

**POSITIVE ALTERNATIVE RADIO, INC.**

FINANCIAL STATEMENTS

Year ended December 31, 2019







## CONTENTS

	<b>PAGE</b>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5-6
STATEMENT OF CASH FLOWS	7-8
NOTES TO FINANCIAL STATEMENTS	9-22



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Positive Alternative Radio, Inc.

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, 2019, and the related statement 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.

### Auditor's 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 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 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 qualified audit opinion.

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### **Basis for Qualified Opinion**

As disclosed in Note 13, the Organization had unconditional promises to give related to giving campaigns as of December 31, 2019, that have not been recorded in the accompanying financial statements as required by auditing standards generally accepted in the United States of America (US GAAP). The Organization records unconditional promises to give on a cash basis which is a known departure from US GAAP.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Positive Alternative Radio, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Positive Alternative Radio, Inc. 2018 financial statements, and we expressed a Qualified Opinion on those audited financial statements in our report dated October 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Foti, Alysa, Lowen & Company, P. C.*

Roanoke, Virginia  
November 1, 2021

**POSITIVE ALTERNATIVE RADIO, INC.**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2019

(with comparison financial information as of December 31, 2018)

**ASSETS**

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 1,291,824	\$ 1,669,137
Certificates of deposit	235,673	234,451
Accounts receivable, net	141,534	102,956
Due from related parties	306,911	302,113
Deposits	<u>3,210</u>	<u>3,210</u>
Total current assets	<u>1,979,152</u>	<u>2,311,867</u>
Non-current assets:		
Property and equipment, net	2,076,599	2,039,192
Cash surrender value of life insurance	237,916	219,343
Goodwill	<u>6,399,776</u>	<u>6,288,776</u>
Total non-current assets	<u>8,714,291</u>	<u>8,547,311</u>
Total assets	<u>\$ 10,693,443</u>	<u>\$ 10,859,178</u>

**The accompanying notes are an integral part of these financial statements**



## LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable	\$ 170,348	\$ 182,799
Interest payable - related party	10,298	12,056
Due to related parties	160,104	302,651
Accrued expenses	135,887	144,442
Current portion of long-term debt	562,814	533,638
Deferred revenues	<u>131,278</u>	<u>125,229</u>
Total current liabilities	1,170,729	1,300,815
Long-term debt	<u>3,095,700</u>	<u>3,499,256</u>
Total liabilities	<u>4,266,429</u>	<u>4,800,071</u>
Net assets:		
Without donor restrictions	6,382,558	6,057,673
With donor restrictions	<u>44,456</u>	<u>1,434</u>
Total net assets	<u>6,427,014</u>	<u>6,059,107</u>
Total liabilities and net assets	<u>\$ 10,693,443</u>	<u>\$ 10,859,178</u>



**POSITIVE ALTERNATIVE RADIO, INC.**

STATEMENT OF ACTIVITIES

December 31, 2019

(with summarized financial information for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue:				
Donations and contributions	\$ 5,923,311	\$ 43,022	\$ 5,966,333	\$ 5,645,689
Underwriting and sponsorships	1,628,351	-	1,628,351	1,529,621
Underwriting and sponsorships-barter	238,215	-	238,215	241,972
Bad debt recovery	75,000	-	75,000	-
Special events, net	64,503	-	64,503	38,382
In-kind contributions	25,937	-	25,937	-
Other support	25,746	-	25,746	15,704
Satisfaction of program restrictions	-	-	-	-
Total support and revenue	<u>7,981,063</u>	<u>43,022</u>	<u>8,024,085</u>	<u>7,471,368</u>
Functional expenses:				
Program services	5,172,894	-	5,172,894	4,836,994
Supporting services:				
Management and general	1,611,230	-	1,611,230	1,469,115
Fundraising	<u>872,054</u>	<u>-</u>	<u>872,054</u>	<u>793,723</u>
Total expenses	<u>7,656,178</u>	<u>-</u>	<u>7,656,178</u>	<u>7,099,832</u>
Change in net assets	<u>324,885</u>	<u>43,022</u>	<u>367,907</u>	<u>371,536</u>
Net assets, beginning of period	6,057,673	1,434	6,059,107	5,472,203
Adjustment for prior period -				
Cash surrender value of life insurance	<u>-</u>	<u>-</u>	<u>-</u>	<u>215,368</u>
Net assets, beginning of period (as restated)	<u>6,057,673</u>	<u>1,434</u>	<u>6,059,107</u>	<u>5,687,571</u>
Net assets, end of period	<u>\$ 6,382,558</u>	<u>\$ 44,456</u>	<u>\$ 6,427,014</u>	<u>\$ 6,059,107</u>

