

**Cornerstone Television, Inc.
and Subsidiary**

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

Board of Directors Cornerstone Television, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Cornerstone Television, Inc., a Pennsylvania non-profit corporation, and its wholly-owned subsidiary, CTVN Harrisburg, LLC, (collectively, Cornerstone), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cornerstone as of December 31, 2018 and 2017, and the changes in its net assets and its consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, Cornerstone adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendment changes how nonprofit organizations classify net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Mahe Duessel

Pittsburgh, Pennsylvania
July 30, 2019

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,332,087	\$ 3,239,487
Investments	4,896,883	5,004,298
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$15,542, respectively	223,364	327,897
Inventory	114,675	118,559
Prepaid expenses and other current assets	16,239	5,533
Total current assets	6,583,248	8,695,774
Non-current assets:		
Tower and broadcasting equipment	7,934,498	7,886,198
Site development and land improvements	640,176	640,176
Buildings and improvements	2,708,262	2,670,646
Office furniture and equipment	569,389	548,748
Vehicles	79,468	79,468
Equipment purchase in progress	1,215,298	-
	13,147,091	11,825,236
Less: accumulated depreciation and amortization	(8,300,188)	(7,881,022)
	4,846,903	3,944,214
Land	66,785	66,785
Total non-current assets	4,913,688	4,010,999
Total Assets	\$ 11,496,936	\$ 12,706,773

(Continued)

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017
(Continued)

	2018	2017
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 352,818	\$ 300,369
Deferred revenue	34,100	39,510
Total current liabilities	386,918	339,879
Long-term liabilities:		
Annuities payable	12,646	12,853
Total long-term liabilities	12,646	12,853
Total Liabilities	399,564	352,732
Net Assets:		
Without donor restrictions:		
Undesignated	5,937,123	8,264,719
Board-designated	191,988	19,348
Investment in fixed assets, net of related debt	4,913,688	4,010,999
Total without donor restrictions	11,042,799	12,295,066
With donor restrictions	54,573	58,975
Total Net Assets	11,097,372	12,354,041
Total Liabilities and Net Assets	\$ 11,496,936	\$ 12,706,773

(Concluded)

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and bequests	\$ 2,202,143	\$ 19,457	\$ 2,221,600
Broadcasting and production	1,430,744	-	1,430,744
Other revenues	786,778	-	786,778
Total revenues and other support	4,419,665	19,457	4,439,122
Net assets released from restrictions (operating)	23,859	(23,859)	-
	4,443,524	(4,402)	4,439,122
Expenses:			
Program	3,462,801	-	3,462,801
Support services:			
Management and general	1,312,218	-	1,312,218
Fundraising	846,297	-	846,297
Total support services	2,158,515	-	2,158,515
Total expenses	5,621,316	-	5,621,316
Gain (Loss) from Operations	(1,177,792)	(4,402)	(1,182,194)
Non-Operating Activities:			
Gain (loss) on FCC auction	-	-	-
Gain (loss) on investments	(76,190)	-	(76,190)
Gain (loss) on disposal of obsolete assets	1,715	-	1,715
Total non-operating income (loss)	(74,475)	-	(74,475)
Change in Net Assets	(1,252,267)	(4,402)	(1,256,669)
Net Assets:			
Beginning of year	12,295,066	58,975	12,354,041
End of year	\$ 11,042,799	\$ 54,573	\$ 11,097,372

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and bequests	\$ 2,392,512	\$ 40,414	\$ 2,432,926
Broadcasting and production	1,680,833	-	1,680,833
Other revenues	34,757	-	34,757
Total revenues and other support	4,108,102	40,414	4,148,516
Net assets released from restrictions (operating)	39,599	(39,599)	-
	4,147,701	815	4,148,516
Expenses:			
Program	3,777,975	-	3,777,975
Support services:			
Management and general	1,307,501	-	1,307,501
Fundraising	911,385	-	911,385
Total support services	2,218,886	-	2,218,886
Total expenses	5,996,861	-	5,996,861
Gain (Loss) from Operations	(1,849,160)	815	(1,848,345)
Non-Operating Activities:			
Gain (loss) on FCC auction	10,361,255	-	10,361,255
Gain (loss) on investments	3,915	-	3,915
Gain (loss) on disposal of obsolete assets	(76,174)	-	(76,174)
Total non-operating income (loss)	10,288,996	-	10,288,996
Change in Net Assets	8,439,836	815	8,440,651
Net Assets:			
Beginning of year	3,855,230	58,160	3,913,390
End of year	<u>\$ 12,295,066</u>	<u>\$ 58,975</u>	<u>\$ 12,354,041</u>

