

ARLINGTON COMMUNITY MEDIA, INC.

Financial Statements and Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Arlington Community Media, Inc.
Arlington, MA

We have audited the accompanying financial statements of Arlington Community Media, Inc., which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets 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.

Auditors' 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 audits 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 Arlington Community Media, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses for the years ended June 30, 2016 and 2015 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Nardella + Taylor, LLP

November 8, 2016

ARLINGTON COMMUNITY MEDIA, INC.

Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 644,516	\$ 607,266
Accounts receivable	223,527	227,708
Prepaid expenses	8,308	-
Total current assets	<u>876,351</u>	<u>834,974</u>
Property and equipment:		
Computers and equipment	827,450	758,482
Leasehold improvements	111,346	109,701
Furniture and fixtures	37,262	37,262
	<u>976,058</u>	<u>905,445</u>
Less accumulated depreciation and amortization	(764,760)	(647,157)
Property and equipment, net	<u>211,298</u>	<u>258,288</u>
Other assets:		
Assets restricted for investment in property and equipment	76,828	108,232
Security deposits	2,400	2,400
Temporary investments designated for long-term operations	<u>555,000</u>	<u>555,000</u>
Total assets	<u>\$ 1,721,877</u>	<u>\$ 1,758,894</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 7,064	\$ 9,226
Accrued expenses	27,118	29,430
Total current liabilities	<u>34,182</u>	<u>38,656</u>
Net assets:		
Unrestricted:		
Board-designated for long-term operations	555,000	555,000
Undesignated	1,045,358	1,046,497
Total unrestricted	<u>1,600,358</u>	<u>1,601,497</u>
Temporarily restricted	87,337	118,741
Total net assets	<u>1,687,695</u>	<u>1,720,238</u>
Total liabilities and net assets	<u>\$ 1,721,877</u>	<u>\$ 1,758,894</u>

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

ARLINGTON COMMUNITY MEDIA, INC.

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenues:		
Municipal contracts	\$ 869,954	\$ 885,915
Membership dues and workshop fees	3,920	4,425
Investment income	997	737
Gain on disposal of equipment	20	-
Other income	2,401	-
Net assets released from restriction	72,414	76,504
Total support and revenue	<u>949,706</u>	<u>967,581</u>
Expenses:		
Program - production and broadcasting	613,235	590,587
General and administrative	337,611	319,507
Total expenses	<u>950,846</u>	<u>910,094</u>
Increase (decrease) in unrestricted net assets	<u>(1,140)</u>	<u>57,487</u>
Changes in temporarily restricted net assets:		
Revenues:		
Capital grants	40,000	73,333
Investment income	1,011	1,447
Net assets released from restriction	<u>(72,414)</u>	<u>(76,504)</u>
Decrease in temporarily restricted net assets	<u>(31,403)</u>	<u>(1,724)</u>
Increase (decrease) in net assets	(32,543)	55,763
Net assets, beginning of year	<u>1,720,238</u>	<u>1,664,475</u>
Net assets, end of year	<u><u>\$ 1,687,695</u></u>	<u><u>\$ 1,720,238</u></u>

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

ARLINGTON COMMUNITY MEDIA, INC.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (32,543)	\$ 55,763
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Contributions restricted		
for investment in property and equipment	(40,000)	(73,333)
Net gain on sale of equipment	(20)	-
Depreciation and amortization	118,354	110,383
Decrease (increase) in accounts receivable	4,181	(1,283)
Decrease (increase) in prepaid expenses	(8,308)	9,700
Decrease in accounts payable	(2,162)	(4,845)
Increase (decrease) in accrued expenses	(2,312)	1,673
Net cash provided by operating activities	<u>37,190</u>	<u>98,058</u>
Cash flows from investing activities:		
Decrease in deposits on equipment	-	5,000
Decrease in assets restricted for		
investment in property and equipment	31,404	1,724
Proceeds from sale of equipment	1,070	-
Purchases of property and equipment	(72,414)	(76,504)
Net cash used in investing activities	<u>(39,940)</u>	<u>(69,780)</u>
Cash flows from financing activities:		
Contributions restricted		
for investment in property and equipment	40,000	73,333
Net cash provided by financing activities	<u>40,000</u>	<u>73,333</u>
Increase in cash and cash equivalents	37,250	101,611
Cash and cash equivalents at beginning of year	<u>607,266</u>	<u>505,655</u>
Cash and cash equivalents at end of year	<u>\$ 644,516</u>	<u>\$ 607,266</u>

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

ARLINGTON COMMUNITY MEDIA, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(1) Nature of Operations

Arlington Community Media, Inc. (the “Organization”) was established in Massachusetts as a nonprofit, membership-based organization dedicated to providing an electronic forum for the free exchange of information and ideas, which reflect the talents, skills, interests, concerns and diversity of the Arlington, Massachusetts community. The Organization manages facilities for community access TV programming on the Public, Educational, and Governmental (“PEG”) access channels on the Arlington cable communications systems. The Organization also provides access to, and training in, telecommunications technology to members of the community.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies applied by Arlington Community Media, Inc. in the preparation of the accompanying financial statements.