**The accompanying notes are an integral part of these financial statements**

**POSITIVE ALTERNATIVE RADIO, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2019  
(With comparative totals for December 31, 2018)

	<u>Program Services</u>	<u>Supporting Services</u>		2019 Total Expenses	2018 Total Expenses
		<u>Management and General</u>	<u>Fundraising</u>		
Personnel expenses:					
Salaries	\$ 1,919,133	\$ -	\$ 167,930	\$ 2,087,063	\$ 1,874,217
Payroll tax	154,028	-	13,478	167,506	148,307
Commissions	325,446	-	-	325,446	272,098
Insurance	392,740	-	30,248	422,988	403,619
Travel and car allowance	69,891	-	11,483	81,374	108,405
Training and education	71,674	-	-	71,674	53,815
Other employee benefits	<u>122,876</u>	<u>-</u>	<u>9,345</u>	<u>132,221</u>	<u>145,246</u>
 Total personnel	 <u>3,055,788</u>	 <u>-</u>	 <u>232,484</u>	 <u>3,288,272</u>	 <u>3,005,707</u>
Other expenses:					
Bad debt	6,167	-	-	6,167	-
Bank charges	61,389	673	85,425	147,487	141,905
Charitable contributions	19,447	-	-	19,447	45,000
Communication and telephone	110,462	-	73,641	184,103	151,648
Depreciation expense	163,586	-	-	163,586	146,884
Dues and subscriptions	11,542	-	-	11,542	20,014
Equipment leases	-	44,362	-	44,362	48,681
Fundraising	-	-	396,087	396,087	363,379
Insurance	-	107,617	-	107,617	115,391
Interest expense	-	148,470	-	148,470	181,708
Legal and professional fees	-	239,699	-	239,699	181,315
Licenses fees	198,689	-	-	198,689	165,955
Management fees	-	758,945	-	758,945	723,481
Marketing	363,304	-	-	363,304	382,959
Meals	-	47,207	-	47,207	37,326
Miscellaneous	-	11,419	10,884	22,303	12,114
Music testing	104,400	-	-	104,400	56,320
Office expenses	-	82,120	15,076	97,196	50,105
Other supplies	308	-	-	308	14,317
Other taxes	-	7,032	-	7,032	18,871
Postage	16,242	4,734	58,457	79,433	77,312

**POSITIVE ALTERNATIVE RADIO, INC.**

STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

Year ended December 31, 2019

(With comparative totals for December 31, 2018)

		Supporting Services		2019	2018
	Program Services	Management and General	Fundraising	Total Expenses	Total Expenses
Other expenses (continued):					
Talent fees	\$ 56,268	\$ -	\$ -	\$ 56,268	\$ 38,695
Vehicle leases	83,597	-	-	83,597	76,182
Total other expenses	1,195,401	1,452,278	639,570	3,287,249	3,049,562
Facilities:					
Rent	448,595	-	-	448,595	432,390
Engineering	149,891	158,952	-	308,843	304,134
Utilities	230,421	-	-	230,421	221,582
Maintenance and repairs	87,454	-	-	87,454	81,891
Security	5,344	-	-	5,344	4,566
Total facilities	921,705	158,952	-	1,080,657	1,044,563
Total expenses	\$ 5,172,894	\$ 1,611,230	\$ 872,054	\$ 7,656,178	\$ 7,099,832