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,403,095	\$ 737,043	\$ 273,775	\$ 2,413,913
Employee benefits	212,700	127,887	53,654	394,241
Grants and allocations	190,693	-	-	190,693
Outside services	340,423	76,340	42,734	459,497
Office expenses	154,827	55,793	131,833	342,453
Equipment rental and maintenance	185,378	65,149	16,418	266,945
Occupancy	235,978	24,311	-	260,289
Printing and publications	241	1,403	215,137	216,781
Travel	4,673	21,654	13	26,340
Depreciation	419,166	-	-	419,166
Interest and bank fees	-	34,813	-	34,813
Miscellaneous	100,529	20,996	1,138	122,663
Bad debt	-	65,489	-	65,489
Premiums and promotions	98,487	15,082	31,528	145,097
Insurance	3,575	58,526	-	62,101
Guests and honorariums	47,414	5,380	80,067	132,861
Exempt Organization Business Taxes	-	2,352	-	2,352
Purpose restricted disbursements	21,435	-	-	21,435
Program fees and acquisition costs	44,187	-	-	44,187
	<u>\$ 3,462,801</u>	<u>\$ 1,312,218</u>	<u>\$ 846,297</u>	<u>\$ 5,621,316</u>
Total Expenses	<u>\$ 3,462,801</u>	<u>\$ 1,312,218</u>	<u>\$ 846,297</u>	<u>\$ 5,621,316</u>

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,510,129	\$ 780,749	\$ 217,727	\$ 2,508,605
Employee benefits	239,237	132,329	40,806	412,372
Grants and allocations	189,300	-	-	189,300
Outside services	481,967	79,962	100,061	661,990
Office expenses	168,793	43,388	130,216	342,397
Equipment rental and maintenance	189,690	34,183	20,024	243,897
Occupancy	266,709	-	-	266,709
Printing and publications	958	983	231,670	233,611
Travel	17,122	22,918	531	40,571
Depreciation	508,592	-	-	508,592
Interest and bank fees	-	70,658	-	70,658
Miscellaneous	41,372	18,591	678	60,641
Bad debt	-	-	-	-
Premiums and promotions	-	58,468	84,186	142,654
Insurance	3,211	59,242	-	62,453
Guests and honorariums	77,594	8,000	85,486	171,080
Exempt Organization Business Taxes	-	(1,970)	-	(1,970)
Purpose restricted disbursements	24,171	-	-	24,171
Program fees and acquisition costs	59,130	-	-	59,130
	<u>\$ 3,777,975</u>	<u>\$ 1,307,501</u>	<u>\$ 911,385</u>	<u>\$ 5,996,861</u>
Total Expenses	<u>\$ 3,777,975</u>	<u>\$ 1,307,501</u>	<u>\$ 911,385</u>	<u>\$ 5,996,861</u>

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,256,669)	\$ 8,440,651
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in allowance for doubtful accounts	(15,542)	-
Depreciation and amortization	419,166	508,592
Unrealized (gain) loss on investments	20,220	(3,915)
Net (gain) loss on disposition of assets	(1,715)	76,174
Change in:		
Accounts receivable	120,075	209,713
Inventory	3,884	(16,933)
Prepaid expenses and other current assets	(1,226,004)	(3,765)
Accounts payable	52,449	(257,983)
Deferred revenue	(5,410)	(11,822)
Annuity payable	(207)	(311)
	(633,084)	499,750
Total adjustments		
Net cash provided by (used in) operating activities	(1,889,753)	8,940,401
Cash Flows From Investing Activities:		
Acquisition of fixed assets	(106,557)	(90,486)
Proceeds from sale of fixed assets	1,715	3,145
Sales of investments	198,356	12,494
Purchase of investments	(111,161)	(5,000,359)
	(17,647)	(5,075,206)
Net cash provided by (used in) investing activities	(17,647)	(5,075,206)
Cash Flows From Financing Activities:		
Repayments under line of credit agreement	-	(400,000)
Proceeds from line of credit agreement	-	200,000
Principal payments on long-term debt	-	(727,676)
	-	(927,676)
Net cash provided by (used in) financing activities	-	(927,676)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,907,400)	2,937,519
Cash and Cash Equivalents:		
Beginning of year	3,239,487	301,968
End of year	\$ 1,332,087	\$ 3,239,487
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ -	\$ 25,647
Cash paid during the year for UBIT	2,535	-

See accompanying notes to consolidated financial statements.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Organization

Cornerstone Television Inc. and its wholly-owned subsidiary, CTVN Harrisburg, LLC, (collectively, Cornerstone) is a Pennsylvania not-for-profit corporation, which was organized on January 6, 1971. 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.

