

POSITIVE ALTERNATIVE RADIO, INC.

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015



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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL, LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, 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 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 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 Positive Alternative Radio, Inc. as of December 31, 2015, 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.

Robinson, Finner, Co. Associates

Blacksburg, Virginia

June 30, 2016

FINANCIAL STATEMENTS



POSITIVE ALTERNATIVE RADIO, INC.

Statement of Financial Position
At December 31, 2015

Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 1,889,852
Certificates of Deposit	132,017
Accounts Receivable	137,183
Due from Eastwood Management	144,024
Due from Ignite	102,340
Deposits	<u>2,696</u>
<i>Total Current Assets</i>	<u>\$ 2,408,112</u>
<i>Property and Equipment:</i>	
Non-Depreciable Assets - Land	<u>\$ 85,956</u>
Depreciable Property and Equipment	\$ 8,134,007
Accumulated Depreciation	<u>(5,773,736)</u>
<i>Total Depreciable Property and Equipment</i>	<u>\$ 2,360,271</u>
<i>Net Property and Equipment</i>	<u>\$ 2,446,227</u>
<i>Other Assets:</i>	
Intangible Assets	<u>\$ 5,804,066</u>
<i>Net Intangible Assets</i>	<u>\$ 5,804,066</u>
Total Assets	<u>\$ 10,658,405</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 61,815
Interest Payable	9,483
Due to Commercial Stations	100,335
Accrued Wages	60,444
Other Payables	299,342
Notes Payable, current portion	578,859
Deferred Revenues	<u>151,441</u>
<i>Total Current Liabilities</i>	<u>\$ 1,261,719</u>
<i>Noncurrent Liabilities:</i>	
Due to Virginia Baker	\$ 414,758
Due to Edward Baker	94,968
Due to Jefferson Apartments	32,778
Notes Payable, net of current portion	<u>5,146,208</u>
<i>Total Noncurrent Liabilities</i>	<u>\$ 5,688,712</u>
Total Liabilities	<u>\$ 6,950,431</u>
Net Assets:	
Unrestricted	\$ 3,701,675
Temporarily Restricted	<u>6,299</u>
Total Net Assets:	<u>\$ 3,707,974</u>
Total Liabilities and Net Assets	<u>\$ 10,658,405</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Revenue and Gains			
Support:			
Donations and Contributions	\$ 4,963,764	\$ -	\$ 4,963,764
Underwriting	1,697,377	-	1,697,377
Net Assets Released From Restrictions	<u>65,525</u>	<u>(65,525)</u>	<u>-</u>
Total Support	<u>\$ 6,726,666</u>	<u>\$ (65,525)</u>	<u>\$ 6,661,141</u>
Revenue and Gains:			
Interest Income	\$ 713	\$ -	\$ 713
Gain on Sale of Assets	<u>199,975</u>	<u>-</u>	<u>199,975</u>
Total Revenue and Gains	<u>\$ 200,688</u>	<u>\$ -</u>	<u>\$ 200,688</u>
Total Support, Revenue and Gains	<u>\$ 6,927,354</u>	<u>\$ (65,525)</u>	<u>\$ 6,861,829</u>
Net Property and Equipment			
Program Services	\$ 4,159,272	\$ -	\$ 4,159,272
Supporting Services:			
Management and General	1,439,430	-	1,439,430
Fundraising	<u>575,050</u>	<u>-</u>	<u>575,050</u>
Total Expenses	<u>\$ 6,173,752</u>	<u>\$ -</u>	<u>\$ 6,173,752</u>
Change in Net Assets	<u>\$ 753,602</u>	<u>\$ (65,525)</u>	<u>\$ 688,077</u>
Net Assets, January 1, 2015	<u>2,948,073</u>	<u>71,824</u>	<u>3,019,897</u>
Net Assets, December 31, 2015	<u>\$ 3,701,675</u>	<u>\$ 6,299</u>	<u>\$ 3,707,974</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, 2015

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Expenses:				
Engineering	\$ 344,419	\$ -	\$ -	\$ 344,419
Talent Fees	33,292	-	-	33,292
Licenses Fees	154,863	-	-	154,863
Total Current Assets	251,406	-	-	251,406
Communication/Telephone	70,897	-	47,265	118,162
Postage	-	10,493	139,404	149,897
Professional Services	-	898,419	-	898,419
Dues and Subscriptions	8,500	-	-	8,500
Other Supplies	3,141	-	-	3,141
Equipment Leases	-	54,154	-	54,154
Office Expenses	2,347	34,419	2,347	39,113
Personnel:				
Net Property and Equipment	1,508,635	-	113,553	1,622,188
Payroll Tax	128,245	-	5,225	133,470
Commissions	185,547	-	-	185,547
Employee Insurance	146,789	-	-	146,789
Travel and Car Allowance	100,339	-	7,552	107,891
Training and Education	8,424	-	-	8,424
Insurance-WC	743	-	-	743
Other Employee Benefits	116,490	-	-	116,490
Miscellaneous	-	114,653	-	114,653
Net Intangible Assets	-	70,529	-	70,529
Other Taxes	-	27,219	-	27,219
Facilities:				
Rent	316,897	-	-	316,897
Utilities	296,899	-	-	296,899
Maintenance and Repairs	197,355	-	-	197,355
Interest Expense	-	229,544	-	229,544
Fundraising	-	-	259,704	259,704
Contract Employee	12	-	-	12
Bad Debt	8,883	-	-	8,883
Bank Charges	124,263	-	-	124,263
Depreciation Expense	150,886	-	-	150,886
Total Noncurrent Liabilities	\$ 4,159,272	\$ 1,439,430	\$ 575,050	\$ 6,173,752

