

**POSITIVE ALTERNATIVE RADIO, INC.**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

---

## Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements .....	6-10
Other Supplementary Information:	
Schedule of Functional Expenses .....	11

# 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, 2017, and the related statements of activities 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, 2017, 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.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is 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.

*Robinson, Famer, Cox Associates*

Blacksburg, Virginia  
August 14, 2018

Financial Statements

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Financial Position  
At December 31, 2017

<b>Assets:</b>	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 1,797,879
Certificates of Deposit	132,632
Accounts Receivable, net	100,606
Due from Related Parties	380,455
Deposits	3,210
<i>Total Current Assets</i>	<u>\$ 2,414,782</u>
<i>Property and Equipment:</i>	
Non-Depreciable Assets - Land and Construction in Progress	\$ 301,729
Depreciable Property and Equipment	\$ 7,744,475
Accumulated Depreciation	<u>(5,597,017)</u>
<i>Total Depreciable Property and Equipment</i>	<u>\$ 2,147,458</u>
<i>Net Property and Equipment</i>	<u>\$ 2,449,187</u>
<i>Other Assets:</i>	
Intangible Assets	\$ 5,804,066
<b>Total Assets</b>	<u><u>\$ 10,668,035</u></u>
<b>Liabilities:</b>	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 276,646
Interest Payable	7,588
Due to Related Parties	164,121
Accrued Wages	61,662
Accrued Expenses	49
Notes Payable, current portion	531,297
Deferred Revenues	98,585
<i>Total Current Liabilities</i>	<u>\$ 1,139,948</u>
<i>Noncurrent Liabilities:</i>	
Notes Payable, net of current portion	\$ 4,055,884
<b>Total Liabilities</b>	<u>\$ 5,195,832</u>
<b>Net Assets:</b>	
Unrestricted	\$ 5,465,804
Temporarily Restricted	6,399
<b>Total Net Assets:</b>	<u>\$ 5,472,203</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 10,668,035</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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support, Revenue and Gains</b>			
<b>Support:</b>			
Donations and Contributions	\$ 5,522,535	\$ -	\$ 5,522,535
Underwriting	1,440,654	-	1,440,654
Special Events	61,374	-	61,374
Other Support	6,192	-	6,192
<b>Total Support</b>	<u>\$ 7,030,755</u>	<u>\$ -</u>	<u>\$ 7,030,755</u>
<b>Expenses</b>			
Program Services	\$ 4,470,724	\$ -	\$ 4,470,724
Supporting Services:			
Management and General	1,479,769	-	1,479,769
Fundraising	535,805	-	535,805
<b>Total Expenses</b>	<u>\$ 6,486,298</u>	<u>\$ -</u>	<u>\$ 6,486,298</u>
<b>Change in Net Assets</b>	\$ 544,457	\$ -	\$ 544,457
<b>Net Assets, January 1, 2017</b>	<u>4,921,347</u>	<u>6,399</u>	<u>4,927,746</u>
<b>Net Assets, December 31, 2017</b>	<u>\$ 5,465,804</u>	<u>\$ 6,399</u>	<u>\$ 5,472,203</u>

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

**POSITIVE ALTERNATIVE RADIO, INC.**

**Statement of Cash Flows  
For the Year Ended December 31, 2017**

---

Cash flows from operating activities:	
Change in net assets	\$ 544,457
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:	
Depreciation expense	130,201
Changes in assets and liabilities:	
Increase (decrease) in accounts and other payables	94,782
Increase (decrease) in accrued wages	(2,168)
Increase (decrease) in interest payable	(933)
Increase (decrease) in amounts due to related parties	(39,052)
Increase (decrease) in deferred revenues	17,960
(Increase) decrease in other assets	29
(Increase) decrease in accounts receivable	(4,724)
(Increase) decrease in amounts due from others	(21,823)
	<hr/>
Cash flows provided by (used for) operating activities	\$ 718,729
Cash flows from financing activities:	
Principal payments on debt	\$ (1,021,899)
Issuance of debt	461,000
	<hr/>
Cash flows provided by (used for) financing activities	\$ (560,899)
Cash flows from investing activities:	
Purchase of property and equipment	\$ (115,066)
	<hr/>
Net increase (decrease) in cash and cash equivalents	\$ 42,764
Cash and cash equivalents, beginning of year	<hr/> 1,755,115
Cash and cash equivalents, end of year	\$ <hr/> 1,797,879

The Organization paid interest of \$207,062 during the fiscal year ended December 31, 2017.

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



POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements  
At December 31, 2017

---

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

A. **Nature of Activities:**

Positive Alternative Radio, Inc. (the Organization) 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 life of the asset 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 for accounts receivable. Once management has determined that an account is uncollectible, receivables are charged to expenses. Other amounts due from outside parties are evaluated for collectability periodically by management and an allowance for doubtful accounts is established as is considered necessary. During the year ended December 31, 2017, \$1,390 was recorded as bad debt expense. See Note 2 for additional information.

