

Cornerstone Television, Inc.

Financial Statements

Years Ended December 31, 2021 and 2020
with Independent Auditor's Report

MaherDuessel

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CORNERSTONE TELEVISION, INC.

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

**Board of Directors
Cornerstone Television, Inc.**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Cornerstone Television, Inc. (Cornerstone), which comprise the statements of financial position as of December 31, 2021 and 2020, 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 Cornerstone as of December 31, 2021 and 2020, 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 Cornerstone, 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 Cornerstone's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 generally accepted auditing standards 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, including omissions, 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 Cornerstone'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 the Cornerstone'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.

Maher Duessel

Pittsburgh, Pennsylvania
May 26, 2022

CORNERSTONE TELEVISION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 475,075 | \$ 465,987 |
| Investments | 4,355,306 | 3,819,753 |
| Accounts receivable, net of allowance for doubtful accounts of \$17,990 and \$17,990, respectively | 320,437 | 308,314 |
| Inventory | 69,782 | 59,951 |
| Prepaid expenses and other current assets | <u>51,094</u> | <u>37,501</u> |
| Total current assets | <u>5,271,694</u> | <u>4,691,506</u> |
| Investments - restricted | <u>1,500,000</u> | <u>1,500,000</u> |
| Property, buildings, and equipment | | |
| Tower and broadcasting equipment | 6,842,855 | 6,546,397 |
| Site development and land improvements | 640,176 | 640,176 |
| Buildings and improvements | 2,830,196 | 2,800,835 |
| Office furniture and equipment | 538,221 | 538,221 |
| Vehicles | <u>79,468</u> | <u>79,468</u> |
| | 10,930,916 | 10,605,097 |
| Less: accumulated depreciation and amortization | <u>(6,489,983)</u> | <u>(6,143,840)</u> |
| | 4,440,933 | 4,461,257 |
| Land | <u>66,785</u> | <u>66,785</u> |
| Total property, buildings, and equipment | <u>4,507,718</u> | <u>4,528,042</u> |
| Total Assets | <u><u>\$ 11,279,412</u></u> | <u><u>\$ 10,719,548</u></u> |

(Continued)

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

(Continued)

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 150,811 | \$ 324,455 |
| Line of credit | 120,000 | - |
| Deferred revenue | 27,871 | 19,622 |
| Total current liabilities | <u>298,682</u> | <u>344,077</u> |
| Long-term liabilities: | | |
| Annuities payable | 8,821 | 12,232 |
| Total long-term liabilities | <u>8,821</u> | <u>12,232</u> |
| Total Liabilities | <u>307,503</u> | <u>356,309</u> |
| Net Assets: | | |
| Without donor restrictions: | | |
| Undesignated | 6,474,511 | 5,733,760 |
| Investment in fixed assets, net of related debt | 4,387,718 | 4,528,042 |
| Total without donor restrictions | 10,862,229 | 10,261,802 |
| With donor restrictions | 109,680 | 101,437 |
| Total Net Assets | <u>10,971,909</u> | <u>10,363,239</u> |
| Total Liabilities and Net Assets | <u>\$ 11,279,412</u> | <u>\$ 10,719,548</u> |

(Concluded)

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------------|
| Revenues and Other Support: | | | |
| Contributions and bequests | \$ 2,360,185 | \$ 130,985 | \$ 2,491,170 |
| Broadcasting and production | 1,983,241 | - | 1,983,241 |
| Other revenues | 162,428 | - | 162,428 |
| Total revenues and other support | 4,505,854 | 130,985 | 4,636,839 |
| Net assets released from restrictions (operating) | 50,849 | (50,849) | - |
| Net assets released from restrictions (capital) | 71,893 | (71,893) | - |
| | 4,628,596 | 8,243 | 4,636,839 |
| Expenses: | | | |
| Program | 2,905,605 | - | 2,905,605 |
| Support services: | | | |
| Management and general | 1,131,770 | - | 1,131,770 |
| Fundraising | 716,952 | - | 716,952 |
| Total support services | 1,848,722 | - | 1,848,722 |
| Total expenses | 4,754,327 | - | 4,754,327 |
| Gain (Loss) from Operations | (125,731) | 8,243 | (117,488) |
| Non-Operating Activities: | | | |
| Investment income (loss) | 726,158 | - | 726,158 |
| Gain (loss) on sale of assets | - | - | - |
| Gain (loss) on disposal of obsolete assets | - | - | - |
| Gain (loss) on disposal of inventory | - | - | - |
| Total non-operating income (loss) | 726,158 | - | 726,158 |
| Change in Net Assets | 600,427 | 8,243 | 608,670 |
| Net Assets: | | | |
| Beginning of year | 10,261,802 | 101,437 | 10,363,239 |
| End of year | \$ 10,862,229 | \$ 109,680 | \$ 10,971,909 |