The accompanying notes are an integral part of these financial statements

**POSITIVE ALTERNATIVE RADIO, INC.**

STATEMENT OF CASH FLOWS

Years ended December 31, 2019

(with comparative financial information as of December 31, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 367,907	\$ 371,536
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	163,586	146,884
Bad debt	6,167	-
(Increase) Decrease in operating assets:		
Accounts receivable, net	(44,745)	(2,350)
Amounts due from related parties	(4,798)	(293)
Cash surrender value of life insurance	(18,573)	(3,975)
Increase (Decrease) in operating liabilities:		
Accounts payables	(12,451)	(86,152)
Interest payable - related party	(1,758)	4,468
Amounts due to related parties	(142,547)	209,421
Accrued expenses	(8,555)	82,780
Deferred revenues	6,049	26,644
Net cash provided by (used in) operating activities	310,282	748,963
Cash flows from investing activities:		
Investment in certificates of deposit	(1,222)	(101,819)
Purchase of property and equipment	(311,993)	(221,599)
Net cash provided by (used in) investing activities	(313,215)	(323,418)
Cash flows from financing activities:		
Principal payments on debt	(524,380)	(554,287)
Issuance of debt	150,000	-
Net cash provided by (used in) financing activities	(374,380)	(554,287)

**POSITIVE ALTERNATIVE RADIO, INC.**

STATEMENT OF CASH FLOWS – (Continued)

Years ended December 31, 2019

(with comparative financial information as of December 31, 2018)

	<u>2019</u>	<u>2018</u>
Net change in cash, cash equivalents and restricted cash	\$ (377,313)	\$ (128,742)
Cash, cash equivalents, and restricted cash, beginning of period	<u>1,669,137</u>	<u>1,797,879</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 1,291,824</u>	<u>\$ 1,669,137</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 138,172</u>	<u>\$ 169,652</u>
Property and equipment acquired through debt	<u>\$ 150,000</u>	<u>\$ -</u>

**The accompanying notes are an integral part of these financial statements**

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. ORGANIZATION AND NATURE OF ACTIVITIES:

Positive Alternative Radio, Inc. (the Organization) is a non-profit corporation which owns and manages five Christian Broadcasting Radio Station groups: Spirit FM, WCQR, WPER, Walk FM and Joy FM. The Organization broadcasts into eight states (Virginia, Tennessee, West Virginia, North Carolina, South Carolina, Kentucky, Maryland and Ohio). The mission of the Organization is to create experiences that inspire people to live more passionately for Jesus Christ. The Organization's radio stations are plugged into their respective communities and engaged with local ministries. The Organization partners with neighboring non-profits and provides airtime and promotion. The Organization strives to leverage impact for Christ in today's world, on and off the air.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### Basis of Accounting and Financial Statement Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Net assets and revenues, support, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are available for use in general operations and not subject to donor restrictions. These net assets may be designated for specific purposes by action of the Board of Directors (the "Board") or may otherwise be limited by contractual agreements with outside parties. Revenues, support, gains, and losses that are not net assets with donor restrictions are included in this classification. Expenses are reported as decreases in this classification.

Net assets with donor restrictions - Net assets that are subject to donor-imposed restrictions. Some donor restrictions will be met by the passage of time while others can be fulfilled by action of the Organization pursuant to donor stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

##### Cash and Cash Equivalents:

For purposes of reporting cash flows, the Organization considers all demand deposits and money market accounts to be cash and cash equivalents.



## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):

##### Concentration of Credit Risk:

The Organization maintains cash and cash equivalent balances at several banks. Each account is insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) if cash and the Securities Investor Protection Corporation (SIPC) if cash equivalent. The Organization's cash balances at times may exceed insured limits.

##### Fair Value Measurements:

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 Inputs - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 Inputs - Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs - Unobservable inputs in which there is little or no market data, which requires management to develop their assumptions.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

##### Accounts 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.

##### Property and Equipment:

Property and equipment acquisitions are recorded at cost. It is the policy of the Organization to capitalize and depreciate all asset purchases costing over \$2,500 with a useful life five years or greater. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Estimated useful lives range as follows:

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):**

Property and Equipment – (Continued):

	<u>Years</u>
Building and improvements	15-40
Vehicles	5
Computer and related equipment	5
Furniture and fixtures	10
Radio and studio equipment	5-30
General equipment	5-15

Goodwill and Intangible Assets:

The Organization recognized goodwill on intangible assets from the purchase of radio stations. U.S. GAAP no longer allows the amortization of goodwill unless the Organization were to elect to apply an accounting alternative prescribed by the FASB’s ASU 2014-02, Intangible-Goodwill and Other (Topic 350). The Organization has not made this accounting alternative election and thus goodwill is not amortized. Instead, The Organization evaluates goodwill on a least an annual basis for potential impairment or more frequently if a triggering event occurs.