(a) Net Assets

The Organization reports its financial information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets represent amounts without donor-imposed time or purpose restrictions as of the reporting date. Temporarily restricted net assets represent amounts received with donor-imposed time restrictions that have not yet expired or donor-imposed purpose restrictions which have not yet been satisfied by the Organization. Permanently restricted net assets represent amounts with donor-imposed restrictions requiring those amounts to be held in perpetuity. None of the Organization’s net assets are classified as permanently restricted as of June 30, 2016 and 2015.

(b) Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

(c) Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, unless such securities were acquired by the Organization using cash restricted by the resource provider for the acquisition of equipment or other long-lived assets, or if such assets are designated for long-term operations by the Organization’s Board of Directors.

(d) Revenue Recognition and Reporting

On July 26, 2006, the Organization entered into a 10 year agreement with the Town of Arlington (the “Town”) to provide cable television access to the Town’s residents which expired on July 1, 2016 (see Note 8 for additional information). The Town supports PEG access services by

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Notes to Financial Statements

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collecting 5% of the gross annual revenues from the cable television companies who have licenses to do business in the Town. In addition, the cable companies have agreed to make annual capital contributions for agreed-upon amounts.

As of June 30, 2016, substantially all of the Organization's revenues are derived from its contract with the Town. The Town pays the license fees and capital contributions to ACMI when they are received from the cable companies. License fees are recognized when all of the following terms have been met: they have been earned under the terms of the contract, the amount of fees to be received is fixed or determinable, and collectability is reasonably assured.

Contributions and grants to the Organization are recognized as revenue upon the receipt of the earlier of either (a) unconditional promises to give (b) cash or other assets. Conditional promises to give are not recorded as revenue until donor-imposed conditions have been substantially met. There were no conditional promises to give to the Organization at June 30, 2016. At June 30, 2015 conditional promises to give to the Organization amounted to \$40,000. This represented a future grant for capital expenditures which was conditional upon the Organization complying with the terms of its contract with the Town. The \$40,000 conditional promise to give became unconditional and was received during the year ended June 30, 2016.

The Organization reports grants and gifts as unrestricted support if they are received without stipulations that would limit the use of the assets. They are classified as increases in temporarily restricted net assets if restrictions have been imposed on their use, including those for which payment is not due until future periods. Upon the satisfaction of the purpose or time restriction, the net assets are reclassified as unrestricted support.

The Organization recognizes the release of net assets temporarily restricted for the purchase of property and equipment once the purchased property and equipment have been placed in service.

Membership dues are recognized ratably over the period of membership. Fees for workshops are recognized when the workshop is held.

(e) Accounts and Contributions Receivable

The Organization considers its receivables, consisting of license fees and capital grants receivable from the Town, to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to expense when that determination is made. At June 30, 2016, all receivables are expected to be collected by the Organization within one year.

(f) Property and Equipment

Property and equipment are stated at cost, or if donated, at estimated fair market value on the date of donation. The Organization's policy is to capitalize property and equipment items with estimated useful lives of greater than one year at the time of acquisition. Depreciation and amortization are provided over the estimated useful lives of the respective assets on a straight-line basis over the following periods:

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Computers and equipment	2 – 7 years
Furniture and fixtures	7 years
Leasehold improvements	The lesser of the asset's useful life or the remaining term of the lease when the asset is acquired.

(g) Income Taxes

Arlington Community Media, Inc. is a not-for-profit organization under Section 501(c) (3) of the Internal Revenue Code and is exempt from income tax. The Organization files tax returns in the U.S. federal jurisdiction and in Massachusetts.

(h) Use of Estimates

The preparation of financial statements in accordance 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.

(i) Marketing and Advertising Costs

The Organization expenses marketing and advertising costs as incurred. These costs amounted to \$27,396 and \$25,827, during the years ended June 30, 2016 and 2015, respectively.