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------------|
| Revenues and Other Support: | | | |
| Contributions and bequests | \$ 2,673,613 | \$ 89,853 | \$ 2,763,466 |
| Broadcasting and production | 1,833,311 | - | 1,833,311 |
| Other revenues | 415,487 | - | 415,487 |
| Total revenues and other support | 4,922,411 | 89,853 | 5,012,264 |
| Net assets released from restrictions (operating) | 186,627 | (186,627) | - |
| Net assets released from restrictions (capital) | - | - | - |
| | 5,109,038 | (96,774) | 5,012,264 |
| Expenses: | | | |
| Program | 3,313,862 | - | 3,313,862 |
| Support services: | | | |
| Management and general | 1,225,346 | - | 1,225,346 |
| Fundraising | 801,419 | - | 801,419 |
| Total support services | 2,026,765 | - | 2,026,765 |
| Total expenses | 5,340,627 | - | 5,340,627 |
| Gain (Loss) from Operations | (231,589) | (96,774) | (328,363) |
| Non-Operating Activities: | | | |
| Investment income (loss) | 723,317 | - | 723,317 |
| Gain (loss) on disposal of obsolete assets | (28,098) | - | (28,098) |
| Gain (loss) on disposal of inventory | (36,852) | - | (36,852) |
| Total non-operating income (loss) | 658,367 | - | 658,367 |
| Change in Net Assets | 426,778 | (96,774) | 330,004 |
| Net Assets: | | | |
| Beginning of year | 9,835,024 | 198,211 | 10,033,235 |
| End of year | \$ 10,261,802 | \$ 101,437 | \$ 10,363,239 |

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------------|---------------------|-----------------------------------|--------------------|---------------------|
| Salaries and wages | \$ 1,127,107 | \$ 463,819 | \$ 215,401 | \$ 1,806,327 |
| Employee benefits | 238,017 | 125,524 | 65,492 | 429,033 |
| Grants and allocations | 472,416 | - | - | 472,416 |
| Outside services | 249,699 | 162,787 | 67,872 | 480,358 |
| Office expenses | 127,299 | 33,670 | 80,310 | 241,279 |
| Equipment rental and maintenance | 47,647 | 56,652 | 16,471 | 120,770 |
| Occupancy | 142,676 | 18,059 | - | 160,735 |
| Printing and publications | - | 1,131 | 143,030 | 144,161 |
| Travel | 17,205 | 137 | - | 17,342 |
| Depreciation | 349,167 | - | - | 349,167 |
| Interest and bank fees | - | 24,821 | - | 24,821 |
| Miscellaneous | 6,259 | 17,154 | 2,924 | 26,337 |
| Premiums and promotions | 104 | 82,552 | 32,285 | 114,941 |
| Insurance | 3,072 | 66,185 | - | 69,257 |
| Guests and honorariums | 6,578 | 9,572 | 93,167 | 109,317 |
| Exempt Organization Business Taxes | - | 69,707 | - | 69,707 |
| Purpose restricted disbursements | 50,849 | - | - | 50,849 |
| Program fees and acquisition costs | 67,510 | - | - | 67,510 |
| Total Expenses | <u>\$ 2,905,605</u> | <u>\$ 1,131,770</u> | <u>\$ 716,952</u> | <u>\$ 4,754,327</u> |

