

POSITIVE ALTERNATIVE RADIO, INC.

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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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, 2014, 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, 2014, 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, Turner, & Associates

Blacksburg, Virginia

June 30, 2015

POSITIVE ALTERNATIVE RADIO, INC.

Statement of Financial Position
As of December 31, 2014

Assets:

Current Assets:

Cash and Cash Equivalents	\$	1,071,759
Investments		131,316
Accounts Receivable		104,028
Due from Eastwood Management		36,684
Due from Ignite		105,000
Deposits		2,696

Total Current Assets \$ 1,451,483

Property and Equipment:

Non-Depreciable Assets - Land \$ 85,956

Depreciable Property and Equipment		7,886,687
Accumulated Depreciation		(5,622,850)
Total Depreciable Property and Equipment	\$	<u>2,263,837</u>

Net Property and Equipment \$ 2,349,793

Other Assets:

Intangible Assets \$ 5,839,066

Total Assets \$ 9,640,342

Liabilities:

Current Liabilities:

Accounts Payable	\$	94,130
Interest Payable		8,213
Due to Commercial Stations		98,734
Accrued Wages		61,626
Other Payables		320,431
Notes Payable Current Portion		341,761

Total Current Liabilities \$ 924,895

Noncurrent Liabilities:

Due to Virginia Baker	\$	414,758
Due to Edward Baker		94,968
Due to Jefferson Apartments		32,778
Notes payable (net of current portion)		5,153,042

Total Noncurrent Liabilities \$ 5,695,546

Total Liabilities \$ 6,620,441

Net Assets:

Unrestricted	\$	2,876,253
Temporarily Restricted		143,648

Total Net Assets \$ 3,019,901

Total Liabilities and Net Assets \$ 9,640,342

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Revenue and Gains			
Support:			
Donations and Contributions	\$ 4,616,294	\$ 71,824	\$ 4,688,118
Underwriting	<u>1,693,177</u>	<u>-</u>	<u>1,693,177</u>
Total Support	<u>\$ 6,309,471</u>	<u>\$ 71,824</u>	<u>\$ 6,381,295</u>
Revenue and Gains:			
Interest Income	\$ 950	\$ -	\$ 950
Gain on Sale of Assets	<u>65,960</u>	<u>-</u>	<u>65,960</u>
Total Revenue and Gains	<u>\$ 66,910</u>	<u>\$ -</u>	<u>\$ 66,910</u>
Total Support, Revenue and Gains	<u>\$ 6,376,381</u>	<u>\$ 71,824</u>	<u>\$ 6,448,205</u>
Expenses			
Program Services	\$ 4,113,657	\$ -	\$ 4,113,657
Supporting Services:			
Management and General	976,066	-	976,066
Fundraising	<u>645,405</u>	<u>-</u>	<u>645,405</u>
Total Expenses	<u>\$ 5,735,128</u>	<u>\$ -</u>	<u>\$ 5,735,128</u>
Change in Net Assets	\$ 641,253	\$ 71,824	\$ 713,077
Net Assets, January 1, 2013	<u>2,235,000</u>	<u>71,824</u>	<u>2,306,824</u>
Net Assets, December 31, 2014	<u>\$ 2,876,253</u>	<u>\$ 143,648</u>	<u>\$ 3,019,901</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, 2014

		Supporting Services			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Expenses:					
Engineering	\$ 293,808	\$ -	\$ -	\$ 293,808	
Talent Fees	27,417	-	-	27,417	
Licenses Fees	132,178	-	-	132,178	
Marketing	116,273	-	-	116,273	
Communication/Telephone	66,825	-	44,550	111,375	
Postage	-	11,505	152,857	164,362	
Professional Services	-	483,341	-	483,341	
Dues and Subscriptions	20,423	-	-	20,423	
Other Supplies	3,989	-	-	3,989	
Equipment Leases	-	49,882	-	49,882	
Office Expenses	2,321	34,049	2,322	38,692	
Personnel:					
Salaries	1,695,484	-	127,617	1,823,101	
Payroll Tax	128,245	-	9,653	137,898	
Commissions	177,926	-	-	177,926	
Employee Insurance	141,640	-	-	141,640	
Travel and Car Allowance	93,700	-	7,053	100,753	
Training and Education	14,777	-	-	14,777	
Insurance-WC	555	-	-	555	
Other Employee Benefits	85,109	-	-	85,109	
Miscellaneous	-	70,963	-	70,963	
Insurance	-	30,408	-	30,408	
Other Taxes	-	13,228	-	13,228	
Facilities:					
Rent	357,941	-	-	357,941	
Utilities	273,369	-	-	273,369	
Maintenance and Repairs	239,112	-	-	239,112	
Interest Expense	-	276,209	-	276,209	
Leased Management Agreement	-	6,481	-	6,481	
Fundraising	-	-	301,353	301,353	
Bad Debt	2,957	-	-	2,957	
Bank Charges	88,033	-	-	88,033	
Depreciation Expense	151,575	-	-	151,575	
Total Functional Expenses	\$ <u>4,113,657</u>	\$ <u>976,066</u>	\$ <u>645,405</u>	\$ <u>5,735,128</u>	

