

MARS HILL BROADCASTING CO., INC.

Financial Statements

May 31, 2022 and 2021

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mars Hill Broadcasting Co., Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mars Hill Broadcasting Co., Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

The Board of Directors
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mars Hill Broadcasting Co., Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mars Hill Broadcasting Co., Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



September 29, 2022

MARS HILL BROADCASTING CO., INC.

Statements of Financial Position

May 31, 2022 and 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash	\$ 331,975	302,195
Accounts receivable	46,004	36,701
Contributions receivable, net	28,828	34,143
Prepaid expenses	38,067	36,093
	<hr/>	<hr/>
Total current assets	444,874	409,132
	<hr/>	<hr/>
Broadcasting facilities and equipment, net	564,937	528,122
Federal Communications Commission frequency rights	785,603	785,603
	<hr/>	<hr/>
	1,350,540	1,313,725
	<hr/>	<hr/>
Other assets:		
Assets limited as to use, net	148,237	92,417
Lease deposit	1,350	1,350
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	149,587	93,767
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Total assets	\$ 1,945,001	1,816,624
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	30,468	6,474
Accrued expenses	13,270	17,110
Unearned revenue	28,870	14,624
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Total current liabilities	72,608	38,208
	<hr/>	<hr/>
Net assets-		
Without donor restrictions	1,872,393	1,778,416
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Commitments (note 8)		
Total liabilities and net assets	\$ 1,945,001	1,816,624
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See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Activities

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Support and revenue:		
Contributions	\$ 654,385	540,715
Broadcasting	356,453	361,366
Underwriting	187,035	185,361
Tower rental	67,584	66,190
Concerts, banquets and other	8,863	1,183
	<u>1,274,320</u>	<u>1,154,815</u>
Total support and revenue		
Expenses:		
Program	731,611	652,532
Management and general	439,711	387,715
Fundraising	9,021	12,320
	<u>1,180,343</u>	<u>1,052,567</u>
Total expenses		
Change in net assets	93,977	102,248
Net assets at beginning of year	<u>1,778,416</u>	<u>1,676,168</u>
Net assets at end of year	<u>\$ 1,872,393</u>	<u>1,778,416</u>

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Functional Expenses

Years ended May 31, 2022 and 2021

	2022				2021			
	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:								
Payroll and related expenses	\$ 326,822	340,300	905	668,027	288,187	305,263	1,692	595,142
Public relations	16,862	8,552	7,648	33,062	19,301	8,549	9,996	37,846
Engineering	129,057	-	-	129,057	106,349	-	-	106,349
Programming	69,693	-	-	69,693	80,724	-	-	80,724
Depreciation	38,915	3,847	-	42,762	37,585	3,716	-	41,301
Bad debts	-	-	-	-	830	-	-	830
General overhead	27,651	14,244	-	41,895	26,981	13,711	188	40,880
Rent	6,459	3,478	-	9,937	6,410	3,451	-	9,861
Utilities	29,392	15,826	-	45,218	20,796	11,197	-	31,993
Repairs and maintenance	8,595	4,628	-	13,223	9,812	5,283	-	15,095
Insurance	25,329	13,638	-	38,967	22,857	12,307	-	35,164
Telephone	12,988	11,740	250	24,978	12,884	11,646	248	24,778
Taxes	290	-	-	290	40	-	-	40
Office expenses	5,626	5,188	218	11,032	5,068	4,673	196	9,937
Dues and professional fees	33,932	18,270	-	52,202	14,708	7,919	-	22,627
Total expenses	\$ <u>731,611</u>	<u>439,711</u>	<u>9,021</u>	<u>1,180,343</u>	<u>652,532</u>	<u>387,715</u>	<u>12,320</u>	<u>1,052,567</u>

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Statements of Cash Flows

Years ended May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 93,977	102,248
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	42,762	41,301
Changes in operating assets and liabilities:		
Accounts receivable	(9,303)	6,280
Contributions receivable, net	5,315	13,883
Provision for doubtful accounts	-	830
Prepaid expenses	(1,974)	(4,642)
Accounts payable	23,994	(16,248)
Accrued expenses	(3,840)	5,793
Unearned revenue	14,246	2,771
	<u>165,177</u>	<u>152,216</u>
Net cash provided by operating activities		
Cash flows used in investing activities -		
Purchase of equipment	(79,577)	(75,062)
	<u>(79,577)</u>	<u>(75,062)</u>
Net increase in cash and restricted cash	85,600	77,154
Cash and restricted cash at beginning of year	<u>394,612</u>	<u>317,458</u>
Cash and restricted cash at end of year	<u>\$ 480,212</u>	<u>394,612</u>
Cash and restricted cash are classified in the statements of financial position as follows:		
Cash	\$ 331,975	302,195
Assets limited as to use, net	148,237	92,417
	<u>\$ 480,212</u>	<u>394,612</u>
Total cash and restricted cash		
Supplemental disclosures:		
Taxes paid, cash basis	<u>\$ 40</u>	<u>40</u>

See accompanying notes to financial statements.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

May 31, 2022 and 2021

(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) 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, 2022 and 2021, the Organization did not have any net assets with donor restrictions.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(b) 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 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 length of the Organization's broadcasting contracts vary but are typically on an annual basis.

The Organization recognizes revenue from the sale of underwriting as performance obligations are satisfied, which generally occurs at the point in time the acknowledgements are transmitted. The length of the Organization's underwriting contracts vary but are typically between three months to one year.