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

| | Program | Management and General | Fundraising | Total |
|------------------------------------|---------------------|---------------------------|-------------------|---------------------|
| Salaries and wages | \$ 1,451,212 | \$ 528,826 | \$ 267,816 | \$ 2,247,854 |
| Employee benefits | 251,385 | 131,876 | 66,123 | 449,384 |
| Grants and allocations | 422,587 | - | - | 422,587 |
| Outside services | 250,236 | 222,158 | 50,597 | 522,991 |
| Office expenses | 138,165 | 35,533 | 98,804 | 272,502 |
| Equipment rental and maintenance | 142,707 | 27,466 | 20,470 | 190,643 |
| Occupancy | 160,738 | 23,738 | - | 184,476 |
| Printing and publications | 487 | 2,253 | 153,761 | 156,501 |
| Travel | 16,198 | 54 | 1 | 16,253 |
| Depreciation | 357,619 | - | - | 357,619 |
| Interest and bank fees | - | 32,859 | - | 32,859 |
| Miscellaneous | 3,794 | 2,299 | 3,236 | 9,329 |
| Premiums and promotions | - | 65,936 | 44,989 | 110,925 |
| Insurance | 3,071 | 65,430 | - | 68,501 |
| Guests and honorariums | 14,730 | 4,133 | 95,622 | 114,485 |
| Exempt Organization Business Taxes | - | 82,785 | - | 82,785 |
| Purpose restricted disbursements | 34,323 | - | - | 34,323 |
| Program fees and acquisition costs | 66,610 | - | - | 66,610 |
| | <u>\$ 3,313,862</u> | <u>\$ 1,225,346</u> | <u>\$ 801,419</u> | <u>\$ 5,340,627</u> |
| Total Expenses | <u>\$ 3,313,862</u> | <u>\$ 1,225,346</u> | <u>\$ 801,419</u> | <u>\$ 5,340,627</u> |

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|------------|------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 608,670 | \$ 330,004 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Change in allowance for doubtful accounts | - | (10) |
| Depreciation | 349,167 | 357,619 |
| Unrealized (gain) loss on investments | (141,767) | (331,778) |
| Net (gain) loss on disposition of assets | - | 28,098 |
| Net (gain) loss on disposal of inventory | - | 36,548 |
| Change in: | | |
| Accounts receivable | (12,123) | 22,945 |
| Inventory | (9,831) | - |
| Prepaid expenses and other current assets | (13,593) | 45,162 |
| Accounts payable | (173,644) | 35,883 |
| Deferred revenue | 8,249 | 1,010 |
| Annuity payable | (3,411) | (207) |
| Total adjustments | 3,047 | 195,270 |
| Net cash provided by (used in) operating activities | 611,717 | 525,274 |
| Cash Flows From Investing Activities: | | |
| Acquisition of fixed assets | (328,843) | (202,347) |
| Sales of investments | 457,000 | 443,000 |
| Purchase of investments | (850,786) | (361,642) |
| Net cash provided by (used in) investing activities | (722,629) | (120,989) |
| Cash Flows From Financing Activities: | | |
| Repayments under line of credit agreement | - | (429,032) |
| Proceeds from line of credit agreement | 120,000 | - |
| Net cash provided by (used in) financing activities | 120,000 | (429,032) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 9,088 | (24,747) |
| Cash and Cash Equivalents: | | |
| Beginning of year | 465,987 | 490,734 |
| End of year | \$ 475,075 | \$ 465,987 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 982 | \$ 7,929 |
| Cash paid during the year for Unrelated Business Income Tax | 69,707 | 82,785 |

See accompanying notes to financial statements.

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

1. Organization

Cornerstone Television Inc. (Cornerstone) is a Pennsylvania not-for-profit corporation, which was organized on May 4, 1970. Cornerstone's operations consist primarily of providing and broadcasting religious and education television programming. Cornerstone also owns other broadcasting stations, which provide the same services.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly, reflects all significant receivables, payables, and other liabilities. In accordance with Financial Accounting Standards Board (FASB) authoritative guidance, Cornerstone resources are classified for accounting and reporting purposes into classes of net assets established according to their nature and purpose. There are two types of net assets:

Net Assets Without Donor Restrictions

Used to accumulate all net assets without donor restrictions and board-designated resources from operations. It represents the portion of expendable funds that are available for support of Cornerstone's operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions include those net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of Cornerstone pursuant to those stipulations. There can also be net assets with a donor-imposed restriction that stipulates that resources be maintained permanently but permits an organization to use up or expend part or all of the income derived from the donated assets. Cornerstone has no net assets with donor restrictions that must be maintained in perpetuity.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

assets are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions

Contributions (unconditional promises to give) are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Contributions received are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend on have been met. Cornerstone had no conditional promises to give at December 31, 2021 and 2020.

Revenue from Contracts with Customers

Broadcasting and production revenues are considered to be revenue from contracts with customers. The contracts are held with other religious-based not-for-profit entities and for-profit, non-religious-based entities. The contracts are fee-for-service contracts under which Cornerstone provides television program airtime, spot advertisements, and production services. Services are provided over the life of the contract, which are typically one year in duration. Revenue is recognized when the performance obligation of the contract is satisfied, and the broadcast takes place or the production services are rendered to the contracting entity. Generally, Cornerstone bills customers subsequent to the performance of services.