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, 2014

Cash flows from operating activities:	
Change in net assets	\$ 713,077
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:	
Depreciation expense	151,575
Interest income	(950)
Gain on sale of equipment	(65,960)
Changes in assets and liabilities:	
Increase (decrease) in accounts and other payables	190,740
Increase (decrease) in accrued wages	14,218
Increase (decrease) in interest payable	(3,323)
Increase (decrease) in amounts due to commercial stations	91,500
(Increase) decrease in accounts receivable	(20,579)
(Increase) decrease in amounts due from others	(121,522)
Cash flows provided by (used for) operating activities	\$ 948,776
Cash flows from financing activities:	
Principal payments on debt	\$ (565,268)
Issuance of debt	160,550
Purchase of property and equipment	(263,339)
Purchase of intangible assets	(5,000)
Cash flows provided by (used for) financing activities	\$ (673,057)
Cash flows from investing activities:	
Sale of assets	\$ 234,470
Cash flows provided by (used for) investing activities	\$ 234,470
Net increase (decrease) in cash and cash equivalents	\$ 510,189
Cash and cash equivalents, beginning of year	561,570
Cash and cash equivalents, end of year	\$ 1,071,759

The Organization paid interest of \$276,209 during the fiscal year ended December 31, 2014.

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

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2014

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. 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.

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 was filed for the year ended December 31, 2014 by May 15, 2015. Such returns for the tax years ended December 31, 2012 through 2014 remain subject to potential examination by the IRS, generally for three years after they are filed.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2014

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

G. 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.

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, 2014, the Organization had unrestricted net assets of \$2,876,253.

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, 2014, the Organization had temporarily restricted net assets of \$143,648.

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, 2014, the Organization had no permanently restricted net assets.

I. 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.

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, 2014, accounts receivable consisted \$104,028 from underwriters. The Organization had bad debt expense of \$2,957 for the year ended December 31, 2014.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2014

NOTE 3 - PROPERTY AND EQUIPMENT:

As of December 31, 2014, property and equipment consisted of:

Buildings and Improvements	\$	1,707,462
Land		85,956
Vehicles		112,456
Computer and Related Equipment		26,048
Furniture and Fixtures		28,103
Radio/Studio Equipment		5,720,696
General Equipment		<u>291,922</u>
Total		7,972,643
Less: Accumulated Depreciation		<u>(5,622,850)</u>
Net Property and Equipment	\$	<u>2,349,793</u>

Depreciation expense for the year ended December 31, 2014 totaled \$151,575, all of which was allocated as a management and general expense.

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, 2014, 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, 2014. The value of the Organization's intangible assets at December 31, 2014 was \$5,839,066.

NOTE 5 - NOTES PAYABLE:

Annual requirements to amortize long-term obligations and related interest as of December 31, 2014:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 341,761	\$ 274,838
2016	359,749	258,211
2017	365,617	239,939
2018	475,278	222,052
2019	352,661	197,948
2020-2024	2,043,228	709,821
2025-2029	1,441,181	186,161
2030-2033	<u>115,328</u>	<u>13,574</u>
Total	<u>\$ 5,494,803</u>	<u>\$ 2,102,544</u>

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2014

NOTE 5 - NOTES PAYABLE: (Continued)

Details of notes payable:	Amount <u>Outstanding</u>
\$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 2013). Loan matures in 2027.	\$ 4,664,498
\$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 2030.	212,383
\$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.	117,356
\$340,000 promissory note for Rosewalt Business Park. Interest is payable at 6%. Due in monthly payments of \$2,436. Loan matures in 2033.	327,551
\$21,446 vehicle loan, with interest payable at 2.94%. Note due in monthly installments of \$385 for 60 months. Loan matures in 2017.	12,465
\$160,550 promissory note for construction. Interest is payable at 6%. Due in monthly payments of \$1,361. Loan matures in 2018.	<u>160,550</u>
Total Notes Payable	\$ <u>5,494,803</u>

NOTE 6 - 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 and is operated by Mrs. Baker and her son, Edward Baker.

The Bakers also sit on the Board of Directors of the Organization.

POSITIVE ALTERNATIVE RADIO, INC.

Notes to Financial Statements At December 31, 2014

NOTE 6 - RELATED PARTY TRANSACTIONS: (Continued)

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 \$414,758 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 30, 2015, the date the financial statements were available to be issued. There were no subsequent events occurring through that date which would require disclosure.