Support and Revenue Recognition:

The organization has two major types of revenue: Revenue from Contributions and Revenue from Underwriting and Sponsorships.

*Revenue from Contributions* consists of donations from individual donors and businesses. All contributions and grants (if received) are available for unrestricted use unless specifically restricted by the donor or grantor.

Contributions received are recorded as donations without donor restriction or with donor restriction depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in donations with donor restriction. When a restriction expires, donations with donor restriction net assets are reclassified to donations without donor restriction net assets and reported in the statement of activities as satisfaction of program restrictions. Support that is restricted by the donor is reported as an increase to donations without donor restriction net assets if the restriction expires in the reporting period in which the support is recognized.

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):

##### Support and Revenue Recognition – (Continued):

*Revenue from Underwriting and Sponsorships* consists of revenue received from businesses for recognition on the Organizations radio stations, websites or social media accounts; or revenue from businesses sponsoring the Organizations mission-based events. Revenue is recognized when media is placed and airs or on promotional event days.

The Organization also recognizes revenue from *Barter (trade)* transactions. Barter consists of the exchange of a good or service with a business for recognition on the Organization's radio stations, websites or social media accounts. Revenue is recognized in the period in which service is rendered and corresponding expense when goods or services are received.

*Deferred revenue* represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenue consists of underwriting and sponsorship payments by donors that have been received that have not been recognized by radio stations.

*Donated services and materials* are reflected in the accompanying financial statements at their estimated values at date of receipt as both contributions and either expense or assets, depending on the nature of the donated service or material.

*In-kind donations of property and equipment* are recorded as contributions at their estimated fair value at the date of donation and capitalized if greater than \$2,500. Donated goods and services without donor restrictions are recognized as in-kind contribution and in-kind expense if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

##### Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Expenses that can be identified to a specific program or support service are charged directly to the related program or service according to their natural expenditure classification. Salaries and benefits are allocated based on assessment of time and effort. Other expenses that are common to several functions are allocated based on estimates made by management.

##### Advertising Expenses:

The Organization expenses advertising costs as incurred, advertising expenses for the years ended December 31, 2019 and 2018 totaled \$363,304 and \$382,959, of which \$31,496 and \$37,781 was from barter transactions. These costs are listed in the statements of functional expenses as "Marketing".

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):

##### Income Taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code but is required to pay taxes on unrelated business income. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Federal taxes on unrelated income, if applicable, are provided at statutory rates.

##### Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Recent Accounting Pronouncements (Not yet adopted):

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require lessees to recognize lease assets and lease liabilities for those leases classified as operating under legacy U.S. GAAP. However, Topic 842 does retain a distinction between finance leases and operating leases. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date of ASU 2016-02 by another year. As such, ASU 2016-02 is effective for the Organization on January 1, 2022 with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The ASU was issued to reduce diversity in practice and its amendments should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Some contributions or grants that are considered exchange transactions under legacy U.S. generally accepted accounting principles may be accounted for as conditional contributions under the ASU. Additionally, some contributions or grants that are considered contributions with no donor-imposed conditions under legacy U.S. generally accepted accounting principles may be considered conditional under the ASU, which may delay recognition of contribution revenue (recipient) or expenses (resource provider). As such, ASU 2018-08 is effective for the Organization on January 1, 2020 with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):

##### Recent Accounting Pronouncements (Not yet adopted):

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU was issued to increase transparency around contributed nonfinancial assets received by not-for-profit (“NFP”) organizations by providing new presentation and disclosure requirements. The ASU requires a NFP to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. The ASU also requires a NFP to disclose: 1) A disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets; and 2) For each category of contributed nonfinancial assets recognized: a) Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period; b) The NFP’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; c) A description of any donor-imposed restrictions associated with the contributed nonfinancial assets; d) A description of the valuation techniques and inputs used to arrive at a fair value measure; and e) The principal market used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in the ASU should be applied on a retrospective basis. As such, ASU 2020-07 is effective for the Organization on January 1, 2022 with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

In April 2021, the FASB issued ASU 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, which provides a new goodwill impairment alternative for private companies and not-for-profit entities. The new alternative allows eligible entities to perform the goodwill impairment triggering event analysis (and any resulting impairment test) required by ASC 350-20, “Intangibles—Goodwill and Other – Goodwill,” as of the end of each reporting period, whether an interim or annual reporting period, instead of performing that analysis throughout the reporting period and any resulting impairment test as of the date during the reporting period on which a triggering event occurred. The effective date for the Organization is January 1, 2020, with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:**

