

SAT-7 NORTH AMERICA

Financial Statements
With Independent Auditors' Report

December 31, 2016 and 2015



Feb. 28, 2017

To Whom It May Concern:

SAT-7 continues to fulfill its mission via funds provided by faithful constituents. During 2016, however, SAT-7 North America (d/b/a SAT-7 USA) experienced a decrease in funding due to transitions in the giving plans of a couple of major donors and the public anxieties generated by the presidential election.

One U.S. donor decided to give a major gift from its Canadian business assets, so the gift was sent to our affiliate, SAT-7 Canada. Currently, these funds are still held by SAT-7 Canada and, therefore, are not included in this Audited Financial Statement. While the funds will ultimately be transferred to SAT-7 for its mission work, the delay has put cash flow pressure upon the entire organization which adversely affects the U.S. giving-to-fundraising ratios.

SAT-7 USA, like most nonprofits, is now watching philanthropic trends:

- in the giving patterns of demographic groups – Boomers, Gen X, and Millennials each give differently with different expectations; and,
- now that the 2016 presidential election is in the books, the market's response to a new administration. In this regard, as the old saying goes, "nothing is certain but death and taxes."

SAT-7 is working to develop its organizational capacity and sustainability. This includes television production, but also administrative operations and fundraising. New initiatives are planned to reach out to secular, government, and other funding sources for support of social impact programming. SAT-7 USA is also recruiting a new area development officer to further strengthen its capacity. We continue to trust God for His provision.

Sincerely,

A handwritten signature in black ink that reads "Rex M. Rogers". The signature is written in a cursive, flowing style.

Dr. Rex M. Rogers
President, SAT-7 USA

Satellite television transforming the Middle East through hope in Jesus Christ

SAT-7 NORTH AMERICA

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITORS' REPORT

Board of Directors
SAT-7 North America
Easton, Maryland

We have audited the accompanying financial statements of SAT-7 North America, which comprise the statements of financial position as of December 31, 2016 and 2015, 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.

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 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.

Board of Directors
SAT-7 North America
Easton, Maryland

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAT-7 North America as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Lawrenceville, Georgia
March 2, 2017

SAT-7 NORTH AMERICA

Statements of Financial Position

	December 31,	
	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 2,443,053	\$ 3,260,460
Prepaid expenses and other assets	81,498	91,914
Contributions receivable	687,414	1,690,608
Property and equipment	31,049	34,654
	<u>\$ 3,243,014</u>	<u>\$ 5,077,636</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 31,840	\$ 56,743
Accrued expenses	64,051	59,637
Grant payable to SAT-7 International	1,611,315	2,897,974
	<u>1,707,206</u>	<u>3,014,354</u>
Net assets:		
Unrestricted	1,512,690	2,031,680
Temporarily restricted	23,118	31,602
	<u>1,535,808</u>	<u>2,063,282</u>
Total Liabilities and Net Assets	<u>\$ 3,243,014</u>	<u>\$ 5,077,636</u>

See notes to financial statements

SAT-7 NORTH AMERICA

Statements of Activities

	Year Ended December 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
Cash, non-cash, and new contributions receivable	\$ 200,030	\$ 7,216,693	\$ 7,416,723	\$ 342,842	\$ 10,015,856	\$ 10,358,698
Other income	10,686	-	10,686	2,082	-	2,082
	210,716	7,216,693	7,427,409	344,924	10,015,856	10,360,780
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	5,604,304	(5,604,304)	-	7,900,290	(7,900,290)	-
Administrative assessments	1,620,873	(1,620,873)	-	2,121,021	(2,121,021)	-
	7,225,177	(7,225,177)	-	10,021,311	(10,021,311)	-
EXPENSES:						
Program services	6,284,740	-	6,284,740	8,429,744	-	8,429,744
Supporting activities:						
Management and general	669,496	-	669,496	653,722	-	653,722
Fund-raising	1,000,647	-	1,000,647	973,413	-	973,413
	7,954,883	-	7,954,883	10,056,879	-	10,056,879
Change in Net Assets	(518,990)	(8,484)	(527,474)	309,356	(5,455)	303,901
Net Assets, Beginning of Year	2,031,680	31,602	2,063,282	1,722,324	37,057	1,759,381
Net Assets, End of Year	\$ 1,512,690	\$ 23,118	\$ 1,535,808	\$ 2,031,680	\$ 31,602	\$ 2,063,282

