

MARS HILL BROADCASTING CO., INC.

FINANCIAL STATEMENTS

Years Ended May 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.


Camillus, New York
September 21, 2017

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016

ASSETS		
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 680,405	\$ 589,380
Accounts receivable, net	57,225	48,144
Contributions receivable, net	63,335	47,633
Prepaid expenses	<u>23,275</u>	<u>15,668</u>
Total current assets	<u>824,240</u>	<u>700,825</u>
OTHER ASSETS		
Broadcasting facilities and equipment, net	456,182	419,414
Lease deposit	1,350	1,350
FCC frequency rights, net	280,665	299,828
Computer software, net	<u>695</u>	<u>1,528</u>
Total other assets	<u>738,892</u>	<u>722,120</u>
TOTAL ASSETS	<u><u>\$ 1,563,132</u></u>	<u><u>\$ 1,422,945</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 17,389	\$ 9,183
Accrued expenses	5,096	2,595
Income taxes payable	171	899
Unearned revenue	<u>17,985</u>	<u>11,583</u>
Total current liabilities	<u>40,641</u>	<u>24,260</u>
NET ASSETS		
Unrestricted	1,459,156	1,331,376
Temporarily restricted	<u>63,335</u>	<u>67,309</u>
Total net assets	<u>1,522,491</u>	<u>1,398,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,563,132</u></u>	<u><u>\$ 1,422,945</u></u>

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, 2017 (with Comparative Totals for 2016)

	General Fund	Capital Fund	Expansion Fund	2017 Total	2016 Total
CHANGES IN UNRESTRICTED NET ASSETS					
SUPPORT AND REVENUE					
Contributions	\$ 364,400	\$ 2,200	\$ 38,476	\$ 405,076	\$ 355,405
Broadcasting	377,267	-0-	-0-	377,267	368,709
Underwriting	160,402	-0-	-0-	160,402	144,072
Tower rental	29,797	-0-	-0-	29,797	24,062
Concerts, banquet and other	15,358	-0-	-0-	15,358	16,827
Interest income	1,297	-0-	-0-	1,297	955
Net assets released from restrictions	47,603	12,568	7,138	67,309	63,752
Total support and revenue	<u>996,124</u>	<u>14,768</u>	<u>45,614</u>	<u>1,056,506</u>	<u>973,782</u>
EXPENSES					
Payroll and related expenses	542,268	-0-	-0-	542,268	529,125
Public relations	56,907	-0-	-0-	56,907	72,093
Engineering	64,470	-0-	-0-	64,470	64,551
Programming	38,289	-0-	-0-	38,289	46,960
Expansion	-0-	-0-	10,131	10,131	10,960
General overhead	121,898	-0-	-0-	121,898	129,631
Depreciation and amortization	61,616	-0-	25,907	87,523	91,706
Contributions	3,888	-0-	-0-	3,888	3,106
Bad debts	1,382	-0-	-0-	1,382	120
Provision for income taxes	1,970	-0-	-0-	1,970	2,301
Transfers	(38,294)	16,614	21,680	-0-	-0-
Total expenses	<u>854,394</u>	<u>16,614</u>	<u>57,718</u>	<u>928,726</u>	<u>950,553</u>
Increase in unrestricted net assets	<u>141,730</u>	<u>(1,846)</u>	<u>(12,104)</u>	<u>127,780</u>	<u>23,229</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Contributions	63,335	-0-	-0-	63,335	76,548
Net assets released from restrictions	(47,603)	(12,568)	(7,138)	(67,309)	(63,752)
Increase (decrease) in temporarily restricted net assets	<u>15,732</u>	<u>(12,568)</u>	<u>(7,138)</u>	<u>(3,974)</u>	<u>12,796</u>
INCREASE IN NET ASSETS	157,462	(14,414)	(19,242)	123,806	36,025
NET ASSETS - BEGINNING OF YEAR	<u>1,128,875</u>	<u>27,816</u>	<u>241,994</u>	<u>1,398,685</u>	<u>1,362,660</u>
NET ASSETS - END OF YEAR	<u>\$1,286,337</u>	<u>\$ 13,402</u>	<u>\$ 222,752</u>	<u>\$1,522,491</u>	<u>\$1,398,685</u>

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 123,806	\$ 36,025
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	87,523	91,705
(Increase) decrease in assets:		
Accounts receivable	(9,081)	(15,098)
Pledges receivable	(15,702)	6,880
Prepaid expenses	(7,607)	2,232
Increase (decrease) in liabilities:		
Accounts payable	8,206	(2,859)
Accrued expenses	2,501	1,078
Income taxes payable	(728)	(529)
Unearned revenue	6,402	(5,646)
NET CASH PROVIDED BY OPERATING ACTIVITIES	195,320	113,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of broadcast facilities and equipment	(104,295)	(4,483)
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(104,295)	(4,483)
NET INCREASE IN CASH AND CASH EQUIVALENTS	91,025	109,305
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	589,380	480,075
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 680,405	\$ 589,380

See auditor's report and accompanying notes to the financial statements.

