

Friends of Public Radio, Inc.
d/b/a WHQR 91.3 FM

Financial Statements
For the Year Ended June 30, 2009
(with comparative totals for 2008)

EARNEY & COMPANY

L.L.P.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Friends of Public Radio, Inc. d/b/a WHQR
Wilmington, North Carolina

We have audited the accompanying statement of financial position of Friends of Public Radio, Inc. d/b/a WHQR (a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The prior year summarized comparative information has been derived from Friends of Public Radio, Inc. d/b/a WHQR's 2008 financial statements and, in our report dated December 12, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Public Radio, Inc. d/b/a WHQR as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 9 to the financial statements, the Organization has suffered recurring significant losses from operations that raise substantial doubt about its ability to continue as a going concern, pay its obligations, and meet the requirements of grant restrictions. Management's plans regarding these matters also are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Earney & Company, L.L.P.

Wilmington, North Carolina
September 4, 2009

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM

STATEMENT OF FINANCIAL POSITION

	as of June 30, 2009				2008
	Unrestricted		Temporarily	Total	Comparative
	Operations	Property	Restricted		Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 17,432	\$ -	\$ -	\$ 17,432	\$ 6,792
Investments (Note 5)	-	-	-	-	110,639
Receivables, net of \$5,000 allowance for uncollectibles	42,978	-	13,875	56,853	86,495
Pledge Receivables, net of \$250 allowance for uncollectibles	3,055	-	-	3,055	14,250
Prepaid expenses	43,007	-	-	43,007	42,404
Total Current Assets	<u>106,472</u>	<u>-</u>	<u>13,875</u>	<u>120,347</u>	<u>260,580</u>
In-kind rent receivable (Note 3)	-	-	52,706	52,706	64,004
Property and Equipment					
Office furniture	-	22,463	-	22,463	22,463
Broadcast equipment	-	664,959	-	664,959	510,298
Leasehold improvements	-	308,837	-	308,837	308,837
Technology	-	55,042	-	55,042	35,582
		1,051,301		1,051,301	877,180
Less: accumulated depreciation	-	(721,297)	-	(721,297)	(673,806)
Net Property & Equipment	<u>-</u>	<u>330,004</u>	<u>-</u>	<u>330,004</u>	<u>203,374</u>
Total Assets	<u>\$ 106,472</u>	<u>\$ 330,004</u>	<u>\$ 66,581</u>	<u>\$ 503,057</u>	<u>\$ 527,958</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 366,472	\$ -	\$ -	\$ 366,472	\$ 269,939
Current maturities of restructured debt & notes payable (Note 8)	27,327	5,724	-	33,051	16,596
Total Current Liabilities	<u>393,799</u>	<u>5,724</u>	<u>-</u>	<u>399,523</u>	<u>286,535</u>
Restructured debt & notes payable (Note 8)	72,470	3,643	-	76,113	-
Total Liabilities	<u>466,269</u>	<u>9,367</u>	<u>-</u>	<u>475,636</u>	<u>-</u>
Net Assets (deficit)					
Unrestricted	(359,797)	320,637	-	(39,160)	10,958
Temporarily restricted	-	-	66,581	66,581	230,465
Total Net Assets (deficit)	<u>(359,797)</u>	<u>320,637</u>	<u>66,581</u>	<u>27,421</u>	<u>241,423</u>
Total Liabilities and Net Assets	<u>\$ 106,472</u>	<u>\$ 330,004</u>	<u>\$ 66,581</u>	<u>\$ 503,057</u>	<u>\$ 527,958</u>