Financial assets available for general expenditure within one year of the statement of the financial position are as follows:

	2019	2018
Cash and cash equivalents	\$ 1,291,824	\$ 1,669,137
Certificates of deposit	235,673	234,451
Accounts receivable, net	141,534	102,956
Total financial assets	1,669,031	2,006,544
Less those unavailable for general expenditure within one year due to:		
Restricted by donor with time or purpose restrictions	(44,456)	(1,434)
Financial assets available for general expenditure within one year	\$ 1,624,575	\$ 2,005,110

**4. ACCOUNTS RECEIVABLE:**

Accounts receivable consists of the following at December 31:

	2019	2018
Accounts receivable due from underwriting and sponsorships	\$ 135,036	\$ 95,063
Accounts receivable - other	6,498	7,893
Accounts receivable, net	\$ 141,534	\$ 102,956

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 5. FAIR VALUE MEASUREMENTS:

The Organization's investments are reported at fair value in the accompanying financial statements. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of their fair values. Furthermore, the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents fair value measurement information for certain financial instruments. The carrying values of cash, receivables and payables included in the statements of financial position approximated fair value at December 31, 2019 and 2018, and are thus not included in the following table.

	<u>Fair Value</u>	<u>Observable Inputs Other than Quoted Prices (Level 2)</u>
<u>December 31, 2019</u>		
Certificates of deposit	\$ 235,673	\$ 235,673
<u>December 31, 2018</u>		
Certificates of deposit	\$ 234,451	\$ 234,451

#### 6. CASH SURRENDER VALUE OF LIFE INSURANCE:

The organization maintains a whole life insurance policy on the primary officer of the Organization, who is also a related party and owner of Eastwood Management Corporation and Baker Investments other related parties. The Organization is the sole beneficiary. The policy is held as collateral against related party notes payable as stated in Note 9. Cash surrender value at December 31, 2019 and 2018 was \$237,916 and 219,343, respectively.

In addition to the above life insurance policy, the Organization also carries a six-million-dollar term life insurance policy on the primary officer of the Organization. Annual estimated premiums paid on this policy for the years ended December 31, 2019 and 2018 amounted to \$50,000, respectively.

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**7. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Non-Depreciable Assets:		
Land	\$ 85,956	\$ 85,956
Construction in progress	<u>25,937</u>	<u>-</u>
	111,893	85,956
Depreciable Assets:		
Buildings and improvements	1,768,645	1,732,817
Vehicles	54,904	54,904
Computer and related equipment	9,800	5,800
Furniture and fixtures	17,966	17,966
Radio and studio equipment	5,711,610	5,618,136
General equipment	<u>313,438</u>	<u>271,684</u>
	7,876,363	7,701,307
Less accumulated depreciation	<u>(5,911,657)</u>	<u>(5,748,071)</u>
	<u>1,964,706</u>	<u>1,953,236</u>
Property and equipment, net	<u>\$ 2,076,599</u>	<u>\$ 2,039,192</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$163,586 and \$146,884, respectively.

**8. GOODWILL AND INTANGIBLE ASSETS:**

The Organization has intangible assets established from the purchase of radio stations, primarily FCC licenses. The Organization considers all FCC licenses recorded on the Organizations books to have an indefinite useful life and, therefore, is not amortizing the licenses. Impairment of the intangible assets was considered by the Organization and was determined to have no impairment at December 31, 2019 and 2018. This asset is pledged as collateral in a related party loan, refer to Note 9 for additional details.



