

SAUGUS COMMUNITY TELEVISION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

To the Board of Directors
Saugus Community Television, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Saugus Community Television, Inc. (SCTV) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Saugus Community Television, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Powers & Sullivan, LLC

March 24, 2017

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

	2015	2014
<u>ASSETS</u>		
CURRENT:		
Cash and cash equivalents.....	\$ 127,725	\$ 32,723
Short-term investments.....	-	103,327
TOTAL CURRENT ASSETS	127,725	136,050
NONCURRENT:		
Property and equipment, net of accumulated depreciation.....	13,225	21,824
TOTAL ASSETS.....	\$ 140,950	\$ 157,874
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT:		
Accounts payable and accrued expenses.....	\$ -	\$ -
<u>NET ASSETS</u>		
Unrestricted.....	140,950	157,874
TOTAL LIABILITIES AND NET ASSETS.....	\$ 140,950	\$ 157,874

See notes to financial statements.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31,

	2015	2014
<u>PUBLIC SUPPORT AND REVENUES:</u>		
Investment income.....	\$ 584	\$ 1,669
Other income.....	1,078	340
TOTAL PUBLIC SUPPORT AND REVENUE.....	1,662	2,009
<u>EXPENSES:</u>		
Program expenses.....	1,969	141,242
Administrative expenses.....	7,568	65,508
Promotional expenses.....	450	518
Depreciation.....	8,599	34,162
TOTAL EXPENSES.....	18,586	241,430
CHANGE IN NET ASSETS.....	(16,924)	(239,421)
NET ASSETS AT BEGINNING OF YEAR.....	157,874	397,295
NET ASSETS AT END OF YEAR.....	\$ 140,950	\$ 157,874

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31,

	2015	2014
Program Expenses:		
Payroll, payroll taxes, and processing fees..... \$	1,010	\$ 131,562
Facilities, equipment, and supplies.....	959	6,596
Telephone and cable services.....	-	3,084
Total.....	1,969	141,242
Administrative Expenses:		
Payroll, payroll taxes, and processing fees.....	-	17,145
Professional fees - legal.....	5,015	37,804
Professional fees - accounting.....	2,415	4,800
Business insurance and office expense.....	138	5,759
Total.....	7,568	65,508
Promotional Expenses:		
Meals and entertainment.....	-	68
Local support and sponsorships.....	450	450
Total.....	450	518
Depreciation expense.....	8,599	34,162
TOTAL EXPENSES..... \$	18,586	\$ 241,430

See notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets.....	\$ (16,924)	\$ (239,421)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation.....	8,599	34,162
Changes in assets and liabilities:		
Increase (Decrease) in accounts payable and accrued expenses.....	-	(11,817)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	(8,325)	(217,076)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments.....	103,327	207,510
Purchases of equipment.....	-	(14,483)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES.....	103,327	193,027
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	95,002	(24,049)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,723	56,772
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 127,725	\$ 32,723

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Saugus Community Television, Inc. (SCTV) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of SCTV management who is responsible for their integrity and objectivity.

Organization

SCTV is an independent non-profit 501(C) (3). SCTV operates and oversees the PEG (Public, Educational, and Government) access channels on the cable television system in Saugus, Massachusetts. Channels presently operated are Channel 8 and Channel 10. SCTV's mission is to provide: "Television by the people, for the people."

Basis of Presentation

The Organization's policy is to prepare its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 *Not-for-Profit Organizations* (FASB ASC 958-205), on an accrual basis of accounting which recognizes revenue when earned rather than when received and records expenses when incurred rather than when paid. Under ASC 958, SCTV is required to report information regarding its financial position and activities based on three classes of net assets as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions or limits as to their use.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations or limitations as to their use that may or will be met either by actions of SCTV and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets satisfied from program restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations in which only the earnings can be used to fund various programs.

