

**Cornerstone Television, Inc.
and Subsidiary**

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018
with Independent Auditor's Report

MaherDuessel

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CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

Independent Auditor's Report

Consolidated Financial Statements:

Statements of Financial Position	1
Statements of Activities:	
- Year Ended December 31, 2019	3
- Year Ended December 31, 2018	4
Statements of Functional Expenses:	
- Year Ended December 31, 2019	5
- Year Ended December 31, 2018	6
Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

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, through the end of its ownership in 2019, its wholly-owned subsidiary, CTVN Harrisburg, LLC, (collectively, Cornerstone), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Mahe Duessel

Pittsburgh, Pennsylvania
May 13, 2020

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 490,734	\$ 1,332,087
Investments	3,569,333	3,396,883
Accounts receivable, net of allowance for doubtful accounts of \$18,000 and \$0, respectively	331,249	223,364
Inventory	96,499	114,675
Prepaid expenses and other current assets	22,590	16,239
Total current assets	4,510,405	5,083,248
Investments - restricted	1,500,000	1,500,000
Non-current assets:		
Tower and broadcasting equipment	6,508,442	7,934,498
Site development and land improvements	640,176	640,176
Buildings and improvements	2,795,334	2,708,262
Office furniture and equipment	538,221	569,389
Vehicles	79,468	79,468
Equipment purchase in progress	59,771	1,215,298
	10,621,412	13,147,091
Less: accumulated depreciation and amortization	(5,916,712)	(8,300,188)
	4,704,700	4,846,903
Land	66,785	66,785
Total non-current assets	4,771,485	4,913,688
Total Assets	\$ 10,781,890	\$ 11,496,936

(Continued)

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018
(Continued)

	2019	2018
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 288,572	\$ 352,818
Line of credit	429,032	-
Deferred revenue	18,612	34,100
Total current liabilities	736,216	386,918
Long-term liabilities:		
Annuities payable	12,439	12,646
Total long-term liabilities	12,439	12,646
Total Liabilities	748,655	399,564
Net Assets:		
Without donor restrictions:		
Undesignated	5,492,571	5,937,123
Board-designated	-	191,988
Investment in fixed assets, net of related debt	4,342,453	4,913,688
Total without donor restrictions	9,835,024	11,042,799
With donor restrictions	198,211	54,573
Total Net Assets	10,033,235	11,097,372
Total Liabilities and Net Assets	\$ 10,781,890	\$ 11,496,936

(Concluded)

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and bequests	\$ 1,873,683	\$ 166,306	\$ 2,039,989
Broadcasting and production	1,715,080	-	1,715,080
Other revenues	623,392	-	623,392
Total revenues and other support	4,212,155	166,306	4,378,461
Net assets released from restrictions (operating)	22,668	(22,668)	-
	4,234,823	143,638	4,378,461
Expenses:			
Program	3,437,618	-	3,437,618
Support services:			
Management and general	984,100	-	984,100
Fundraising	823,438	-	823,438
Total support services	1,807,538	-	1,807,538
Total expenses	5,245,156	-	5,245,156
Gain (Loss) from Operations	(1,010,333)	143,638	(866,695)
Non-Operating Activities:			
Gain (loss) on investments	577,829	-	577,829
Gain (loss) on sale of assets	31,300	-	31,300
Gain (loss) on disposal of obsolete assets	(806,571)	-	(806,571)
Total non-operating income (loss)	(197,442)	-	(197,442)
Change in Net Assets	(1,207,775)	143,638	(1,064,137)
Net Assets:			
Beginning of year	11,042,799	54,573	11,097,372
End of year	\$ 9,835,024	\$ 198,211	\$ 10,033,235

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 investments	(76,190)	-	(76,190)
Gain (loss) on sale of assets	-	-	-
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**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,394,942	\$ 422,457	\$ 275,631	\$ 2,093,030
Employee benefits	224,334	163,106	58,925	446,365
Grants and allocations	561,784	-	-	561,784
Outside services	256,430	119,100	51,069	426,599
Office expenses	162,107	32,583	93,580	288,270
Equipment rental and maintenance	188,901	34,352	16,622	239,875
Occupancy	193,160	23,985	-	217,145
Printing and publications	36	1,782	160,360	162,178
Travel	9,538	7,297	12	16,847
Depreciation	312,012	-	-	312,012
Interest and bank fees	-	32,292	-	32,292
Miscellaneous	13,621	8,168	1,905	23,694
Bad debt	-	18,000	-	18,000
Premiums and promotions	-	12,838	50,565	63,403
Insurance	3,177	62,577	-	65,754
Guests and honorariums	34,431	15	114,769	149,215
Exempt Organization Business Taxes	-	45,548	-	45,548
Purpose restricted disbursements	17,880	-	-	17,880
Program fees and acquisition costs	65,265	-	-	65,265
	<u>\$ 3,437,618</u>	<u>\$ 984,100</u>	<u>\$ 823,438</u>	<u>\$ 5,245,156</u>
Total Expenses	<u>\$ 3,437,618</u>	<u>\$ 984,100</u>	<u>\$ 823,438</u>	<u>\$ 5,245,156</u>