**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**9. NOTES PAYABLE:**

A summary of notes payable as of December 31, is as follows:

	2019	2018
<p>\$8,000,000 promissory note issued December 2005 by Baker Investments, LLC (a related party); Terms of the note follow original promissory note between Baker Investments and First National Bank &amp; Trust, which was refinanced in May 2015, and subsequently assigned to the Organization. Terms currently require principal payments of \$41,667 plus interest at 4.05%. Loan matures in 2025. Collateralized by all accounts, instruments, documents, chattel paper and other rights to payment, general intangibles, government payments and programs, and insurance proceeds.</p>	\$ 2,968,733	\$ 3,458,320
<p>\$198,903 promissory note issued by BB&amp;T, as modified in June 2016 for the purpose of refinancing the loan on its Lynchburg station (WRXT). Interest is payable at 4.49% with 119 equal monthly payments of \$2,068 commencing August 2016, final payment due July 2026. Collateralized by real estate in Lynchburg, VA with a net book value of \$197,436 and \$205,128 at December 31, 2019 and 2018, respectively.</p>	123,449	140,670
<p>\$461,000 promissory note issued by Pinnacle Bank in November 2017, for the purpose of refinancing the existing loans for the (WPER) Studio. Interest is payable at 4.25% with 59 monthly payments of \$2,869 and a final balloon payment of \$382,761 payable November 2022. Collateralized by real estate in Fredericksburg, VA with a net book value of \$387,265 and \$399,060 at December 31, 2019 and 2018, respectively.</p>	416,332	433,904
<p>\$150,000 promissory note issued by Atlantic Union in December 2019, for the purpose of purchasing a radio station in Luray, Virginia. Interest is payable at 4.07% with 60 equal installments of \$2,771 due December 2024. Secured by Edward Baker and Baker Investments, related parties.</p>	150,000	-
	\$ 3,658,514	\$ 4,032,894
Less current portion	(562,814)	(533,638)
Long-term portion	\$ 3,095,700	\$ 3,499,256

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**9. NOTES PAYABLE – (Continued):**

The loan agreements noted in table above all require that the Organization maintain certain financial covenants. Management is not aware of any violations to these covenants as of December 31, 2019 and 2018.

Annual requirements to amortize long-term obligations as of December 31, 2019.

2020	\$	562,814
2021		565,541
2022		933,796
2023		552,869
2024		554,883
2025		<u>488,611</u>
	\$	<u><u>3,658,514</u></u>

**10. COMMITMENTS:**

The Organization has numerous lease obligations. The Organization leases real and personal property, on-air programs through time brokerage agreements as well as various other license agreements, such as the rental of tower space for antenna placement to expand FM signal reach and broaden the Organization's listener landscape.

Future minimum lease payments for all leases treated as operating at December 31, 2019 are as follows:

2020	\$	174,694
2021		130,516
2022		107,490
2023		91,006
2024 and after		<u>109,221</u>
	\$	<u><u>612,927</u></u>

**11. RETIREMENT PLAN:**

On January 1, 2014, the Organization elected to become a participating employer in the Eastwood Management Corporation 401(k) plan (a related party) covering substantially all eligible employees. Employees must complete 1 year and 1000 hours of service and attain age 21 before they are eligible to participate. Under the provisions of the plan, eligible employees may defer up to 100% of their compensation. Additionally, the Organization contributes up to 1% of eligible employees' salaries as an employer matching contribution. The retirement plan expense for the years ended December 31, 2019 and 2018 were \$14,035 and \$10,366, respectively.

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**12. RELATED PARTY TRANSACTIONS:**

The Organization’s general and administrative functions are performed by Eastwood Management Company (Eastwood), a related party. 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 Virginia Baker and her son, Edward Baker.

The Organization’s primary debt (refer to Note 9) is held by Baker Investments, LLC, which is also owned and operated by Virginia Baker, Edward Baker, and the Vernon H. Baker Marital Trust.

Amounts paid and reimbursed to related parties during the year and amounts due to and from related parties at December 31, 2019 and 2018 are as follows:

	Eastwood Management Company	Baker Investments, LLC	Total
Expenses paid by related party and reimbursed by the Organization*	\$ 3,362,640	\$ 29,144	
Management fees**	758,945	-	
Principal payments on related party debt	-	489,587	
Interest expense on related party debt	-	129,461	
Vehicles leased from related party	-	45,507	
<b><u>December 31, 2019</u></b>			
Total paid to related party for the year	<u>\$ 4,121,585</u>	<u>\$ 693,699</u>	<u>\$ 4,815,284</u>
<b><u>December 31, 2018</u></b>			
Total paid to related party for the year	<u>\$ 3,389,396</u>	<u>\$ 702,543</u>	<u>\$ 4,091,939</u>

\* these expenses primarily consist of the reimbursement of payroll and employee benefits, business and life insurance

