

**POSITIVE ALTERNATIVE RADIO, INC.**

**FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

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## INDEPENDENT AUDITORS' REPORT

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS  
POSITIVE ALTERNATIVE RADIO, INC.  
BLACKSBURG, VIRGINIA

We have audited the accompanying financial statements of Positive Alternative Radio, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, 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 of 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 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 Positive Alternative Radio, Inc., as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia

June 25, 2013

## FINANCIAL STATEMENTS

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Financial Position  
As of December 31, 2012

<b>Assets:</b>	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 561,628
Accounts Receivable	160,244
Deposits	<u>2,696</u>
<i>Total Current Assets</i>	\$ <u>724,568</u>
<i>Property and Equipment:</i>	
Non Depreciable Assets - Land	\$ <u>85,956</u>
Depreciable Property and Equipment	7,118,328
Less Accumulated Depreciation	<u>(5,286,865)</u>
Total Depreciable Assets	\$ <u>1,831,463</u>
<i>Net Property and Equipment</i>	\$ <u>1,917,419</u>
<i>Intangible Assets:</i>	
Intangible Assets	\$ <u>5,893,223</u>
<b>Total Assets</b>	\$ <u><u>8,535,210</u></u>
<b>Liabilities:</b>	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 20,010
Interest Payable	23,089
Due to Eastwood Management	55,234
Due to Commercial Stations	7,123
Accrued Wages	42,292
Other Payables	1,198
Current portion-notes payable	<u>546,682</u>
<i>Total Current Liabilities</i>	\$ <u>695,628</u>
<i>Noncurrent Liabilities:</i>	
Due to Virginia Baker	\$ 411,958
Due to Edward Baker	94,968
Due to Jefferson Apartments	32,778
Notes payable (net of current portion)	<u>5,563,807</u>
<i>Total Noncurrent Liabilities</i>	\$ <u>6,103,511</u>
<b>Total Liabilities</b>	\$ <u>6,799,139</u>
<b>Net Assets:</b>	
Unrestricted	\$ 1,723,336
Temporarily Restricted	<u>12,735</u>
<i>Total Net Assets</i>	\$ <u>1,736,071</u>
<b>Total Liabilities and Net Assets</b>	\$ <u><u>8,535,210</u></u>

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

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Activities  
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
<b>Support:</b>			
Donations and Contributions	\$ 4,148,326	\$ 12,735	\$ 4,161,061
Underwriting	1,538,639	-	1,538,639
Other Income	209	-	209
<b>Total Support</b>	<u>\$ 5,687,174</u>	<u>\$ 12,735</u>	<u>\$ 5,699,909</u>
<b>Revenue:</b>			
Interest Income	\$ 2,603	\$ -	\$ 2,603
<b>Total Revenue</b>	<u>\$ 2,603</u>	<u>\$ -</u>	<u>\$ 2,603</u>
<b>Total Support and Revenue</b>	<u>\$ 5,689,777</u>	<u>\$ 12,735</u>	<u>\$ 5,702,512</u>
<b>Expenses</b>			
Program	\$ 4,260,285	\$ -	\$ 4,260,285
General and Administrative	780,353	-	780,353
Fundraising	545,794	-	545,794
<b>Total Expenses</b>	<u>\$ 5,586,432</u>	<u>\$ -</u>	<u>\$ 5,586,432</u>
Change in Net Assets	\$ 103,345	\$ 12,735	\$ 116,080
Net Assets, January 1, 2012	<u>1,619,991</u>	<u>-</u>	<u>1,619,991</u>
Net Assets, December 31, 2012	<u>\$ 1,723,336</u>	<u>\$ 12,735</u>	<u>\$ 1,736,071</u>

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

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Functional Expenses  
For the Year Ended December 31, 2012