See notes to financial statements

SAT-7 NORTH AMERICA

Statements of Functional Expenses

	Year Ended December 31,							
	2016				2015			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Program funding to SAT-7 International and others	\$ 5,467,768	\$ -	\$ -	\$ 5,467,768	\$ 7,670,592	\$ -	\$ -	\$ 7,670,592
Salaries and related expenses:								
Management salaries	80,894	97,009	115,086	292,989	79,111	94,870	112,549	286,530
Other salaries and wages	296,269	263,764	153,017	713,050	275,328	237,908	140,176	653,412
Fringe benefits and related taxes	114,128	112,059	78,825	305,012	119,162	114,529	81,889	315,580
	491,291	472,832	346,928	1,311,051	473,601	447,307	334,614	1,255,522
Fund-raising and development (including new donor acquisition)	-	-	172,908	172,908	-	-	153,684	153,684
Other expenses:								
Professional fees	1,096	31,915	746	33,757	609	34,687	415	35,711
Charitable contributions	50,025	-	-	50,025	5,000	-	-	5,000
Board management	-	1,878	-	1,878	-	3,053	-	3,053
Communications	9,860	9,861	6,477	26,198	9,752	9,708	6,382	25,842
Conferences, travel, and meetings	153,898	57,214	143,338	354,450	129,433	56,156	124,734	310,323
Depreciation and amortization	11,029	5,273	10,611	26,913	12,785	4,940	12,382	30,107
Insurance	2,896	4,065	2,541	9,502	2,763	3,877	2,424	9,064
Printing, mailing, and postage	23,189	9,861	253,128	286,178	52,187	10,934	260,824	323,945
Occupancy	17,141	24,058	15,038	56,237	20,193	28,342	17,715	66,250
Software and office items	56,547	52,539	48,932	158,018	52,829	54,718	60,239	167,786
	325,681	196,664	480,811	1,003,156	285,551	206,415	485,115	977,081
Total Expenses	\$ 6,284,740	\$ 669,496	\$ 1,000,647	\$ 7,954,883	\$ 8,429,744	\$ 653,722	\$ 973,413	\$ 10,056,879

See notes to financial statements

SAT-7 NORTH AMERICA

Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (527,474)	\$ 303,901
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	12,328	11,548
Disposition of property and equipment	-	2,008
Recording of new contributions receivable	(491,747)	(747,637)
Collections on existing contributions receivable	1,494,941	1,331,554
Change in:		
Prepaid expenses and other assets	10,416	16,895
Accounts payable	(24,903)	44,847
Accrued expenses	4,414	(24,570)
Grant payable to SAT-7 International	(1,286,659)	632,209
Net Cash Provided (Used) by Operating Activities	(808,684)	1,570,755
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,723)	(18,854)
Net Cash Used by Investing Activities	(8,723)	(18,854)
Net Change in Cash and Cash Equivalents	(817,407)	1,551,901
Cash and Cash Equivalents, Beginning of Year	3,260,460	1,708,559
Cash and Cash Equivalents, End of Year	\$ 2,443,053	\$ 3,260,460

See notes to financial statements

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

SAT-7 North America (SAT-7) is a not-for-profit Pennsylvania Corporation exempt from income taxes under section 501(c)(3) of the United States Internal Revenue Code (Code). SAT-7 is not considered to be a private foundation under section 509 of the Code. The organization is affiliated, in mission, with SAT-7 International, an organization providing Christian television broadcasts to people in the Middle East and North Africa. SAT-7 provides resource development and ministry and managerial support throughout the United States in support of the mission of SAT-7 International.

Headquartered in Easton, Maryland, SAT-7 is funded through contributions and grants from over 9,000 individuals, foundations, and church organizations throughout North America. SAT-7 is a member of the Evangelical Council for Financial Accountability and Missio Nexus.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis of accounting. 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 and disclosures. Actual amounts could differ from these estimates. The significant accounting policies followed are described below.

RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified or updated to agree to the current year presentation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of checking and savings accounts. These accounts may, from time to time, exceed federally insured limits; however, SAT-7 has not experienced any losses on these accounts and does not believe it is exposed to any significant risk.

At December 31, 2016 and 2015, respectively, \$364,461 and \$516,832, related to contributions received after year-end, but dated and postmarked prior to year-end, is included in cash and cash equivalents.

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT

Expenditures exceeding \$1,000 for property, equipment, and items that substantially increase the useful lives of existing assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years.

GRANT PAYABLE TO SAT-7 INTERNATIONAL

Grant payable to SAT-7 International represents a promise made prior to year-end to distribute funds to SAT-7 International during the subsequent fiscal year. This promise is communicated directly to SAT-7 International by SAT-7 management and board members.

CLASSES OF NET ASSETS

The financial statements report amounts separately by classes of net assets according to the presence or absence of donor-imposed stipulations. The net asset classes are as follows:

Unrestricted net assets are those currently available for ministry purposes under the direction of the board of directors, those designated by the board for a specific use, and those invested in property and equipment.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes or programs. They are not currently available for ministry use until commitments regarding their use have been fulfilled. When a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets are available for staff support.

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUES AND EXPENSES

Support is recognized when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred. During 2016, the top four donors contributed 18% of total contributions. During 2015, the top four donors contributed 32% of total contributions. Revenue is recognized when earned. Expenses are recorded when costs are incurred. SAT-7 reports gifts of materials 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 regarding how long those long-lived assets must be maintained, SAT-7 reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

DONATED SERVICES

SAT-7 recognizes donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended herein, SAT-7 did not record any donated services.