\*\* these expenses primarily consist of leased General and Administrative employees

**POSITIVE ALTERNATIVE RADIO, INC.**

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

**12. RELATED PARTY TRANSACTIONS – (Continued):**

	<u>Eastwood Management Company</u>	<u>Baker Investments, LLC</u>	<u>Other Related Parties</u>	<u>Total</u>
<b><u>December 31, 2019</u></b>				
Due from related parties	\$ 257,733	\$ 1,450	\$ 47,728	\$ 306,911
Due to related parties	<u>(55,633)</u>	<u>(64,951)</u>	<u>(49,818)</u>	<u>(170,402)</u>
Due (to) from related parties, net	<u>\$ 202,100</u>	<u>\$ (63,501)</u>	<u>\$ (2,090)</u>	<u>\$ 136,509</u>
<b><u>December 31, 2018</u></b>				
Due from related parties	\$ 256,145	\$ 1,200	\$ 44,768	\$ 302,113
Due to related parties	<u>(206,917)</u>	<u>(57,972)</u>	<u>(49,818)</u>	<u>(314,707)</u>
Due (to) from related parties, net	<u>\$ 49,228</u>	<u>\$ (56,772)</u>	<u>\$ (5,050)</u>	<u>\$ (12,594)</u>

The Bakers also sit on the Board of Directors of the Organization, which consists of five members, all five board members were related parties at December 31, 2019 and 2018.

**13. UNCONDITIONAL PROMISES TO GIVE:**

Several times a year, the Organization focuses on giving campaigns to raise funds in order to continue its mission. Some donors make one-time contributions and other donors commit to monthly contributions. These monthly contribution commitments meet the criteria for revenue recognition under FASB Codification Standards and are required to be recorded by US GAAP. These campaigns generate a significant volume of smaller donations that would be difficult to track on an accrual basis. The Organization considered these pledges to be similar to other intentions to give and collection would never be pursued in the event the pledge payment is not collected. For these reasons, the Organization has elected not to record these pledges in these financial statements at December 31, 2019 and 2018, which is a known departure from US GAAP, since their amount cannot be easily determined.

**14. INCOME TAXES:**

The Organization determined that all income tax positions would be sustained upon examination, and accordingly, has not recorded any reserve, or related accruals for interest and penalties for uncertain income tax positions pursuant to ASC 740 Income Taxes as of December 31, 2019 and 2018.

The Organization's previously filed income tax returns for the tax years 2016, 2017, and 2018 remain subject to examinations by a taxing authority. The Organization's income tax returns for the tax year 2019 has been filed and remains subject to examination by the taxing authority.

## POSITIVE ALTERNATIVE RADIO, INC.

### NOTES TO THE FINANCIAL STATEMENTS – (Continued)

#### 15. PRIOR PERIOD ADJUSTMENT:

Net assets at January 1, 2018, were restated to reflect the valuation of cash surrender value of life insurance asset on an officer of the organization, whereas the organization is the primary beneficiary. The adjustment to beginning balance net assets amount to \$215,368, as reflected on the statements of activities.

#### 16. CONTINGENCIES:

In December 2019, the World Health Organization declared COVID-19 a worldwide pandemic. The Organization was able to maintain donor contributions during 2020, but contributions from underwriting and sponsorships declined by \$200,000 from 2019 to 2020. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on its donors, employees and vendors, all of which are uncertain and cannot be predicted at this time.

#### 17. SUBSEQUENT EVENTS:

On February 27, 2020, the Organization signed a \$30,000 note agreement with Bayshore Communications, Inc., a related party, for the purchase of all the tangible and intangible assets of WKDI-AM radio station in Denton, Maryland. Note is payable in 60 monthly installments plus interest at 3.0% commencing on March 27, 2020.

On April 1, 2020, the Organization changed the terms of the \$150,000 note payable to Atlantic Union Bank. Whereas principal payments have been deferred until October 18, 2020. At that time the Organization will resume normal payment schedule with all unpaid principal due in December 2024.

On April 17, 2020, the Organization applied for and received the Paycheck Protection Program (PPP) loan offered by the federal government to small businesses. These funds in the amount of \$571,000, were subsequently forgiven on June 14, 2021.

Other than items noted above, the Organization did not have any material subsequent events through November 1, 2021, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2019.