

**WGTS / COLUMBIA UNION
COLLEGE BROADCASTING, INC.**

Independent Auditors' Report

**Financial Statements and Schedules
For the Year Ended June 30, 2017
With Comparative Totals for June 30, 2016**

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

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Independent Auditors' Report

To the Board of Trustees
WGTS / Columbia Union College Broadcasting, Inc.
Takoma Park, Maryland

We have audited the accompanying financial statements of the WGTS / Columbia Union College Broadcasting, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

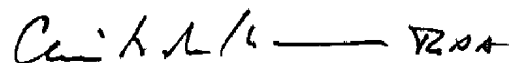
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WGTS / Columbia Union College Broadcasting, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the WGTS / Columbia Union College Broadcasting, Inc.'s June 30, 2016 financial statements, and our report dated November 11, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "C. H. H. / 16" followed by a horizontal line and the initials "PZAA".

February 16, 2018
Gaffney, SC

WGTS, INC.
Statement of Financial Position
For Fiscal Year Ending June 30, 2017
With Comparative Totals for June 30, 2016

ASSETS	2017	2016
Current Assets		
Cash	\$ 3,383,340	2,471,697
Accounts Receivable	112,423	160,467
Loans Receivable-WAU	330,630	286,117
Accrued Interest Receivable	4,411	-
Prepaid Expense	16,235	17,621
Total Current Assets	3,847,039	2,935,902
 Plant Assets		
Equipment and Leasehold Improvements, Net	456,099	561,172
 Other Assets		
Loan Receivable-WAU Non-Current Portion	973,696	1,279,455
Deposits	5,100	5,100
	978,796	1,284,555
 Total Assets	5,281,934	4,781,629
 LIABILITIES		
Current Liabilities		
Accounts Payable	263,032	136,524
Total Current Liabilities	263,032	136,524
 Total Liabilities	263,032	136,524
 NET ASSETS		
Unrestricted: Unallocated	5,018,902	4,645,105
 Total Liabilities and Net Assets	\$ 5,281,934	4,781,629

The accompanying notes are an integral part of the financial statements.

WGTS, INC.
Statement of Activities
For the Years Ended June 30, 2017
With Comparative Totals for June 30, 2016

REVENUES AND GAINS	<u>2017</u>	<u>2016</u>
Unrestricted Support		
Listener Contributions	\$ 4,501,315	3,836,603
Underwriting	100,416	141,490
Gateway Fellowship	12,849	15,819
Investment Earnings	70,695	74,500
Miscellaneous	600	1,514
Total Unrestricted Revenues and Gains	<u>4,685,875</u>	<u>4,069,926</u>
 EXPENSES AND LOSSES		
Program Service Expenses		
Programming, Production & Information	<u>3,529,610</u>	<u>2,964,420</u>
Total Program Service Expenses	<u>3,529,610</u>	<u>2,964,420</u>
 Supporting Service Expenses		
Management & General	363,335	321,307
Fundraising	<u>419,133</u>	<u>168,522</u>
Total Supporting Service Expenses	<u>782,468</u>	<u>489,829</u>
Total Expenses and Losses	<u>4,312,078</u>	<u>3,454,249</u>
 Increase (Decrease) in Unrestricted Net Assets	373,797	615,677
Unrestricted Net Assets, Beginning of Year	<u>4,645,105</u>	<u>4,029,428</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 5,018,902</u></u>	<u><u>4,645,105</u></u>

The accompanying notes are an integral part of the financial statements.

WGTS, INC.
Statement of Cash Flows
For the Year Ended June 30, 2017
With Comparative Totals for June 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Listener Contributions	\$ 4,463,806	3,949,450
Cash Received from Underwriting	185,969	108,168
Cash Received from Investment Earnings	70,695	74,500
Cash Received from Miscellaneous Sources	13,450	17,333
Cash Paid to Vendors and Employees	(4,035,467)	(3,623,671)
Cash Paid for Interest	-	-
Net Cash Provided by Operating Activities	698,453	525,780
INVESTING ACTIVITIES		
Cash Loaned to WAU	-	(400,000)
Purchases of Plant Assets	(48,055)	(76,834)
WAU Loan	261,245	1,192,049
Net Cash Provided by Investing Activities	213,190	715,215
FINANCING ACTIVITIES		
Increase (Decrease) in Cash and Cash Equivalents	911,643	1,240,995
Cash and Cash Equivalents, Beginning of Year	2,471,697	1,230,702
Cash and Cash Equivalents, End of Year	\$ 3,383,340	\$ 2,471,697
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in Net Assets	\$ 373,797	615,677
Adjustments to Reconcile Change in Net Assets to Net Assets Used by Operating Activities:		
Depreciation Expense	153,128	128,903
(Increase) Decrease Accounts Receivable	43,634	79,525
(Increase) Decrease Other Assets	1,386	(17,621)
Increase (Decrease) Accounts Payable	126,508	(280,704)
Net Cash Provided by Operating Activities	\$ 698,453	525,780