(j) Functional Allocation of Expenses

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

(k) Assets Restricted for Investment in Property and Equipment

Assets restricted for investment in property and equipment consist of accounts receivable and cash from funding sources that have restricted their use to the purchase of capital equipment, as well as temporary investments (highly liquid debt instruments with original maturities of three months or less) that have been purchased therewith. As of June 30, 2016, assets whose use is limited to investment in property and equipment consisted of \$76,828 of cash and cash equivalents. As of June 30, 2015, assets whose use is limited to investment in property and equipment consisted of \$33,333 of grants receivable and \$74,899 of cash and cash equivalents.

(l) Temporary Investments Designated for Long-Term Operations

Temporary investments designated for long-term operations consist of cash and cash equivalents which, as of the date of statement financial position, have been designated for long-term use by the Organization's Board of Directors. Because these assets are designated for long-term use,

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they are presented as non-current assets on the Organization's statement of financial position (See also Note 4).

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Production and broadcasting:		
Arlington Cable Access Volunteers'		
Legacy Fund, education and training	\$ 10,509	\$ 10,509
Acquisition of property and equipment	<u>76,828</u>	<u>108,232</u>
	<u>\$ 87,337</u>	<u>\$ 118,741</u>

Net assets released from restriction include the following:

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Production and broadcasting - acquisition of property and equipment	\$ 72,414	\$ 76,504
	<u>\$ 72,414</u>	<u>\$ 76,504</u>

(4) Board-Designated Funds

Long-term Operating Fund

In June 2011, the Board of Directors established a long-term operating fund as a cash reserve in order to meet operating cash needs should they arise in future years. The long-term operating fund is funded at the discretion of the Board and funds may be spent subject to Board approval.

(5) Commitments and Contingencies

Lease Agreements

The Organization leases office and studio space under various long-term lease agreements as described below. Total rental expense under operating leases, including common area maintenance and taxes, amounted to \$78,459 and \$78,674 for the years ended June 30, 2016 and 2015, respectively.

The Organization had an agreement with the Town to rent its current office and primary studio space from the Town through June 30, 2016. Monthly rental expense during the year ended June 30, 2016 was \$3,760 per month. Rental rates are adjusted annually based on the Consumer Price Index. For the period from July 1, 2016 through the date these financial statements were

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available to be issued the Organization has continued to lease this space on a month-to-month basis.

During the year ended June 30, 2012, the Organization entered into a lease agreement to rent additional studio space at a location in Arlington, MA for the period from December 1, 2011 through November 30, 2014 at a base rate of \$2,400 per month. Rental rates are adjusted upward annually on December 1, based on the consumer price index. Beginning December 1, 2013 and through November 30, 2014 the monthly rent was \$2,447. Monthly rent for the period from December 1, 2014 through June 30, 2015 was \$2,497. The Organization had an option to renew this lease for an additional two-year period beginning on December 1, 2014 which was not exercised, however the Organization has continued to lease the space on a month-to-month basis. Monthly rent was charged at a rate of \$2,497 per month from December 1, 2014 through June 30, 2016. Under the lease agreement, the Organization is responsible for paying twenty percent of the annual real estate taxes and insurance on the land and buildings of which the leased premises are a part. Furthermore, according to the lease agreement, the Organization is also responsible for paying twenty percent of the parking lot maintenance costs incurred by the landlord for the operation and maintenance of the land and buildings of which the leased premises are a part.

Agreement with Town of Arlington

In the event that the Organization ceases to serve as the Town's PEG access provider, any and all funds, equipment and property ceded to the Organization by Comcast (a cable provider) or purchased or acquired by the Organization with funds provided by the Town pursuant to the Organization's agreement with the Town, will become the property of the Town and shall revert to the Town or its designee. As of June 30, 2016 and 2015, respectively, this provision would result in the relinquishment of substantially all assets were the Organization to cease to serve as the Town's PEG access provider.

(6) Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and receivables. The carrying amounts of these financial instruments approximate their fair value because of the short-term nature of these items.

The Organization places its temporary cash investments with a Massachusetts-chartered savings bank which is insured by The Federal Deposit Insurance Corporation ("FDIC") and is also a member of the Depositors Insurance Fund ("DIF"). FDIC provides insurance of up to \$250,000 per depositor, per insured bank and DIF insures all amounts in excess of FDIC insured limits deposited with member banks.

The Organization's ability to continue operations is dependent on future license fees and capital grants received from the Town. As of June 30, 2016 and 2015, accounts and capital grants receivable from the Town amounted to \$220,412 (98.6%) and \$257,926 (98.8%) of total receivables, respectively. On the Organization's June 30, 2016 statement of financial position, \$220,412 of accounts receivable from the Town were included in accounts receivable. On the

ARLINGTON COMMUNITY MEDIA, INC.