At December 31, 2021 and 2020, end of year receivables related to the contracts were \$320,437 and \$308,314, respectively. Beginning year receivables were \$308,314 and \$331,249. At December 31, 2021 and 2020, there were no payables related to the contracts, nor were there any contract payables at the beginning of each respective calendar year.

There have been no changes in the significant judgments related to the amount and timing of revenue from contracts with customers and there are no impairment losses recognized related to these contracts.

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

FCC Reimbursement

FCC reimbursements are recorded as other revenues. Cornerstone's revenue from the FCC is derived from cost-reimbursable government grants, which are conditioned upon approval by the FCC and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Cornerstone receives approval from the FCC and the reimbursement is received. The FCC reimburses Cornerstone for tower site modifications that were required under the FCC broadcast band change (see Note 11). At December 31, 2021 and 2020, Cornerstone had \$79,705 and \$8,617, respectively, in outstanding reimbursement requests to the FCC. Submitted requests are not accrued for at year-end, as it is at the FCC's discretion to award the reimbursements.

Functional Allocation of Expenses

The costs of operations of Cornerstone have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and support services based upon management's judgment of efforts expended.

Deferred Revenue

Deferred revenue represents the prepayment on tower lease agreements by a company for the rental of tower space and on airtime agreements by various organizations. The income from the tower prepayment will be recognized over the assigned period, which is fifteen years. The income from the airtime prepayments will be recognized when the related programs are aired.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are deposited at local banks. At December 31, 2021 and 2020, the carrying amounts of Cornerstone's deposits were \$475,075 and \$465,987, respectively, and the bank balances were \$471,443 and \$472,624, respectively. For 2021, the uninsured

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

cash balance totaled \$201,394. For 2020, the uninsured cash balance totaled \$195,329. For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid instruments with maturities of three months or less when purchased.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the amounts originally billed, less payments received, and are non-interest bearing, as they are due within one year. Accounts are classified as current or past due based on the terms of the contract or agreement under which the receivable arose. The allowance for doubtful accounts is based upon historical collections and the amount of past due receivables for accounts whose collectivity is in doubt. Past-due balances are written off once management determines collection is not possible.

Inventory

Inventory is stated at the lower of cost (determined by the first-in, first-out method of accounting) or net realizable value.

Cornerstone periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory. At December 31, 2021 and 2020, Cornerstone wrote off inventory totaling \$0 and \$36,458.

Financial Instruments

The following methods and assumptions were used by Cornerstone in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Investments: Quoted prices in active markets for identical assets (Level 1).

Risks and Uncertainties

Cornerstone investments in marketable securities potentially expose them to a concentration of credit risk. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of financial position.

Fixed Assets

Fixed assets are stated at cost if purchased. Donations of fixed assets are recorded as contributions at their estimated fair value at the time of donation. Fixed asset purchases and major improvements and betterments to equipment, other than tower related purchases, that are valued at a cost of \$2,000 or more with a useful life greater than one year are capitalized. Tower and related purchases valued at a cost of \$5,000 or more with a useful life greater than one year are capitalized. Expenditures for renewals and improvements that significantly extend the useful life of the asset are capitalized. Expenditures for maintenance or repairs are expensed currently.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2021; obsolete equipment was written off in December 31, 2020.

Depreciation is computed using the straight-line method based on the estimated useful lives of the various assets.

Income Taxes

Cornerstone is a non-profit organization and is exempt from paying income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Cornerstone's tax-exempt purpose is subject to taxation as unrelated business income. In addition, Cornerstone qualifies for the charitable deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation. Cornerstone files a Form 990 information return as well as a Form 990T for its unrelated business income annually.

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Contributions to Charitable Organizations

Contributions to charitable organizations are determined by the Board of Directors (Board). These are reported in the financial statements as a reduction in unrestricted net assets.

During 2021 and 2020, a contribution of \$16,400 and \$18,900, respectively, was made to a charitable organization with which a Board member is affiliated. The Board was informed of the affiliation and did not consider the contribution to be a conflict of interest.

Operating Activities

For purposes of the statements of activities, Cornerstone distinguishes between operating revenue, support and expenses, and non-operating revenue, support, gains, and losses. Cornerstone treats as operating revenue and support and operating expenses all revenues and expenses that are an integral part of its program and supporting activities. All other activity is nonoperating.

