

POSITIVE ALTERNATIVE RADIO, INC.

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

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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, 2016, 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, 2016, 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, Jaimes, Co. Associates

Blacksburg, Virginia

April 27, 2017

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Financial Position
At December 31, 2016

Assets:

Current Assets:

Cash and Cash Equivalents	\$	1,755,115
Certificates of Deposit		132,632
Accounts Receivable		95,882
Due from Related Parties		274,685
Deposits		3,239

Total Current Assets \$ 2,261,553

Property and Equipment:

Non-Depreciable Assets - Land	\$	<u>85,956</u>
Depreciable Property and Equipment	\$	7,744,475
Accumulated Depreciation		<u>(5,466,816)</u>

Total Depreciable Property and Equipment \$ 2,277,659

Net Property and Equipment \$ 2,363,615

Other Assets:

Intangible Assets	\$	<u>5,804,066</u>
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Total Assets \$ 10,429,234

Liabilities:

Current Liabilities:

Accounts Payable	\$	81,157
Interest Payable		8,521
Due to Related Parties		119,226
Accrued Wages		63,830
Accrued Expenses		49
Notes Payable, current portion		588,331
Deferred Revenues		<u>80,625</u>

Total Current Liabilities \$ 941,739

Noncurrent Liabilities:

Notes Payable, net of current portion	\$	<u>4,559,749</u>
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Total Liabilities \$ 5,501,488

Net Assets:

Unrestricted	\$	4,921,347
Temporarily Restricted		<u>6,399</u>

Total Net Assets: \$ 4,927,746

Total Liabilities and Net Assets \$ 10,429,234

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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Revenue and Gains			
Support:			
Donations and Contributions	\$ 5,357,335	\$ 100	\$ 5,357,435
Underwriting	<u>1,559,881</u>	<u>-</u>	<u>1,559,881</u>
Total Support	\$ <u>6,917,216</u>	\$ <u>100</u>	\$ <u>6,917,316</u>
Revenue and Gains:			
Interest Income	\$ 615	\$ -	\$ 615
Gain on Sale of Assets	<u>724,929</u>	<u>-</u>	<u>724,929</u>
Total Revenue and Gains	\$ <u>725,544</u>	\$ <u>-</u>	\$ <u>725,544</u>
Total Support, Revenue and Gains	\$ <u>7,642,760</u>	\$ <u>100</u>	\$ <u>7,642,860</u>
Expenses			
Program Services	\$ 4,283,235	\$ -	\$ 4,283,235
Supporting Services:			
Management and General	1,602,547	-	1,602,547
Fundraising	<u>537,306</u>	<u>-</u>	<u>537,306</u>
Total Expenses	\$ <u>6,423,088</u>	\$ <u>-</u>	\$ <u>6,423,088</u>
Change in Net Assets	\$ 1,219,672	\$ 100	\$ 1,219,772
Net Assets, January 1, 2016	<u>3,701,675</u>	<u>6,299</u>	<u>3,707,974</u>
Net Assets, December 31, 2016	\$ <u><u>4,921,347</u></u>	\$ <u><u>6,399</u></u>	\$ <u><u>4,927,746</u></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, 2016

Cash flows from operating activities:	
Change in net assets	\$ 1,219,772
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:	
Depreciation expense	136,826
Investment income reinvested	(615)
(Gain) loss on sale of equipment	(724,929)
Changes in assets and liabilities:	
Increase (decrease) in accounts and other payables	(286,358)
Increase (decrease) in accrued wages	3,386
Increase (decrease) in interest payable	(962)
Increase (decrease) in amounts due to related parties	(433,259)
Increase (decrease) in deferred revenues	(70,816)
(Increase) decrease in other assets	(543)
(Increase) decrease in accounts receivable	41,301
(Increase) decrease in amounts due from others	<u>(112,268)</u>
Cash flows provided by (used for) operating activities	<u>\$ (228,465)</u>
Cash flows from financing activities:	
Principal payments on debt	<u>\$ (576,987)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(58,785)
Proceeds from sale of property and equipment	<u>729,500</u>
Cash flows provided by (used for) investing activities	<u>\$ 670,715</u>
Net increase (decrease) in cash and cash equivalents	\$ (134,737)
Cash and cash equivalents, beginning of year	<u>1,889,852</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,755,115</u></u>

The Organization paid interest of \$237,435 during the fiscal year ended December 31, 2016.

