480. It was understood at the time that the balance of the deposit of $1,350 had been applied to the new monthly rent and that a security deposit was no longer required. Upon inquiry this year, it was discovered that the balance had not been applied to rent and that a security deposit of $1,350 exists on the Organization's account. The effect of this adjustment is to increase Lease Deposit and Unrestricted Net Assets by $1,350 respectively.

The net effect of the above prior-period adjustments is to decrease assets and net assets by $23,731 respectively. The adjustments are reflected in the restated prior year statement of financial position.

NOTE 12. 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, 2015, from which the summarized information was derived.