Contributed Facilities and Donated Services

FASB ASC 958-205 requires the fair value of donated materials and facilities to be recognized in the financial statements. SCTV is provided with office space at the High School and the use of necessary office equipment as part of their association with the Town of Saugus, Massachusetts. No amounts have been recorded in the financial statements for the value of the office space or equipment provided as there is no measurable benefit specifically accruing to SCTV.

Volunteers donating their time throughout the year to assist with mailings and other administrative tasks are not recognized as contributions in the financial statements since the recognition criteria under ASC 958-205 were not met.

Tax Status

SCTV is a non-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

SCTV considers all highly liquid investments available for current use with an initial maturity of three months or less when purchased to be cash equivalents.

Fair Value Measurements

SCTV reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the organization to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

At December 31, 2015 and 2014 SCTV had no financial instruments valued using fair value standards and no further financial statement disclosure is necessary.

Property and Equipment

Costs of buildings and improvements and office furnishings and equipment are valued at historical cost. Depreciation is provided using the straight-line method for financial statement purposes at rates based on the asset's estimated useful lives of approximately 5 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred.

Insurance

SCTV is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which SCTV carries commercial insurance.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of SCTV.

Advertising

SCTV expenses advertising costs as incurred. There were no advertising expenses for the years ended December 31, 2015 and 2014, respectively.

Fundraising

Fund raising expenses amounted to \$450 and \$450 for the years ended December 31, 2015 and 2014, respectively.

Subsequent Events

Management has evaluated subsequent events through March 24, 2017, the date that the financial statements were available to be issued.

NOTE 2 – SHORT TERM INVESTMENTS

At December 31, 2014, SCTV had \$103,327 of certificates of deposit with original maturity dates greater than three months. These investments are carried at cost plus any accrued interest and are fully insured by the FDIC.

NOTE 3 – CONCENTRATIONS OF CREDIT RISK

SCTV derives its revenues from the Town of Saugus, Massachusetts as part of a 10 year Cable Television License Agreement the Town entered into with Comcast of Massachusetts. The Town had agreed to provide SCTV with approximately 92% of the fees received from the Comcast Agreement in exchange for providing PEG Access Programming to the Town. SCTV's agreement with the Town was for 5 years, expiring on July 31, 2012 with an option to renew until October 9, 2016.

SCTV was informed that the Board of Selectman of the Town of Saugus, Massachusetts had voted not to extend this agreement beyond its initial term. As of the close of business on July 31, 2012 the Town began to operate the PEG Access Programming as a department of the Town and discontinued providing any fees to SCTV except those needed to fund certain agreed upon expenses. SCTV has continued to exist for the purpose of paying payroll and operating expenses from its existing resources but its future remained uncertain until March 2, 2017 when the Town agreed to enter in to a new Agreement with SCTV. The new Agreement dated March 2, 2017, is based on the Town's Renewal License Agreement with Comcast that runs from February 1, 2017 through January 1, 2027.

The new Agreement between the Town and SCTV is for a five year term beginning February 1, 2017, running through January 31, 2022. SCTV may request an extension until January 31, 2027 by giving the Town six months written notice. In the new Agreement the Town has agreed to provide operational and PEG Access capital funding to SCTV for budgeted items expressly approved by the Town in advance. SCTV has granted the Town a security interest in all of its assets and interests and should this Agreement be terminated or should SCTV be dissolved, all of its assets and interests will revert back to the Town or to another charitable or educational institution selected by the Board of Selectmen of the Town.

SCTV believes that it has no significant concentration of credit risk beyond its basis of origin as local provider of PEG Access Programming for the Town of Saugus, Massachusetts.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31,

	2015	2014
Computer equipment.....	\$ 48,878	\$ 48,878
Heating system.....	27,245	27,245
Furniture and equipment.....	17,937	17,937
Video equipment.....	295,540	295,540
Property and equipment, at original cost.....	389,600	389,600
Less: Accumulated depreciation.....	(376,375)	(367,776)
Total Property and equipment, net.....	\$ 13,225	\$ 21,824

Depreciation expense amounted to \$8,599 and \$34,162 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.