F. **Functional Allocation of Expenses:**

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

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements  
At December 31, 2017 (Continued)

---

**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 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:**  
The Organization is required to report information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions:
- Unrestricted net assets** - Net assets that are not subject to any donor-imposed stipulations. At December 31, 2017, the Organization had unrestricted net assets of \$5,465,804.
- 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, 2017, the Organization had temporarily restricted net assets of \$6,399.
- 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, 2017, 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 unrestricted net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements  
At December 31, 2017 (Continued)

**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, 2017, accounts receivable consisted of \$94,326 due from underwriters and \$6,280 due from others.

**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, 2017, the Organization had \$1,074,373 in cash balances that exceeded the insured limits.

**NOTE 4 - PROPERTY AND EQUIPMENT:**

As of December 31, 2017, property and equipment consisted of:

Land	\$	85,956
Construction in Progress		215,773
Buildings and Improvements		1,707,462
Vehicles		54,904
Computer and Related Equipment		5,800
Furniture and Fixtures		17,966
Radio/Studio Equipment		5,686,659
General Equipment		<u>271,684</u>

Total \$ 8,046,204

Less: Accumulated Depreciation (5,597,017)

Net Property and Equipment \$ 2,449,187

Depreciation expense for the year ended December 31, 2017 totaled \$130,201, all of which was allocated as a program services 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, 2017, 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, 2017. The value of the Organization's intangible assets at December 31, 2017 was \$5,804,066.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements  
At December 31, 2017 (Continued)

**NOTE 6 - NOTES PAYABLE:**

Annual requirements to amortize long-term obligations and related interest as of December 31, 2017:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 531,297	\$ 177,154
2019	534,195	156,041
2020	535,672	134,599
2021	537,318	112,350
2022	917,427	90,686
2023-2026	1,531,272	94,223
Total	<u>\$ 4,587,181</u>	<u>\$ 765,053</u>

Details of notes payable:

	<u>Amount Outstanding</u>
\$5,000,000 promissory note issued to Union Bank & Trust on November 30, 2015 for the purpose of purchasing radio stations from CSN International. Interest is payable at 4.05% and principal payments are due monthly in the amount of \$41,667. Loan matures in 2025.	\$ 3,958,325
\$240,000 loan issued July 2011 for the purpose of refinancing the Organization's loan on its Lynchburg station (WRXT). Interest is payable at 4.49% and payments are due annually in the amount of \$16,800. Loan matures in 2026.	167,856
\$461,000 loan issued November 2017 to Pinnacle Bank for the purpose of refinancing the existing loans for the WPER Studio. Interest is payable at 4.25% and payments are due monthly in the amount of \$2,869. Loan matures in 2022.	<u>461,000</u>
Total notes payable	<u>\$ 4,587,181</u>

The above loan with Pinnacle Bank is collateralized by property in Fredericksburg, VA with a net book value of \$411,043 as of December 31, 2017.

**NOTE 7 - DEFERRED REVENUES:**

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenue totaling \$98,585 consists of sponsor payments received that have not been recognized by stations.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements  
At December 31, 2017 (Continued)

---

**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.

**NOTE 9 - SUBSEQUENT EVENTS:**

In preparing these financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through August 14, 2018, the date the financial statements were available to be issued. There were no subsequent events occurring through that date which would require disclosure.

**Other Supplementary Information**

**POSITIVE ALTERNATIVE RADIO, INC.**

**Schedule of Functional Expenses  
For the Year Ended December 31, 2017**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
<b>Expenses:</b>				
Engineering	\$ 325,334	\$ -	\$ -	\$ 325,334
Talent Fees	39,606	-	-	39,606
Licenses Fees	168,966	-	-	168,966
Marketing	265,644	-	-	265,644
Communication/Telephone	58,352	-	38,902	97,254
Postage	-	4,599	61,097	65,696
Professional Services	-	1,016,252	-	1,016,252
Dues and Subscriptions	38,519	-	-	38,519
Other Supplies	14,232	-	-	14,232
Equipment Leases	-	52,959	-	52,959
Office Expenses	2,372	34,798	2,373	39,543
Special Events	15,140	-	-	15,140
<b>Personnel:</b>				
Salaries	1,623,902	-	122,229	1,746,131
Payroll Tax	124,943	-	9,404	134,347
Commissions	187,397	-	-	187,397
Employee Insurance	298,128	-	-	298,128
Travel and Car Allowance	76,775	-	5,779	82,554
Training and Education	11,039	-	-	11,039
Insurance-WC	3,802	-	-	3,802
Other Employee Benefits	195,804	-	-	195,804
Miscellaneous	-	123,435	-	123,435
Insurance	-	19,762	-	19,762
Other Taxes	-	21,859	-	21,859
<b>Facilities:</b>				
Rent	351,716	-	-	351,716
Utilities	252,581	-	-	252,581
Maintenance and Repairs	153,121	-	-	153,121
Interest Expense	-	206,105	-	206,105
Fundraising	-	-	296,021	296,021
Bad Debt	1,390	-	-	1,390
Bank Charges	131,760	-	-	131,760
Depreciation Expense	130,201	-	-	130,201
<b>Total Expenses</b>	<b>\$ 4,470,724</b>	<b>\$ 1,479,769</b>	<b>\$ 535,805</b>	<b>\$ 6,486,298</b>