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, 2015

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Cash flows from operating activities:	
Change in net assets	\$ 688,077
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:	
Depreciation expense	150,886
Investment income reinvested	(701)
Gain on sale of equipment	35,000
Changes in assets and liabilities:	
Increase (decrease) in accounts and other payables	(53,404)
Increase (decrease) in accrued wages	(1,182)
Increase (decrease) in interest payable	1,270
Increase (decrease) in amounts due to commercial stations	1,601
Increase (decrease) in deferred revenues	151,441
(Increase) decrease in accounts receivable	(33,155)
(Increase) decrease in amounts due from others	<u>(104,680)</u>
Cash flows provided by (used for) operating activities	<u>\$ 835,153</u>
Cash flows from financing activities:	
Principal payments on debt	\$ (583,242)
Issuance of debt	813,502
Purchase of property and equipment	<u>(247,320)</u>
Cash flows provided by (used for) financing activities	<u>\$ (17,060)</u>
Net increase (decrease) in cash and cash equivalents	\$ 818,093
Cash and cash equivalents, beginning of year	<u>1,071,759</u>
Cash and cash equivalents, end of year	<u>\$ 1,889,852</u>

The Organization paid interest of \$230,814 during the fiscal year ended December 31, 2015.

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

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2015

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 six Christian Broadcasting Radio Stations. The Organization broadcasts into nine states and focuses on providing Christian broadcasting services, developing 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 using the accrual basis of accounting. Under the accrual basis, 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. Receivables:

Receivables are stated at the amount management expects to collect from outstanding balances. Management used the direct write-off method for uncollectible accounts. Once management has determined that an account is uncollectible, receivables are charged to expenses. During the year ended December 31, 2015, \$8,883 was recorded as bad debt expense.

F. Functional Allocation of Expenses:

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

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements
At December 31, 2015

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

G. 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.

H. Use of 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.

I. 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, 2015, the Organization had unrestricted net assets of \$3,701,675.

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, 2015, the Organization had temporarily restricted net assets of \$6,299.

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, 2015, the Organization had no permanently restricted net assets.

J. Contributions:

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, 2015

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, 2015, accounts receivable consisted of \$137,183 due from underwriters.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK:

The Organization maintains its unrestricted cash balances in various banks which are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2015, the Organization had \$1,205,055 in cash balances that exceeded the insured limits.

NOTE 4 - PROPERTY AND EQUIPMENT:

As of December 31, 2015, property and equipment consisted of:

Buildings and Improvements	\$	1,734,413
Land		85,956
Vehicles		112,456
Computer and Related Equipment		26,048
Furniture and Fixtures		28,103
Radio/Studio Equipment		5,938,268
General Equipment		<u>294,719</u>
Total	\$	8,219,963
Less: Accumulated Depreciation		<u>(5,773,736)</u>
Net Property and Equipment	\$	<u>2,446,227</u>

Depreciation expense for the year ended December 31, 2015 totaled \$150,886, all of which was allocated as a management and general expense.

NOTE 5 - 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, 2015, 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, 2015. The value of the Organization's intangible assets at December 31, 2015 was \$5,804,066.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements
At December 31, 2015

NOTE 6 - NOTES PAYABLE:

Annual requirements to amortize long-term obligations and related interest as of December 31, 2015:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 578,859	\$ 227,849
2017	582,903	211,436
2018	698,703	186,785
2019	583,612	155,745
2020	608,181	131,177
2021-2025	2,390,107	279,008
2026-2030	185,342	60,833
2031-2033	97,360	13,202
Total	<u>\$ 5,725,067</u>	<u>\$ 1,266,035</u>

Details of notes payable:

	<u>Amount Outstanding</u>
\$5,000,000 promissory note issued to a related party on November 30, 2015 for the purpose of purchasing radio stations from CSN International. Interest is payable at 4.05% and payments are due monthly in the amount of \$57,395.66. Loan matures in 2025.	\$ 4,958,333
\$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 payments are due annually in the amount of \$16,800. Loan matures in 2016.	203,396
\$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.	76,898
\$340,000 promissory note for Rosewalt Business Park. Interest is payable at 6%. Due in monthly payments of \$2,436. Loan matures in 2033.	324,564
\$21,446 vehicle loan, with interest payable at 2.94%. Note due in monthly installments of \$385 for 60 months. Loan matures in 2017.	8,215
\$160,550 promissory note for construction. Interest is payable at 6%. Due in monthly payments of \$1,361. Loan matures in 2018.	<u>153,661</u>
Total Notes Payable	<u>\$ 5,725,067</u>

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements
At December 31, 2015

NOTE 7 - UNAVAILABLE/DEFERRED REVENUES:

Unavailable/deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$151,441 consists of sponsorship payments received that have not been recognized by stations.

NOTE 8 - RELATED PARTY TRANSACTIONS:

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, Edward Baker, and the Vernon H. Baker Marital Trust 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 \$5,000,000 promissory note in Note 6 above) is held by Baker Investments, LLC, which is also owned and operated by Virginia Baker, Edward Baker, and the Vernon H. Baker Marital Trust.

In addition, the Organization owes a balance of \$94,968 to Edward Baker who sits on the Board of Directors as well as a balance of \$414,758 which it owes to Virginia Baker.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, management of the organization has evaluated events and transactions for potential recognition or disclosure through June 30, 2016, the date the financial statements were available to be issued. There were no subsequent events occurring through that date which would require disclosure.

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