The accompanying notes are an integral part of the financial statements.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements

For the Year Ended June 30, 2017

NOTE 1 - ORGANIZATION DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Description

WGTS / Columbia Union College Broadcasting, Inc. (Organization) is a not-for-profit radio station, which broadcasts from the campus of Washington Adventist University in Takoma Park, Maryland. The Organization began operations in 1984 and offers a variety of music and community-oriented broadcasts. The Organization's purpose is to raise funds and acquire other assets, to hold and invest such funds or other assets, and to disperse such funds or other assets for the support and/or benefit of non-commercial broadcasting activities.

The Organization receives most of its revenue in the form of contributions from listeners residing in its broadcast area. The Organization is economically dependent on Washington Adventist University, which provides employees and office space (see Note 7).

The Organization is a religious not-for-profit organization, and is exempt from Federal, State and Local income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income as described in Sections 511-514 of the Internal Revenue Code.

Summary of Significant Accounting Policies

- (a) The significant accounting policies of the Organization are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organization have been prepared on the accrual basis of accounting.
- (b) *Restricted Resources*: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.
- (c) The financial statements include prior-year summarized information. Such information is not accompanied by full disclosures as required by accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with those statements for June 30, 2016 from which this information was derived.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 1 - ORGANIZATION DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Summary of Significant Accounting Policies, Continued

- (d) *Property, Plant and Equipment and Accumulated Depreciation:* Fixed assets are recorded at cost when purchased or at fair market value at date of gift. All equipment costing \$1,000 or more with a life of at least three years is capitalized. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is included in operating expense reported by various program and supporting services in the statement of changes in unrestricted net assets.
- (e) *Cash and Cash Equivalents:* Cash equivalents are highly-liquid assets, which are readily convertible to cash and have an original maturity date of less than three months.
- (f) *Fair Value of Financial Instruments:* Following are the major methods and assumptions used to estimate fair values: Short-term financial instruments are valued at their carrying amounts which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This applies to cash, cash equivalents, accounts receivable and certain current liabilities.

Notes and loans receivable are valued at the amortized amount receivable at the reporting date. Because these loans, by intent and practice, are expected to be amortized to maturity, the carrying amount approximates the discounted value of the future cash flows expected to be received. Because of the difficulty and inherent subjectivity involved in determining fair values, which are not susceptible to independent substantiation, management has concluded that the amortized face value of loans receivable from related or affiliated entities approximates their fair value. Further, because a reasonable estimate of fair value could not be made without incurring excessive costs, management has not attempted to estimate the fair value of any loans payable to creditors that are not related or affiliated entities.

- (g) *Current Assets and Liabilities:* Assets and liabilities are classified as current or long-term depending on their characteristics. This excludes from current assets cash and claims to cash that are restricted to use for other than current operations, committee allocated for the acquisition or construction of plant assets or for the liquidation of debt or held as agent for others. This excludes from current liabilities the long-term portion of all debt, payable within the next fiscal year to the extent covered by designated liquid assets or amounts held as fiscal agent for others.
- (h) *Affiliated Organization:* The Organization operates through several organizations, discussed below, with which it is affiliated, by reason of economic interest and/or shared membership on the respective governing committees. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis.
- (i) *Fund-raising Costs:* The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the Organization. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 1 - ORGANIZATION DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Summary of Significant Accounting Policies, Continued

Board of Directors

The number of directors are as determined by the Members, being not less than eleven and not more than fifteen. This number includes the president of the Corporation, the chairperson of the Washington Adventist University board of trustees, the chief financial officer of Washington Adventist University, the president of Washington Adventist University, and the chairperson of the communications department of Washington Adventist University. The chairperson of the Washington Adventist University board of trustees appoints two members, one of whom serves as president of the Corporation.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at year end consist of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 2,191,010	2,163,406
Savings, 0.04 % interest	30,234	30,234
Columbia Union Revolving Fund	<u>1,162,096</u>	<u>1,162,096</u>
Total Cash	<u>\$ 3,383,340</u>	<u>3,355,736</u>