	<u>Program</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<b>Expenses:</b>				
Engineering	\$ 272,817	\$ -	\$ -	\$ 272,817
Talent Fees	52,578	-	-	52,578
Licenses Fees	94,964	-	-	94,964
Marketing	88,897	-	-	88,897
Communication/Telephone	81,847	-	54,565	136,412
Postage	-	8,438	112,109	120,547
Professional Services	-	318,094	-	318,094
Dues and Subscriptions	8,786	-	-	8,786
Other Supplies	1,456	-	-	1,456
Equipment Leases	-	26,680	-	26,680
Office Expenses	3,400	49,869	3,400	56,669
<b>Personnel:</b>				
Salaries	1,549,093	-	116,598	1,665,691
Payroll Tax	130,668	-	9,835	140,503
Commissions	172,342	-	-	172,342
Employee Insurance	120,648	-	-	120,648
Travel and Car Allowance	95,117	-	7,159	102,276
Insurance-WC	17,539	-	-	17,539
Other Employee Benefits	37,117	-	-	37,117
Miscellaneous	-	42,263	-	42,263
Insurance	-	30,648	-	30,648
Other Taxes	-	12,834	-	12,834
<b>Facilities:</b>				
Rent	284,436	-	-	284,436
Utilities	278,843	-	-	278,843
Maintenance and Repairs	245,310	-	-	245,310
Interest Expense	-	291,527	-	291,527
Leased Management Agreement	44,404	-	-	44,404
Fundraising	-	-	242,128	242,128
Contract Employee	3,445	-	-	3,445
Bad Debt	4,714	-	-	4,714
Bank Charges	71,266	-	-	71,265
Depreciation Expense	600,599	-	-	600,599
<b>Total Functional Expenses</b>	<b>\$ 4,260,285</b>	<b>\$ 780,353</b>	<b>\$ 545,794</b>	<b>\$ 5,586,432</b>

The accompanying notes to financial statements are an integral part of this statement.



POSITIVE ALTERNATIVE RADIO, INC.

Statement of Cash Flows  
For the Year Ended December 31, 2012

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Cash flows from operating activities:	
Change in net assets	\$ 116,080
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	600,599
Changes in assets and liabilities:	
Increase (decrease) in accounts and other payables	(5,878)
Increase (decrease) in accrued wages	11,326
Increase (decrease) in interest payable	(29,080)
Increase (decrease) in amounts due to others	(97,981)
Increase (decrease) in deposits	(2,030)
(Increase) decrease in accounts receivable	<u>(9,360)</u>
Cash flows provided by (used for) operating activities	\$ <u>583,676</u>
Cash flows from capital and related financing activities:	
Principal payment on debt	\$ (520,953)
Issuance of debt	221,336
Purchase of property and equipment	<u>(331,212)</u>
Cash flows provided by (used for) financing activities	\$ <u>(630,829)</u>
Cash flows from investing activities:	
Interest income	\$ <u>2,603</u>
Net increase (decrease) in cash and cash equivalents	\$ (44,550)
Cash and cash equivalents, beginning of year	<u>606,178</u>
Cash and cash equivalents, end of year	\$ <u><u>561,628</u></u>

Note: The Organization paid interest of \$291,527 during the fiscal year ended December 31, 2012.

The accompanying notes to financial statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

POSITIVE ALTERNATIVE RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS  
AT DECEMBER 31, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

- A. Nature of Activities:  
Positive Alternative Radio, Inc. is a non-profit corporation which owns and manages a group of nine Christian Broadcasting Radio Stations. The Organization broadcasts in six states and focuses on providing Christian broadcasting services, the developing of educational programs for local public schools, colleges and universities, and conducting educational outreach ministries.
- B. Basis of Accounting:  
The Organization maintains its assets and liabilities and records its income and expenses by use of the accrual method of accounting. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.
- C. Property and Equipment:  
Property and equipment are recorded at cost if purchased or fair value if contributed. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:
- |                                     |             |
|-------------------------------------|-------------|
| Equipment, Furniture and Fixtures   | 5-10 years  |
| Vehicles                            | 7 years     |
| Buildings and Building Improvements | 30-39 years |
- D. Cash and Cash Equivalents:  
For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.
- E. Functional Allocation of Expenses:  
The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs benefited.
- F. Income Taxes:  
Positive Alternative Radio, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has no provision for Federal income taxes in the accompanying financial statements. A form 990 as required by the Internal Revenue Service has been filed for the year ended December 31, 2012.

POSITIVE ALTERNATIVE RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS  
AT DECEMBER 31, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

G. Estimates:

The preparation of 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 and assumptions.

H. Financial Statement Presentation:

In accordance with FASB ASC 958, "Not for Profit Entities", the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed stipulations. At December 31, 2012, the Organization had unrestricted net assets of \$1,723,336.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization and/or the passage of time. At December 31, 2012, the Organization had temporarily restricted net assets of \$12,735.

Permanently restricted net assets - Net assets subject to donor-imposed or other legal restrictions requiring that they be maintained permanently by the Organization. At December 31, 2012, the Organization had no permanently restricted net assets.