Liquidity and Availability

Cornerstone manages its liquid resources by focusing on fundraising efforts to ensure the entity has adequate contributions and grants to cover the programs that are being conducted. Cornerstone prepares very detailed budgets, ensures timely billing of broadcasting and production revenues, and has been very active in monitoring costs to ensure the entity remains liquid.

As discussed in Note 5, Cornerstone maintains a line of credit to assist in meeting cash needs if they experience a lag between the receipt of contributions and the payment of costs.

The following reflects Cornerstone's financial assets (cash and cash equivalents, accounts receivable, and investments - current) as of December 31, 2021 and 2020 expected to be available within one year to meet the cash needs for general expenditures.

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Financial assets, at year-end | \$ 5,150,818 | \$ 4,594,054 |
| Less: those unavailable for general expenditures within one year, due to: | | |
| Contractual or donor-imposed restrictions: | | |
| Restricted by donor with purpose restrictions | <u>(175,033)</u> | <u>(101,437)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 4,975,785</u> | <u>\$ 4,492,617</u> |

Pending Accounting Standards Update

FASB has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of this update on the financial statements.

ASU 2016-02, "*Leases (Topic 842)*," is effective, as delayed, for the financial statements for the year beginning after December 15, 2021. These amendments and related amendments will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Reclassification

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

CORNERSTONE TELEVISION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

3. Investments

Cornerstone's investments are managed by registered investment advisors and consist of various investments in marketable securities. These investments are reported at fair value. As of December 31, 2021 and 2020, investments consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 150,112 | \$ 393,453 |
| U.S. fixed income | 3,010,189 | 2,821,965 |
| International fixed income | 183,126 | 108,705 |
| U.S. equities - mutual funds | 2,496,499 | 1,995,630 |
| International equities - mutual funds | 15,380 | - |
| | <u>\$ 5,855,306</u> | <u>\$ 5,319,753</u> |

Investment income (loss) for the years ended December 31, 2021 and 2020 is summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Interest and dividend income | \$ 141,038 | \$ 101,192 |
| Net realized and unrealized gain (loss) | 585,120 | 622,125 |
| | <u>\$ 726,158</u> | <u>\$ 723,317</u> |

In accordance with accounting principles generally accepted in the United States of America, all investments of Cornerstone are measured using Level 1, Level 2, and Level 3 fair value inputs. Level 1 fair value is defined as inputs based upon "measuring the value at quoted prices available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market." Level 2 is defined as inputs based upon "measuring pricing units other than at quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed." Level 3 is defined as inputs based upon "significant unobservable inputs, as they trade infrequently or not at all."

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The fair values of investments held by Cornerstone are determined using quoted prices in active markets for identical assets and, as such, are classified at December 31, 2021 and 2020 as Level 1 assets within the fair value hierarchy.

4. Fixed Assets

Following is a summary of fixed assets and related balances at December 31, 2021:

| | <u>2020</u> | <u>Additions</u> | <u>Deletions</u> | <u>2021</u> |
|---|---------------------|--------------------|------------------|---------------------|
| Land | \$ 66,785 | \$ - | \$ - | \$ 66,785 |
| Tower and broadcasting equipment | 6,546,397 | 296,458 | - | 6,842,855 |
| Site development and land improvements | 640,176 | - | - | 640,176 |
| Building and improvements | 2,800,835 | 32,385 | (3,024) | 2,830,196 |
| Office furniture and equipment | 538,221 | - | - | 538,221 |
| Vehicles | 79,468 | - | - | 79,468 |
| Equipment purchase in progress | - | - | - | - |
| Accumulated depreciation and amortization | <u>(6,143,840)</u> | <u>(349,167)</u> | <u>3,024</u> | <u>(6,489,983)</u> |
| | <u>\$ 4,528,042</u> | <u>\$ (20,324)</u> | <u>\$ -</u> | <u>\$ 4,507,718</u> |

Following is a summary of fixed assets and related balances at December 31, 2020:

| | <u>2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>2020</u> |
|---|---------------------|---------------------|--------------------|---------------------|
| Land | \$ 66,785 | \$ - | \$ - | \$ 66,785 |
| Tower and broadcasting equipment | 6,508,442 | 193,600 | (155,645) | 6,546,397 |
| Site development and land improvements | 640,176 | - | - | 640,176 |
| Building and improvements | 2,795,334 | 8,751 | (3,250) | 2,800,835 |
| Office furniture and equipment | 538,221 | - | - | 538,221 |
| Vehicles | 79,468 | - | - | 79,468 |
| Equipment purchase in progress | 59,771 | - | (59,771) | - |
| Accumulated depreciation and amortization | <u>(5,916,712)</u> | <u>(357,619)</u> | <u>130,491</u> | <u>(6,143,840)</u> |
| | <u>\$ 4,771,485</u> | <u>\$ (155,268)</u> | <u>\$ (88,175)</u> | <u>\$ 4,528,042</u> |