During 2003, Cornerstone formed a single member LLC, CTVN Harrisburg, LLC, to facilitate the purchase of a Federal Communications Commission (FCC) license. As part of this transaction, Cornerstone entered into an agreement to lease tower space from an unrelated party (see Note 9). The consolidated financial statements include the accounts of Cornerstone Television, Inc. and its wholly-owned subsidiary, CTVN Harrisburg, LLC. All material intercompany transactions have been eliminated.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying consolidated 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 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

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YEARS ENDED DECEMBER 31, 2018 AND 2017

stipulations. There are also net assets with a donor-imposed restriction that stipulates that resources be maintained permanently but permits Cornerstone 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 assets are reclassified as net assets without donor restrictions and reported in the consolidated 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 are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Cornerstone had no conditional promises to give at December 31, 2018 and 2017.

Broadcasting and Production Revenue

Broadcasting and production revenues are considered exchange transactions and are recognized as revenue when invoiced for services as provided.

Functional Allocation of Expenses

The costs of operations of Cornerstone have been summarized on a functional basis in the consolidated 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 advertising agreements by various organizations. The income from the tower prepayment will be recognized over the assigned period, which is

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

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fifteen years. The income from the advertising prepayments will be recognized when the related advertisements 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 could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are deposited at local banks. At December 31, 2018 and 2017, the carrying amounts of Cornerstone's deposits were \$1,332,087 and \$3,239,487, respectively, and the bank balances were \$1,343,734 and \$3,274,277, respectively. For 2018, the uninsured cash balance totaled \$1,084,145. For 2017, the uninsured cash balance totaled \$3,008,487. For purposes of the consolidated 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 TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 consolidated 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);

Fixed Assets

Fixed assets are stated at cost if purchased. Donations of Fixed assets are recorded as contributions at their estimated fair value. 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.

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 the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation. CTVN Harrisburg, LLC is considered a disregarded entity for tax purposes. As such, its activity is included with Cornerstone's activity. Cornerstone files a Form 990 and a Form 990T for its unrelated business income annually.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

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Contributions to Charitable Organizations

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

During 2018 and 2017, a contribution of \$12,000 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 and has been very active in monitoring costs to ensure the entity remains liquid.

As discussed in Note 6, Cornerstone maintains a line of credit to assist in meeting cash needs if they experience a lag between the receipt of contributions, grants, and the payment of costs.

The following reflects Cornerstone's financial assets (cash and cash equivalents, pledges receivable, investments, and other assets) as of December 31, 2018 expected to be available within one year to meet the cash needs for general expenditures.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	<u>2018</u>
Financial assets, at year-end	\$ 6,452,224
Less: those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	<u>(54,208)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,398,016</u>

Adopted Accounting Pronouncement

For the year ended December 31, 2018, Cornerstone adopted ASU 2016-14 “*Not for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*,” which aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The implementation of this standard was applied retrospectively to the comparative amounts presented for the year ended December 31, 2017.

Beginning net assets for 2018 and 2017 that were previously reported as unrestricted have been reflected as net assets without donor restrictions. Beginning net assets for 2018 and 2017 that were previously reported as temporarily restricted have been reflected as net assets with donor restrictions.

Reclassifications

Certain reclassifications have been made to the statement of financial position and statement of activities for the year ended December 31, 2017 to conform to the current year’s presentation.

Pending Accounting Standards Updates

FASB has issued amendments to the FASB Accounting Standards Codification that will become effective in future years as shown below. Management has not yet determined the impact of these amendments on Cornerstone’s financial statements:

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

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ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," is effective for Cornerstone's financial statements for the year ending December 31, 2019. This amendment provides a single, comprehensive revenue recognition model for all contracts with customers, and contains principles to determine the measurement of revenue and timing of when it is recognized.

ASU No. 2016-02, "*Leases (Topic 842)*," is effective for Cornerstone's financial statements for the year ending December 31, 2020. This amendment 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.

ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*," is effective for Cornerstone's financial statements for the year beginning after December 15, 2018. This amendment provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

Subsequent Events

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

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

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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, 2018 and 2017, investments consist of the following:

	2018	2017
Cash and cash equivalents	\$ 2,439,552	\$ 950,359
U.S. fixed income	2,253,552	3,035,703
International fixed income	-	144,821
U.S. equities - mutual funds	203,409	802,888
International equities - mutual funds	370	70,503
Other investments	-	24
	\$ 4,896,883	\$ 5,004,298

Investment income (loss) for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Interest and dividend income	\$ 142,386	\$ 359
Net realized and unrealized gain (loss)	(218,576)	3,915
	\$ (76,190)	\$ 4,274

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

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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.”