MARS HILL BROADCASTING CO., INC.
(A Nonprofit Organization)
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, 2017.

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 \$67,527 and \$71,710, respectively, for the years ended May 31, 2017 and 2016.

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 \$19,163 for the years ended May 31, 2017 and 2016.

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 \$450 and \$560, respectively, for the years ended May 31, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Trade accounts receivable	\$ 57,171	\$ 48,946
Miscellaneous receivables	231	1,118
Allowance for doubtful accounts	<u>(177)</u>	<u>(1,920)</u>
	<u>\$ 57,225</u>	<u>\$ 48,144</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Contributions receivable	\$ 76,667	\$ 59,135
Allowance for uncollectible contributions	<u>(13,332)</u>	<u>(11,502)</u>
	<u>\$ 63,335</u>	<u>\$ 47,633</u>

NOTE 4. BROADCASTING FACILITIES AND EQUIPMENT

Broadcasting facilities and equipment consisted of the following at May 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 57,621	\$ 57,621
Buildings	432,280	400,861
Furnishings and equipment	1,497,594	1,450,636
Leasehold improvements	5,255	5,255
Work in progress	<u>33,350</u>	<u>7,432</u>
	2,026,100	1,921,805
Accumulated depreciation	<u>(1,569,918)</u>	<u>(1,502,391)</u>
	<u>\$ 456,182</u>	<u>\$ 419,414</u>

NOTE 5. FCC FREQUENCY RIGHTS

FCC frequency rights consisted of the following at May 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
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)	<u>12,100</u>	<u>12,100</u>
	766,501	766,501
Accumulated amortization	<u>(485,836)</u>	<u>(466,673)</u>
	<u>\$ 280,665</u>	<u>\$ 299,828</u>

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at May 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Restricted for subsequent period operations	\$ 63,335	\$ 47,603
Restricted for capital projects	-0-	12,568
Restricted for expansion	-0-	7,138
	<u>\$ 63,335</u>	<u>\$ 67,309</u>

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, 2017 and 2016.

The Organization leases tower antenna space in Riverhead, New York at a base annual rate of \$11,496, increasing automatically by 4% annually, under a noncancelable operating lease agreement that expires August 27, 2018. Rental expense on the lease for tower space was \$12,315 and \$11,841, respectively, for the years ended May 31, 2017 and 2016.

The Organization leases tower antenna space in Jordanville, New York at an annual rate of \$1,800, increasing to \$1,845 annually in November 2017, under a noncancelable operating lease agreement that expires November 21, 2022. Rental expense on the lease for tower space was \$1,800 for the years ended May 31, 2017 and 2016.

The Organization leases tower antenna space in Saranac Lake, New York at an annual rate of \$6,000 under a noncancelable operating lease agreement that expires June 30, 2021. Rental expense on the lease for tower space was \$5,500 and \$-0-, respectively, for the years ended May 31, 2017 and 2016.

The Organization leases music scheduling software at an annual rate of \$1,200 under a noncancelable operating lease agreement that expires December 31, 2018. Rental expense on the lease for scheduling software was \$1,200 for the years ended May 31, 2017 and 2016.

Future minimum lease obligations under these agreements are as follows:

<u>Year ending May 31</u>	
2018	\$ 9,023
2019	8,545
2020	7,845
2021	7,845
2022	2,345
Thereafter	923
	<u>\$ 36,526</u>

NOTE 8. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses presented on a functional basis for the years ended May 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 532,458	\$ 528,844
Management and general	369,752	395,479
Fundraising	26,516	26,230
	<u>\$ 928,726</u>	<u>\$ 950,553</u>

NOTE 9. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2017</u>	<u>2016</u>
Cash paid for federal and state income taxes	\$ 1,249	\$ 3,848

NOTE 10. 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, 2016, from which the summarized information was derived.