For both 2021 and 2020, tower and broadcasting equipment purchases related to Cornerstone's FCC required broadcast band change, are further described in Note 11. Additionally, prepaid tower and broadcasting equipment of \$59,771 was placed in service

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during 2020. As of December 31, 2020, all prepaid equipment that has been purchased has been placed in service. Fixed asset disposals in 2020 related to the change in broadcast bands (from UHF to VHF) as required by the FCC. The disposal of the tower sites resulted in a loss of \$28,098.

5. Line of Credit

In March 2018, Cornerstone obtained a secured line of credit allowing borrowings to a maximum of \$1,000,000, with a variable interest rate. At December 31, 2021, the line of credit's interest rate was 4.75%. Under the line of credit agreement, Cornerstone was required to deposit and maintain at least \$1,500,000 in an investment account with the lender, which is to serve as collateral. During the year ended December 31, 2021, Cornerstone borrowed \$120,000 on the line of credit and made repayments of \$0. Cornerstone had an outstanding balance of \$120,000 and \$0 on the line of credit at December 31, 2021 and 2020, respectively.

6. Annuities Payable

Annuities payable represents the liability for periodic payments due to individuals from annuity gifts received from them. The amount of the liability is calculated by an independent agent who is managing the annuities but is believed to be fairly stated by management.

7. Retirement Savings Plan

Cornerstone has a Retirement Savings Plan (Plan) for all eligible employees as defined by the Plan. The employees may contribute up to the maximum amount of their salary allowed under the law. Cornerstone each year may make a discretionary matching contribution equal to a percentage of the amount of the employee salary reduction up to 5% of the employee's compensation. The applicable percentage is determined each year by Cornerstone. The applicable percentage was 30% of the employee's contributed amount for both 2021 and 2020. For the years ended December 31, 2021 and 2020, the discretionary contribution charged to operations was approximately \$17,000 and \$20,000, respectively.

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8. Lease and Other Commitments

Cornerstone leases 2 postage machines for use in preparation of letters and mailings that will expire in September 2022 and November 2025.

Cornerstone entered into an agreement for satellite uplink services in May 2015. This contract ran through June 2018, which was renewed through June 2020. During 2020, this contract was extended for an additional six-month period and expired at the end of December 2020.

Minimum future rental payments under terms of operating leases and commitments for the next four years are:

| | |
|------|------------------|
| 2022 | \$ 16,463 |
| 2023 | 7,132 |
| 2024 | 7,132 |
| 2025 | <u>6,538</u> |
| | <u>\$ 37,265</u> |

Rent expense under terms of the operating leases for the years ended December 31, 2021 and 2020 was \$19,471 and \$88,370, respectively.

In the ordinary course of Cornerstone's operations, there have been arbitration claims and lawsuits brought against Cornerstone. Any arbitration claims cases were settled in early 2020. No material outcomes from any claim is currently anticipated by management.

9. Board-Designated Resources

Certain net assets without donor restrictions can be subject to Board designation for purchase of capital equipment and research and education. Board-designated resources at December 31, 2021 and 2020 were \$65,353 and \$0, respectively.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of contributions received by Cornerstone with donor-imposed restrictions for which the purpose has not yet been met. During fiscal years

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2021 and 2020, net assets with donor restrictions totaling \$57,389 and \$186,627, respectively, were released from restrictions through the fulfillment of operating purpose restrictions. At December 31, 2021 and 2020, net assets with donor restrictions of \$175,033 and \$101,437, respectively, were restricted for other Christian ministries.

11. FCC Auction and Reimbursement

Cornerstone participated in the FCC Spectrum Auction during 2017 and, in consideration for moving its Altoona/Johnstown station WKBS from the UHF broadcast band to the VHF broadcast band, received approximately \$10.4 million. Cornerstone had two years to modify the tower to accept antennas for the new channels in order to be eligible for additional reimbursement by the FCC for costs associated with the change. The FCC is now in the process of reimbursing Cornerstone for low broadband tower modifications. Cornerstone received \$74,438 and \$383,699 in FCC reimbursements during the years ended December 2021 and 2020, respectively. Submitted requests are not accrued for at year-end, as it is at the FCC's discretion to award the reimbursements.