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, 2018 and 2017 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, 2018:

	2017	Additions	Deletions	2018
Land	\$ 66,785	\$ -	\$ -	\$ 66,785
Tower and broadcasting equipment	7,886,198	48,300	-	7,934,498
Site development and land improvements	640,176	-	-	640,176
Building and improvements	2,670,646	37,616	-	2,708,262
Office furniture and equipment	548,748	20,641	-	569,389
Vehicles	79,468	-	-	79,468
Equipment purchase in progress	-	1,215,298	-	1,215,298
Accumulated depreciation and amortization	(7,881,022)	(419,166)	-	(8,300,188)
	\$ 4,010,999	\$ 902,689	\$ -	\$ 4,913,688

Prepaid equipment of \$1,215,298 as of December 31, 2018 consists of broadcasting equipment that has been purchased but not yet received or placed in service relating to the change from UHF broadcast band to the VHF broadcast band, as required by the FCC Spectrum Auction, further described in Note 11.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Following is a summary of fixed assets and related balances at December 31, 2017:

	2016	Additions	Deletions	2017
Land	\$ 66,785	\$ -	\$ -	\$ 66,785
Tower and broadcasting equipment	8,417,002	61,589	(592,393)	7,886,198
Site development and land improvements	640,176	-	-	640,176
Building and improvements	2,671,721	-	(1,075)	2,670,646
Office furniture and equipment	548,748	-	-	548,748
Vehicles	99,692	28,897	(49,121)	79,468
Accumulated depreciation and amortization	(7,935,700)	(508,592)	563,270	(7,881,022)
	\$ 4,508,424	\$ (418,106)	\$ (79,319)	\$ 4,010,999

Cornerstone disposed of assets no longer in use during 2017, resulting in a non-operating loss of \$76,174 as reported in the consolidated statement of activities.

5. Line of Credit

In March 2018, Cornerstone obtained a secured line of credit allowing borrowings to a maximum of \$1,000,000. 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, 2018, there were no borrowings. Cornerstone had an outstanding balance of \$0 on the line of credit at December 31, 2018.

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.

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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 2018 and 2017. For the years ended December 31, 2018 and 2017, the discretionary contribution charged to operations was approximately \$22,000 and \$23,000, respectively.

8. Lease, Other Commitments, and Confirmations

Cornerstone's subsidiary CTVN Harrisburg, LLC has entered into an agreement to lease tower space. The initial term of the lease, which began November 2003, was for five years with two additional five-year renewal options and a ten-year renewal option after the first two renewal options have been exercised. With the expiration of the initial term occurring during 2009, the first five-year renewal option was exercised beginning November 2008 and the second five-year renewal option was exercised beginning May 2013. The monthly rental for the years ended December 31, 2018 and 2017 was \$1,000 per month. This lease will terminate upon the sale of CTVN Harrisburg during 2019.

Cornerstone also leases a postage machine for use in preparation of letters and mailings. This operating lease will expire in September 2023.

Cornerstone entered into an agreement for satellite uplink services in May 2015. This contract runs through June 2018. During 2018, this contract was renewed for an additional two years and now runs through June 2020. The monthly payment at the beginning of the year was \$6,250 per month, which increased to \$6,440 beginning in June 2018.

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Minimum future rental payments under terms of operating leases and commitments for the next five years and in the aggregate thereafter are:

2019	\$	126,920
2020		66,793
2021		14,308
2022		5,783
2023		5,783
Thereafter		4,337
	\$	<u>223,924</u>

Rent expense under terms of the operating leases for the years ended December 31, 2018 and 2017 was \$123,961 and \$107,478, respectively.

In the ordinary course of Cornerstone's operations, there have been arbitration claims brought against Cornerstone. Based on an evaluation that included consultation with an outside legal counsel concerning the legal and factual issues involved, management is of the opinion that these matters will not result in material adverse effect on Cornerstone's operations and financial position.

9. Board-Designated Resources

Certain net assets without donor restrictions are subject to Board designation for the purchase of capital equipment, missionary trips, and Cornerstone Cares. Board-designated resources at December 31, 2018 and 2017 were \$191,988 and \$19,348, 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 2018 and 2017, net assets with donor restrictions totaling \$23,859 and \$39,599, respectively, were released from restrictions through the fulfillment of operating purpose restrictions. At December 31, 2018 and 2017, net assets with donor restrictions of \$54,573 and \$58,975, respectively, were restricted for other ministries.

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YEARS ENDED DECEMBER 31, 2018 AND 2017

11. Gain on FCC Auction

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 has 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.

12. Subsequent Event

After year-end, Cornerstone entered into an agreement to sell LPTV in Harrisburg for \$350,000, which was finalized on January 31, 2019. Cornerstone will recognize a gain of \$39,388 from this transaction during 2019.