I. Revenue Recognition:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

POSITIVE ALTERNATIVE RADIO, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 AT DECEMBER 31, 2012

**NOTE 2 - GRANTS , CONTRACTS AND ACCOUNTS RECEIVABLE:**

Grants, contracts, and accounts receivable are deemed to be fully collectible by management and are composed of federal, state, and local monies. As of December 31, 2012, accounts receivable consisted \$160,244 from underwriters. The Organization had bad debt expense of \$4,714 for the year ended December 31, 2012.

**NOTE 3 - PROPERTY AND EQUIPMENT:**

As of December 31, 2012, property and equipment consisted of:

Buildings and Improvements	\$	1,045,504
Land		87,714
Vehicles		112,456
Computer and Related Equipment		26,048
Furniture and Fixtures		10,137
Radio/Studio Equipment		5,645,479
General Equipment		<u>276,946</u>
Total		7,204,284
Less: Accumulated Depreciation		<u>(5,286,865)</u>
Net Property and Equipment	\$	<u><u>1,917,419</u></u>

**NOTE 4 - INTANGIBLE ASSETS:**

The Organization has intangible assets which consist of FCC Licenses. The Organization considers the licenses to have an indefinite useful life and therefore is not amortizing the licenses. During the year ended December 31, 2012, impairment of the Organization's intangible assets was considered. It was determined that there had been no impairment of the intangible assets at December 31, 2012. The value of the Organization's intangible assets at December 31, 2012 was \$5,893,223.

POSITIVE ALTERNATIVE RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS  
AT DECEMBER 31, 2012

**NOTE 5 - NOTES PAYABLE:**

As of December 31, 2012, the Organization had the following notes payable:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 546,682	\$ 288,840
2014	549,457	262,314
2015	552,401	235,620
2016	555,525	208,747
2017	550,316	181,703
2018-2022	2,554,007	537,269
2023-2027	738,625	62,302
2028-2032	63,476	7,065
Total	<u>\$ 6,110,489</u>	<u>\$ 1,783,860</u>

Details of Outstanding Debt:

	<u>Amount Outstanding</u>
<p>\$8,000,000 promissory note issued to a related party dated December 14, 2005 for the purpose of purchasing radio stations from CSN International. The note requires semi-annual principal payments of \$250,000 and interest payable monthly at a rate of 275 basis points above the three-year U. S. Treasury yield subject to certain limitations (4.75% for 2012). The loan matures in 2024.</p>	\$ 5,664,498
<p>\$240,000 loan issued July 2011 for the purpose of refinancing the Organization's loan on its Lynchburg station (WRXT). Interest is payable at 7% and interest only payments are due annually in the amount of \$16,800. The loan matures in 2031.</p>	231,061
<p>\$200,000 loan issued October 2, 2012 for the purpose of purchasing the rights to the FCC license for WEYE in Surgoinsville, TN. Interest is payable at 6%. Due in monthly payments of \$3,867 which commenced on November 1, 2012. Loan matures in 2017.</p>	194,252
<p>\$21,446 vehicle loan, with interest payable at 2.94%. Note due in monthly installments of \$385 for 60 months. Loan matures in 2017.</p>	<u>20,678</u>
Total Notes Payable	<u>\$ 6,110,489</u>

POSITIVE ALTERNATIVE RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS  
AT DECEMBER 31, 2012

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**NOTE 6 - AMOUNTS DUE TO OTHERS:**

The Organization's administrative functions are performed by Eastwood Management Company (Eastwood). The Organization reimburses Eastwood for these services at Eastwood's cost.

Eastwood Management is owned by Virginia Baker and is operated by Mrs. Baker and her son, Edward Baker. The Bakers also sit on the Board of Directors of the Organization.

The Organization's primary debt (see \$8,000,000 original promissory note in Note 5 above) is held by Baker Investments, LLC, which is also owned and operated by Virginia Baker.

In addition, the Organization owes a balance of \$94,968 to Eddie Baker who sits on the Board of Directors as well as a balance of \$411,958 which it owes to Virginia Baker.

**NOTE 7 - SUBSEQUENT EVENTS:**

In preparing these financial statements, management of the organization has evaluated events and transactions for potential recognition or disclosure through June 25, 2013, the date the financial statements were available to be issued. There were no subsequent events occurring through that date which would require disclosure.