See accompanying notes to consolidated financial statements.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
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**

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,064,137)	\$ (1,256,669)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in allowance for doubtful accounts	18,000	(15,542)
Depreciation	312,012	419,166
Unrealized (gain) loss on investments	(292,486)	20,220
Net (gain) loss on disposition of assets	775,271	(1,715)
Change in:		
Accounts receivable	(125,885)	120,075
Inventory	18,176	3,884
Prepaid expenses and other current assets	1,149,176	(1,226,004)
Accounts payable	(64,246)	52,449
Deferred revenue	(15,488)	(5,410)
Annuity payable	(207)	(207)
Total adjustments	1,774,323	(633,084)
Net cash provided by (used in) operating activities	710,186	(1,889,753)
Cash Flows From Investing Activities:		
Acquisition of fixed assets	(2,460,608)	(106,557)
Proceeds from sale of fixed assets	360,000	1,715
Sales of investments	375,000	198,356
Purchase of investments	(254,963)	(111,161)
Net cash provided by (used in) investing activities	(1,980,571)	(17,647)
Cash Flows From Financing Activities:		
Repayments under line of credit agreement	(108,873)	-
Proceeds from line of credit agreement	537,905	-
Net cash provided by (used in) financing activities	429,032	-
Net Increase (Decrease) in Cash and Cash Equivalents	(841,353)	(1,907,400)
Cash and Cash Equivalents:		
Beginning of year	1,332,087	3,239,487
End of year	\$ 490,734	\$ 1,332,087
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 4,082	\$ -
Cash paid during the year for UBIT	45,548	2,535

See accompanying notes to consolidated financial statements.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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.

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 8). During 2019, Cornerstone sold CTVN Harrisburg, LLC and the related assets held under the wholly-owned subsidiary, which was approved by the FCC.

The consolidated financial statements include the accounts of Cornerstone Television, Inc. and its wholly-owned subsidiary, CTVN Harrisburg, LLC up until the sale of that entity in January 2019. 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.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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 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, 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, 2019 and 2018.

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

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

contracting entity. Generally, Cornerstone bills customers subsequent to the performance of services.

At December 31, 2019 and 2018, receivables related to the contracts were \$331,249 and \$223,364, respectively. At December 31, 2019 and 2018, there were no payables related to the contracts.

Initial application of the standard was applied to contracts that were not completed at the date of initial application. 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.

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, 2019 and 2018, Cornerstone had \$228,952 and \$89,093, 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 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 fifteen years. The income from the advertising prepayments will be recognized when the related advertisements are aired.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, the carrying amounts of Cornerstone's deposits were \$490,734 and \$1,332,087, respectively, and the bank balances were \$495,492 and \$1,343,734, respectively. For 2019, the uninsured cash balance totaled \$241,225. For 2018, the uninsured cash balance totaled \$1,084,145. 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.

Financial Instruments

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

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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).

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 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.

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

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Section 170(b)(1)(A) and has been classified as an organization other than a private foundation. CTVN Harrisburg, LLC was considered a disregarded entity for tax purposes. As such, its activity was included with Cornerstone's activity through the time of its sale in January 2019. Cornerstone files a Form 990 information return as well as a Form 990T for its unrelated business income annually.

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 2019 and 2018, a contribution of \$15,400 and \$12,000, 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 consolidated 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.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

The following reflects Cornerstone’s financial assets (cash and cash equivalents, accounts receivable, and investments - current) as of December 31, 2019 and 2018 expected to be available within one year to meet the cash needs for general expenditures.

	2019	2018
Financial assets, at year-end	\$ 4,391,316	\$ 4,952,334
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(198,211)	(54,573)
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,193,105	\$ 4,897,761

Adopted Accounting Standards Updates

The provisions of these Financial Accounting Standards Board (FASB) Updates have been adopted and incorporated into these financial statements:

ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*.” The amendments provide guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and the related disclosures.

ASU 2018-08, “*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*.” The amendments provide 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.

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, 2020. These amendments and related amendments

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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.

Reclassifications

Certain reclassifications have been made to the consolidated statements of financial position for the year ended December 31, 2018 to conform to the current year's presentation.

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.