The Organization maintains cash balances at two separate banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC), which covers the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount (SMDIA) of \$250,000, per depositor, at each separately chartered Insured Depository Institution (IDI). Cash balances exceeded the federally insured limits at certain times during the year and at year-end. The Columbia Union Revolving Fund cash, a non-certificated note that bears interest at 1.25% per annum and due 90 days from demand, is considered to be a cash equivalent.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 3 - ACCOUNTS RECEIVABLE

Pledges receivable are related primarily to the three fundraisers held by the Organization each year. As a general rule, an account will be considered uncollectible after 14 months from the time of the pledge is made or the time of the first billing. At 14 months, the receivable will be written off. The full amount of \$418,485 reduced by an allowance for uncollectible amounts is expected to be collected during the next year. They have not been discounted to present value due to their current status. See Note 1 "Restricted Resources". The pledges receivable details are as follows:

Pledges Receivable	\$ 418,485
Less: Allowance for Uncollectible Pledges	<u>(318,276)</u>
Net Receivable Pledges	100,209
Underwriting and Other Receivables (Net)	<u>12,214</u>
Total Accounts Receivable	<u><u>\$ 112,423</u></u>

Total Future Payments:	
2018	112,423
2019	-
2020	-
2021	-
2022	-
Total	<u><u>\$ 112,423</u></u>

NOTE 4 – LOANS RECEIVABLE

In July, 2010 the organization made a \$2,000,000 unsecured loan (Loan 1) to Washington Adventist University to be repaid in 134 equal monthly installments of \$20,250 including interest at 5.75% per annum. The principal balance of the loan at year end was \$982,474.

On June 30, 2016 the organization made a \$400,000 unsecured loan (Loan 2) to Washington Adventist University to be repaid in 48 equal installments of \$9,031.62 including interest at 4.00% per annum. The principal balance of the loan at year end was \$321,852. These loans are scheduled to pay out as follows:

<u>June 30</u>	<u>Loan 1</u>	<u>Loan 2</u>	<u>Total</u>
2018	225,071	105,559	330,630
2019	216,639	101,576	318,215
2020	225,422	105,715	331,137
2021	234,649	9,001	243,650
2022	80,694		80,694
	<u><u>\$ 982,475</u></u>	<u><u>321,851</u></u>	<u><u>1,304,326</u></u>

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	<u>6/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2017</u>
Equipment	\$ 977,982	48,055	-	1,026,037
Vehicles	140,148	-	-	140,148
Leasehold Improvements				
WETA Transmitter	71,943	-	-	71,943
WETA Antenna	203,057	-	-	203,057
WETA Wiring	40,863	-	-	40,863
Total Leasehold Improvements	<u>315,863</u>	<u>-</u>	<u>-</u>	<u>315,863</u>
Total Plant Assets	<u>\$ 1,433,993</u>	<u>48,055</u>	<u>-</u>	<u>1,482,048</u>
Accumulated Depreciation				
Equipment	\$ 576,715	104,041	-	680,756
Vehicles	43,415	28,030	-	71,445
Leasehold Improvements				
WETA Transmitter	57,554	4,796	-	62,350
WETA Antenna	162,446	13,537	-	175,983
WETA Wiring	32,691	2,724	-	35,415
Total Accumulated Depreciation	<u>872,821</u>	<u>153,128</u>	<u>-</u>	<u>1,025,949</u>
Net Plant Assets	<u>\$ 561,172</u>	<u>(105,073)</u>	<u>-</u>	<u>456,099</u>

Depreciation expense amounted to \$153,128 for the current fiscal year.

NOTE 6 - ACCOUNTS PAYABLE

Vendor Accounts Payable	\$ 39,522
Washington Adventist University	223,510
Total Accounts Payable	<u>\$ 263,032</u>

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 7 - OPERATING LEASES

Office Space - The Organization operates out of space owned by WAU pursuant to an unwritten agreement providing for rental payments of \$28,000 per month.