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 \$552,351 and \$547,910 in 2022 and 2021, respectively. Revenue from services performed for customers over time was \$67,584 and \$66,190 in 2022 and 2021, respectively.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(b) 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 \$28,870 and \$14,624 at May 31, 2022 and 2021, respectively.

(c) 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.

(d) 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 2023. 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.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(e) 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.

(f) Concentrations

The Organization maintains their cash accounts with a financial institution. The accounts at this institution 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.

(g) 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, 2022 and 2021 was \$42,762 and \$41,301, 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, 2022 and 2021.

(h) 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, 2022 and 2021, 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, 2019 through May 31, 2022.

(i) 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.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(2) Summary of Significant Accounting Policies, Continued

(j) 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. The Organization does not anticipate any difficulties in renewing the FCC frequency rights, which expire in June 2030. The Organization expenses costs to renew or extend the FCC frequency rights when incurred.

(k) 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 for the years ended May 31, 2022 and 2021.

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, 2022 and 2021.

(l) Advertising

The Organization expenses advertising costs when incurred.

(m) 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.

(n) Reclassification

Certain amounts in the 2021 financial statements have been reclassified to conform with the 2022 presentation.

(o) Subsequent Events

Management has evaluated subsequent events through September 29, 2022, the date on which the financial statements were available to be issued.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(3) Liquidity and Availability of Financial Assets

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

	<u>2022</u>	<u>2021</u>
Cash	\$ 331,975	302,195
Accounts receivable	46,004	36,701
Contributions receivable, net	<u>28,828</u>	<u>34,143</u>
Total	<u>\$ 406,807</u>	<u>373,039</u>

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:

	2022		
	<u>Capital</u>	<u>Expansion</u>	<u>Total</u>
Beginning balance	\$ 6,160	86,257	92,417
Contributions	3,723	60,118	63,841
Amounts expended	<u>(8,021)</u>	<u>-</u>	<u>(8,021)</u>
Ending balance	<u>\$ 1,862</u>	<u>146,375</u>	<u>148,237</u>
	2021		
	<u>Capital</u>	<u>Expansion</u>	<u>Total</u>
Beginning balance	\$ 829	59,292	60,121
Contributions	<u>5,331</u>	<u>26,965</u>	<u>32,296</u>
Ending balance	<u>\$ 6,160</u>	<u>86,257</u>	<u>92,417</u>

There were no amounts expended during the year ended May 31, 2021.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(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:

	<u>2022</u>	<u>2021</u>
Contributions receivable	\$ 36,035	42,679
Allowance for doubtful accounts	<u>(7,207)</u>	<u>(8,536)</u>
Contributions receivable, net	<u>\$ 28,828</u>	<u>34,143</u>

(6) Broadcasting Facilities and Equipment

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

	<u>2022</u>	<u>2021</u>
Land	\$ 57,621	57,621
Buildings	535,632	493,672
Furnishings and equipment	1,770,237	1,678,217
Leasehold improvements	5,890	5,890
Construction in progress	<u>-</u>	<u>54,403</u>
	2,369,380	2,289,803
Accumulated depreciation	<u>(1,804,443)</u>	<u>(1,761,681)</u>
Broadcasting facilities and equipment, net	<u>\$ 564,937</u>	<u>528,122</u>

(7) FCC Frequency Rights

FCC frequency rights consisted of the following at both May 31, 2022 and 2021:

Albany (WMHH)	\$ 543,261	
Syracuse (WMHR)	168,723	
Cape Vincent (WMHI)	24,863	
Malone (WMHQ)	10,626	
Utica (WMHU)	28,147	
Richfield Springs (WMHY)	<u>9,983</u>	
	<u>\$ 785,603</u>	

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(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, 2022 and 2021.

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 effective in August 2021 that provides for eight renewal terms of three years each. Rental expense on the lease for tower space was \$14,982 and \$14,406 for the years ended May 31, 2022 and 2021, 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 automatically renews in November 2022 for a five-year term. Rental expense on the lease for tower space was \$2,565 for the years ended May 31, 2022 and 2021.

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, 2026. The agreement provides for five-year renewal options whereby the annual rate increases 3% each renewal term. Rental expense on the lease for tower space was \$6,165 and \$6,000 for the years ended May 31, 2022 and 2021, respectively.

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, 2024. Rental expense on the lease for tower space was \$600 for the years ended May 31, 2022 and 2021.

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, 2024. 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, 2022 and 2021.

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 \$3,000 for the years ended May 31, 2022 and 2021.

The Organization leases tower antenna space in Albany, New York at a base annual rate of \$32,054 under a noncancellable operating lease agreement that expires October 1, 2022 and is month-to-month thereafter. Rental expense on the lease for tower space was \$37,396 and \$32,054 for the years ended May 31, 2022 and 2021, respectively.

MARS HILL BROADCASTING CO., INC.

Notes to Financial Statements

(8) Lease Commitments, Continued

The Organization leases tower antenna space in Lowville, New York at a monthly rate of \$735 under a noncancellable operating lease agreement that expires December 4, 2031. The agreement provides for four additional renewal periods of five years each whereby the annual rate increases 3% annually. Rental expense on the lease for tower space was \$4,339 for the year ended May 31, 2022.

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

2023	\$	68,355
2024		50,370
2025		19,412
2026		18,347
2027		13,141