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June 30, 2016 and 2015

Organization's June 30, 2015 statement of financial position, \$224,593 of accounts receivable from the Town were included in accounts receivable and \$33,333 of capital grants receivable from the Town were included in assets restricted for investment of property and equipment. Credit is granted to the Town without collateral

(7) Retirement Plan

The Organization sponsors a defined contribution retirement plan for eligible employees. The Organization contributed \$11,187 and \$11,944 to the plan during the years ended June 30, 2016 and 2015, respectively.

(8) Subsequent Events

The Organization has evaluated all subsequent events that occurred after June 30, 2016 through November 8, 2016, the date when these financial statements were available to be issued.

Expiration of Contract with Town

On July 1, 2016 the Organization's contract with the Town expired. The Organization intends to enter into a new contract with the Town, however, the Town will not enter into a new contract with the Organization until the Town has entered into new contracts with at least two of the cable providers that operate within the Town as these entities provide the funding which the Town remits to the Organization.

As of the date the financial statements were available to be issued the Town has entered into a new long-term contract with one cable provider that extends for 10 years, is in the process of negotiating a contract with a second cable provider (which expired on July 1, 2016), and has not yet begun negotiations with the third cable provider as the contract between the town and that entity does not expire until July 1, 2017.

It is presently the Organization's understanding that even without a formal contract between the Town and the Organization for the year ending June 30, 2017 the Town will continue to remit to the Organization funds received from the cable company with whom the Town has negotiated a new contract, the cable company with whom it is negotiations (once an agreement between this entity and the Town has been reached), and the cable company whose contract does not expire until June 30, 2017. With regards to the cable company whose contract with the town has expired and is presently being negotiated, the Organization does not expect to receive funding from the Town from this cable company until a new contract between this cable company and the Town is entered into, however, the Organization believes that once this is achieved the Town will receive and remit 5% of the cable company's quarterly gross revenue from sales within the Town calculated retroactively from July 1, 2016. Although the Organization believes such an agreement will be reached during the year ending June 30, 2017, the Organization's management believes the Organization has adequate financial reserves to continue as a going concern through June 30, 2017 even if no agreement is reached between the Town and the second cable provider during that year. The Organization also views as remote the likelihood that the Town will fail to

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reach an agreement with any of the providers that provides adequate funding for the Organization to continue its operations.

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Schedules of Functional Expenses

(Supplementary Information)

For the Years Ended June 30, 2016 and 2015

Expense	Program Services		Support Services		2016 Total	Expense	Program Services		Support Services		2015 Total
	Production and Broadcasting		General and Administrative				Production and Broadcasting		General and Administrative		
Salaries and wages	\$ 268,608		147,840	\$ 416,448		Salaries and wages	\$ 277,274		145,188	\$ 422,462	
Payroll taxes and benefits	60,684		33,400	94,084		Payroll taxes and benefits	62,159		39,203	101,362	
Rent	66,690		11,769	78,459		Rent	66,873		11,801	78,674	
Depreciation and amortization	94,683		23,671	118,354		Depreciation and amortization	88,306		22,077	110,383	
Building maintenance	3,677		14,707	18,384		Building maintenance	3,847		15,389	19,236	
Equipment repairs and maintenance	16,279		4,070	20,349		Equipment repairs and maintenance	17,381		4,345	21,726	
Professional fees	51,351		22,007	73,358		Professional fees	33,720		20,324	54,044	
Insurance	13,826		3,457	17,283		Insurance	11,217		2,804	14,021	
Special events	-		15,837	15,837		Special events	-		5,071	5,071	
Advertising and marketing	-		27,396	27,396		Advertising and marketing	-		25,827	25,827	
Supplies	9,004		3,859	12,863		Supplies	12,020		5,151	17,171	
Postage and delivery	66		596	662		Postage and delivery	119		1,071	1,190	
Telephone and internet	2,016		4,705	6,721		Telephone and internet	2,206		5,146	7,352	
Meetings and food	5,713		2,449	8,162		Meetings and food	7,324		3,139	10,463	
Utilities	19,514		4,879	24,393		Utilities	6,343		1,586	7,929	
Travel and training	1,124		3,371	4,495		Travel and training	1,798		5,393	7,191	
Dues and subscriptions	-		13,086	13,086		Dues and subscriptions	-		5,742	5,742	
Other taxes and fees	-		512	512		Other taxes and fees	-		250	250	
Total expenses	\$ 613,235		\$ 337,611	\$ 950,846		Total expenses	\$ 590,587		\$ 319,507	\$ 910,094	

See accompanying independent auditors' report.