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, 2019 and 2018, investments consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 96,275	\$ 2,439,552
U.S. fixed income	2,407,864	2,253,552
International fixed income	437,073	-
U.S. equities - mutual funds	2,076,553	203,409
International equities - mutual funds	51,568	370
	<u>\$ 5,069,333</u>	<u>\$ 4,896,883</u>

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Investment income (loss) for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 153,256	\$ 142,386
Net realized and unrealized gain (loss)	<u>424,573</u>	<u>(218,576)</u>
	<u>\$ 577,829</u>	<u>\$ (76,190)</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.”

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, 2019 and 2018 as Level 1 assets within the fair value hierarchy.

**CORNERSTONE TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

4. Fixed Assets

Following is a summary of fixed assets and related balances at December 31, 2019:

	2018	Additions	Deletions	2019
Land	\$ 66,785	\$ -	\$ -	\$ 66,785
Tower and broadcasting equipment	7,934,498	2,368,109	(3,794,165)	6,508,442
Site development and land improvements	640,176	-	-	640,176
Building and improvements	2,708,262	92,499	(5,427)	2,795,334
Office furniture and equipment	569,389	-	(31,168)	538,221
Vehicles	79,468	-	-	79,468
Equipment purchase in progress	1,215,298	201,618	(1,357,145)	59,771
Accumulated depreciation and amortization	<u>(8,300,188)</u>	<u>(312,012)</u>	<u>2,695,488</u>	<u>(5,916,712)</u>
	<u>\$ 4,913,688</u>	<u>\$ 2,350,214</u>	<u>\$ (2,492,417)</u>	<u>\$ 4,771,485</u>

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 \$1,357,145 was placed in service during 2019. As of December 31, 2019, the remaining prepaid equipment consists of broadcasting equipment that has been purchased but not yet received or placed in service relating to the change in Cornerstone's low broadband towers and broadcasting equipment. Fixed asset disposals in 2019 related to the change in broadcast bands (from UHF to VHF) as required by the FCC, along with Cornerstone's sale of their Harrisburg and Brookville tower sites. The sale of the tower sites resulted in a gain of \$31,300, while the obsolete asset disposals resulted in a loss of \$806,571.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Following is a summary of fixed assets and related balances at December 31, 2018:

	<u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>2018</u>
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	<u>(7,881,022)</u>	<u>(419,166)</u>	<u>-</u>	<u>(8,300,188)</u>
	<u>\$ 4,010,999</u>	<u>\$ 902,689</u>	<u>\$ -</u>	<u>\$ 4,913,688</u>

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.

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, 2019, the line of credit's interest rate was 5.25%. 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, 2019, Cornerstone borrowed \$537,905 on the line of credit and made repayments of \$108,873. Cornerstone had an outstanding balance of \$429,032 and \$0 on the line of credit at December 31, 2019 and 2018, 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

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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 2019 and 2018. For the years ended December 31, 2019 and 2018, the discretionary contribution charged to operations was approximately \$18,000 and \$22,000, 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, 2019 and 2018 was \$1,000 per month. The lease terminated 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 2022.

Cornerstone entered into an agreement for satellite uplink services in May 2015. This contract ran 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 and to \$6,620 beginning in June 2019.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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

2020	\$ 58,212
2021	8,170
2022	<u>7,431</u>
	<u>\$ 73,813</u>

Rent expense under terms of the operating leases for the years ended December 31, 2019 and 2018 was \$123,582 and \$123,961, 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. In the opinion of management, the ultimate resolution of 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 Cornerstone Cares, Cornerstone's humanitarian arm which provides food, clothing, education, healthcare, and housing for people in need. Board-designated resources at December 31, 2019 and 2018 were \$0 and \$191,988, 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 2019 and 2018, net assets with donor restrictions totaling \$22,668 and \$23,859, respectively, were released from restrictions through the fulfillment of operating purpose restrictions. At December 31, 2019 and 2018, net assets with donor restrictions of \$198,211 and \$54,573, respectively, were restricted for other Christian ministries.

CORNERSTONE TELEVISION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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 \$720,803 and \$575,743 in FCC reimbursements during the years ended December 2019 and 2018, respectively. Submitted requests are not accrued for at year end as it is at the FCC's discretion to award the reimbursements.

12. Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China and has subsequently spread into the United States and specifically Pennsylvania. On March 16, 2020, Governor Tom Wolf issued an order for all non-essential businesses in Pennsylvania to close for what may be an indefinite amount of time. The extent of the impact of the coronavirus on operational and financial performance is currently uncertain and cannot be predicted. Cornerstone is still operating during the pandemic but its impact on future contributions and broadcast revenue streams cannot be determined. In April 2020, Cornerstone received a loan of \$548,492 from the U.S. Small Business Administration Paycheck Protection Program to aid Cornerstone in keeping their workforce employed during the COVID-19 crisis.