Significant contributions of personnel and time are provided to SAT-7 by individuals as a means of accomplishing its goals. Without these contributions, the ministry would not be as effective. It is SAT-7's policy not to record these contributions in the financial statements because they do not meet the criteria of skilled services required to be recorded under existing technical standards.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited based on estimated time of personnel and usage of services and supplies. All SAT-7 expenses are allocated based on specifically identifiable criteria. Therefore, there are no joint cost allocations to disclose.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2016, SAT-7 had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. SAT-7 files information tax returns in the U.S. and various states. SAT-7 is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

3. CONTRIBUTIONS RECEIVABLE:

SAT-7 regularly receives promises and intentions to give from its constituents. Promises to give are due to be collected in subsequent fiscal years and are reported as contributions receivable in the statements of financial position as an asset and recognized as temporarily restricted contributions in the statements of activities. The promises to give are reflected at the present value of estimated future cash flows using discount rates that are determined by the month the pledge was originally made.

Due to the unknown factors which may affect individual donors' future cash flows, it is reasonably possible that the estimated future cash flows of contributions receivable could increase or decrease by a material amount in the near term. Management believes that the asset value reflected in the statements of financial position approximates fair value.

Contributions receivable are expected to mature as follows:

	December 31,	
	2016	2015
Amounts due in:		
Less than one year	\$ 685,101	\$ 1,491,940
One year to five years	36,333	286,933
More than five years	-	-
	<u>721,434</u>	<u>1,778,873</u>
Less discount for present value of future cash flows	(25,620)	(79,865)
Less allowance for uncollectibility	<u>(8,400)</u>	<u>(8,400)</u>
	<u>\$ 687,414</u>	<u>\$ 1,690,608</u>

At December 31, 2016, four pledges comprised 81% of the gross contributions receivable balance. At December 31, 2015, three pledges comprised 85% of the gross contributions receivable balance.

4. PROPERTY AND EQUIPMENT:

Property and equipment consists of:

	December 31,	
	2016	2015
Office and computer equipment	\$ 66,457	\$ 57,734
Computer software	87,667	87,667
Office furniture	17,716	17,716
Leasehold improvements	<u>6,738</u>	<u>6,738</u>
	<u>178,578</u>	<u>169,855</u>
Accumulated depreciation	<u>(147,529)</u>	<u>(135,201)</u>
	<u>\$ 31,049</u>	<u>\$ 34,654</u>

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

5. NET ASSETS:

Net assets consist of:

	December 31,	
	2016	2015
Unrestricted:		
Undesignated	\$ 768,555	\$ 1,328,933
Board designated for:		
Endowment	713,086	624,350
NDA program	-	43,743
Net investment in property and equipment	31,049	34,654
	<u>1,512,690</u>	<u>2,031,680</u>
Temporarily restricted for staff support	<u>23,118</u>	<u>31,602</u>
	<u>\$ 1,535,808</u>	<u>\$ 2,063,282</u>
Activity in the board designated endowment:		
Opening balance	\$ 624,350	\$ 404,135
Designation of balances	131,636	436,045
Appropriated for use	(50,000)	(200,000)
Interest and dividend income	5,347	1,426
Net realized and unrealized losses	1,753	(17,256)
	<u>Ending balance</u>	<u>Ending balance</u>
	<u>\$ 713,086</u>	<u>\$ 624,350</u>

Assets funding the board designated endowment are held in cash and cash equivalents at December 31, 2016 and 2015. The board has not approved a formal spending policy for these funds, but rather makes appropriations as it deems necessary.

6. RETIREMENT PLAN:

SAT-7 sponsors a 401(k) retirement program covering all employees. SAT-7 matches employee contributions up to 5%. Employees are eligible for the match immediately, with vesting occurring 20% per year for each year of service. SAT-7 contributed \$42,212 and \$44,924 to the plan during 2016 and 2015, respectively.

SAT-7 North America

Notes to Financial Statements

December 31, 2016 and 2015

7. LEASE COMMITMENTS:

Through June 30, 2015, SAT-7 leased its office space on a month to month basis, with minimum monthly payments of approximately \$4,500. SAT-7 relocated its office space during 2015, signing a new lease effective May 1, 2015 for three years. The lease contains an option to renew for one additional year. Minimum payments are \$40,000 per year for the first two years of the lease agreement, with an automatic 3% increase in year three and beyond, if renewed without re-negotiation. Total rental expense under these leases during 2016 and 2015, respectively, was \$46,258 and \$57,802.

SAT-7 also leases photocopiers and postage machines under noncancellable operating leases that expire through 2020. Total minimum monthly payments under these leases are approximately \$940. Total rental expense under these leases during 2016 and 2015, respectively, was \$11,245 and \$13,274.

The future minimum rental payments required under operating leases are as follows:

Year ending December 31,

2017	\$	50,699
2018		22,285
2019		5,884
2020		3,216
		<hr/>
	\$	82,084
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8. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.