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

POSITIVE ALTERNATIVE RADIO, INC.
Notes to Financial Statements
At December 31, 2016

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, 2016, \$122,178 was recorded as bad debt expense, of which \$19,838 related to direct write-off's and \$102,340 related to an allowance for doubtful accounts. 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, 2016 (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 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:

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, 2016, the Organization had unrestricted net assets of \$4,921,347.

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, 2016, 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, 2016, 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. 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, 2016 (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, 2016, accounts receivable consisted of \$95,882 due from underwriters.

The Organization has a Due from Ignite amount outstanding at December 31, 2016 of \$102,340. The collectability of the receivable is in question and, therefore, an allowance has been established to offset this amount in full. The Organization plans to pursue collection of the receivable to the fullest extent possible.

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, 2016, the Organization had \$2,012,764 in cash balances that exceeded the insured limits.

NOTE 4 - PROPERTY AND EQUIPMENT:

As of December 31, 2016, property and equipment consisted of:

Buildings and Improvements	\$ 1,707,462
Land	85,956
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	\$ 7,830,431
Less: Accumulated Depreciation	<u>(5,446,816)</u>
Net Property and Equipment	<u>\$ 2,383,615</u>

Depreciation expense for the year ended December 31, 2016 totaled \$136,826, 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, 2016, 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, 2016. The value of the Organization's intangible assets at December 31, 2016 was \$5,804,066.

POSITIVE ALTERNATIVE RADIO, INC.
Notes to Financial Statements
At December 31, 2016 (Continued)

NOTE 6 - NOTES PAYABLE:

Annual requirements to amortize long-term obligations and related interest as of December 31, 2016:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 588,331	\$ 204,935
2018	1,000,036	182,408
2019	579,657	133,911
2020	603,657	109,911
2021	628,650	84,918
2022-2026	1,747,749	98,409
Total	<u>\$ 5,148,080</u>	<u>\$ 814,492</u>

Details of notes payable:

	<u>Amount Outstanding</u>
<p>\$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.</p>	\$ 4,458,329
<p>\$240,000 loan issued July 2011 for the purpose of refinancing 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.</p>	191,133
<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>	33,945
<p>\$340,000 promissory note for Rosewalt Business Park. Interest is payable at 6%. Due in monthly payments of \$2,436. Loan matures in 2018.</p>	314,533
<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>	3,793
<p>\$160,550 promissory note for construction. Interest is payable at 6%. Due in monthly payments of \$1,361. Loan matures in 2018.</p>	<u>146,347</u>
<p>Total notes payable</p>	<u>\$ 5,148,080</u>

POSITIVE ALTERNATIVE RADIO, INC.
Notes to Financial Statements
At December 31, 2016 (Continued)

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 \$80,625 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.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, management of the organization has evaluated events and transactions for potential recognition or disclosure through April 27, 2017, the date the financial statements were available to be issued. There were no subsequent events occurring through that date which would require disclosure.

POSITIVE ALTERNATIVE RADIO, INC.

Schedule of Functional Expenses
For the Year Ended December 31, 2016

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Engineering	\$ 367,200	\$ -	\$ -	\$ 367,200
Talent Fees	35,581	-	-	35,581
Licenses Fees	152,756	-	-	152,756
Marketing	217,010	-	-	217,010
Communication/Telephone	70,897	-	30,295	101,192
Postage	-	10,493	123,601	134,094
Professional Services	-	1,049,668	-	1,049,668
Dues and Subscriptions	18,649	-	-	18,649
Other Supplies	14,801	-	-	14,801
Equipment Leases	-	52,087	-	52,087
Office Expenses	1,383	34,419	2,347	38,149
Personnel:				
Salaries	1,524,208	-	114,725	1,638,933
Payroll Tax	120,868	-	9,098	129,966
Commissions	164,870	-	-	164,870
Employee Insurance	192,317	-	-	192,317
Travel and Car Allowance	111,193	-	8,369	119,562
Training and Education	4,327	-	-	4,327
Insurance-WC	167	-	-	167
Other Employee Benefits	113,383	-	-	113,383
Miscellaneous	-	126,652	-	126,652
Insurance	-	69,832	-	69,832
Other Taxes	-	23,030	-	23,030
Facilities:				
Rent	367,948	-	-	367,948
Utilities	269,437	-	-	269,437
Maintenance and Repairs	158,800	-	-	158,800
Interest Expense	-	236,366	-	236,366
Fundraising	-	-	248,871	248,871
Bad Debt	122,178	-	-	122,178
Bank Charges	118,436	-	-	118,436
Depreciation Expense	136,826	-	-	136,826
Total Expenses	\$ 4,283,235	\$ 1,602,547	\$ 537,306	\$ 6,423,088