WETA Antenna - The Organization is the lessee of a new antenna to be located on a tower owned by WETA-FM, Washington, DC. The term of the lease is 15 years commencing May 20, 2002 and is renewable for one additional term of five years. An Addendum to the lease agreement became effective on April 1, 2007 with an amended date of February 1, 2004. Rent during the remaining term is \$4,900 per month. Rents are subject to an increase annually, as of each anniversary of the commencement of the initial term, by a percentage equal to the increase, if any, in the Consumer Price Index during the immediately preceding 12-month period. Future minimum lease payments under this lease agreement are as follows:

Fiscal Year Ending June 30	Minimum Lease Payments
2018	58,800
2019	34,300
2020	-
2021	-
2022	-
Total	<u>\$ 93,100</u>

Total rent expense for the fiscal year ending 2017 for these two rental agreements was \$394,800.

NOTE 8 - CONCENTRATIONS

The Organization is licensed to broadcast by the Federal Communications Commission (FCC). This license is subject to periodic review and renewal by the FCC.

NOTE 9 - GAIN CONTINGENCIES

The WETA Antenna lease agreement described in Note 7 permits WETA to make the new antenna available to third parties for the transmission operations of additional television or radio broadcasts not licensed to WETA or the Organization. In the event the third party operates an FM station that also uses the new antenna and associated transmission equipment, WETA will reimburse the Organization one third of the expenses and WETA will also contribute an additional one third of the costs of operating and maintaining the new antenna and associated equipment.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 10 - WORKING CAPITAL AND LIQUIDITY

WORKING CAPITAL

Current Assets	\$ 3,847,039
Less: Current Liabilities	<u>263,032</u>
Working Capital	<u>3,584,007</u>
Recommended Working Capital	
Total Operating Expense	4,312,078
20% (NADWP P 75 05)	<u>20.00%</u>
Recommended Working Capital	<u>862,415.60</u>
Working Capital Over (Under) Recommended	2,721,591
Percent of Recommended	316.85%
Current Ratio	14.62:1

LIQUIDITY

Liquid Assets	
Cash	<u>3,383,340</u>
Total Liquid Assets	<u>3,383,340</u>
Commitments	
Current Liabilities	<u>263,032</u>
Liquid Assets Excess (Deficit)	<u>\$ 3,120,308</u>

NOTE 11 - MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates. The estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Examples of these estimates include depreciation allowance and expense, and bad debt allowance and expense.

NOTE 12 - CONTINGENT LIABILITIES

The Organization is exposed to various risks of loss including general liability, property and casualty, workers compensation and legal defense. Washington Adventist University purchases, on behalf of the Organization, insurance through commercial and risk retention insurance companies for risks of loss except primary workers compensation coverage.

WGTS / COLUMBIA UNION COLLEGE BROADCASTING, INC.

Notes To The Financial Statements, Continued

For the Year Ended June 30, 2017

NOTE 13 - ACCOUNTING SERVICES

Washington Adventist University (WAU) performs the payroll function for the Organization. WAU charges the Organization the actual cost of salaries and wages of the Organization's employees plus a percentage to cover fringe benefit costs.

NOTE 14 - DONATED SERVICES

The fair value of donated services for the year ended June 30, 2017 has not been quantified or determined, and is considered to be immaterial in amount. Washington Adventist University provides the Radio Station with the services of its Executive VP for Finance. The value of this contributed service, although clearly substantial, is not included, as no calculation has been performed to determine an appropriate amount.

NOTE 15 – RELATED PARTIES TRANSACTIONS

WGTS/Columbia Union College Broadcasting, Inc. has a board consisting of a majority of members who are either trustees or employees of Washington Adventist University. At June 30, 2017 the radio station had the following assets and liabilities reflected in its statement of financial position related to Washington Adventist University:

Assets

Loan Receivable	1,304,326
Deposits	1,600

Liabilities

Accounts Payable	\$ 223,511
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In addition, and as noted elsewhere, the organization leases space and receives significant services from Washington Adventist University. The organization's insurance is purchased through Washington Adventist University and is consolidated into Washington Adventist University's IRS 990 information return and annual financial statement. Payroll and fringe benefit reimbursements to Washington Adventist University for the year ended June 30, 2017 were \$2,196,690 including contributions to retirement. The Organization operates out of space owned by WAU pursuant to an unwritten agreement providing for rental payments of \$28,000 per month for a total of \$336,000 for the fiscal year ended June 30, 2017.

NOTE 16 – EVALUATIONS OF SUBSEQUENT EVENTS

Management has, through February 16, 2018, evaluated whether events have occurred or circumstances exist subsequent to the date of the financial statement, June 30, 2017, that would have materially significant effect on the carrying amounts of assets or liabilities, including estimates, and no such items have been identified.