The accompanying notes are an integral part of the financial statements

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM

STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2009				2008 Comparative Total
	Unrestricted		Temporarily Restricted	Total	
	Operations	Property			
Support & Revenue					
Corporation for Public Broadcasting	\$ -	\$ -	\$ 100,334	\$ 100,334	\$ 149,084
Other government Grants (Note 6)	-	-	1,200	1,200	118,425
Contributions	418,791	-	53,792	472,583	504,525
Program underwriting	258,510	-	-	258,510	282,207
Program underwriting - in kind	81,785	-	-	81,785	112,379
In-kind contributions	3,701	-	-	3,701	14,718
Net assets released from restrictions	173,960	145,250	(319,210)	-	-
Special events (net of \$4,329 of direct cost)	4,384	-	-	4,384	15,690
Cinematique income	51,917	-	-	51,917	102,366
Rental income	3,500	-	-	3,500	3,175
Investment income	(7,529)	-	-	(7,529)	5,672
Unrealized gain (loss)	-	-	-	-	(10,242)
Other revenue	1,077	-	-	1,077	4,958
Total Support and Revenue	<u>990,096</u>	<u>145,250</u>	<u>(163,884)</u>	<u>971,462</u>	<u>1,302,957</u>
Operating Expenses					
Program services	859,945	37,993	-	897,938	1,015,192
Administrative	170,380	5,498	-	175,878	289,950
Fundraising	107,648	4,000	-	111,648	187,871
Total Expenses	<u>1,137,973</u>	<u>47,491</u>	<u>-</u>	<u>1,185,464</u>	<u>1,493,013</u>
Change in Net Assets	(147,877)	97,759	(163,884)	(214,002)	(190,056)
Net Assets					
Beginning of Year	(286,459)	297,417	230,465	241,423	431,479
Transfers	74,539	(74,539)	-	-	-
End of Year	<u>\$ (359,797)</u>	<u>\$ 320,637</u>	<u>\$ 66,581</u>	<u>\$ 27,421</u>	<u>\$ 241,423</u>

The accompanying notes are an integral part of the financial statements

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM

STATEMENT OF FUNCTIONAL EXPENSES

	For the Year Ended June 30, 2009				2008
	Program	Administrative	Fund Raising	Total	Comparative Total
Salaries	\$ 310,193	\$ 66,470	\$ 66,470	\$ 443,133	\$ 583,180
Employee benefits	44,924	9,626	9,627	64,177	86,623
Payroll taxes	29,823	6,391	6,390	42,604	55,496
Contract staffing	660	-	8,784	9,444	4,782
Total salaries & related expenses	385,600	82,487	91,271	559,358	730,081
General & administrative	104,713	85,978	3,497	194,188	225,328
Interest expense	1,915	1,915	-	3,830	5,970
Development expense	7,600	-	12,380	19,980	31,762
Promotional expense	-	-	500	500	1,294
National Public Radio	167,368	-	-	167,368	144,381
Public Radio International	16,189	-	-	16,189	55,790
In kind expenses	96,785	-	-	96,785	91,017
Technical	14,230	-	-	14,230	15,243
Cinematique expense	35,622	-	-	35,622	71,489
Other programming	29,923	-	-	29,923	64,537
	859,945	170,380	107,648	1,137,973	1,436,892
Depreciation	37,993	5,498	4,000	47,491	56,121
Total Expenses	\$ 897,938	\$ 175,878	\$ 111,648	\$ 1,185,464	\$ 1,493,013

The accompanying notes are an integral part of the financial statements

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM

STATEMENT OF CASH FLOWS

	For the Year Ended June 30, 2009				2008 Comparative Total
	Unrestricted		Temporarily Restricted	Total	
	Operations	Property			
Cash Flows from Operating Activities					
Change in Net Assets	\$ (147,877)	\$ 97,759	\$ (163,884)	\$ (214,002)	\$ (190,056)
Adjustments to reconcile to net cash provided by (used in) operating activities:					
Depreciation	-	47,491	-	47,491	56,121
In-kind rent amortization	-	-	11,298	11,298	10,432
Unrealized (gain)/loss	-	-	-	-	10,242
Changes in current assets and liabilities (use) source					
Receivables	17,212	-	23,625	40,837	(37,318)
Prepaid expenses	(603)	-	-	(603)	(4,827)
Accounts payable	196,330	-	-	196,330	206,639
 Net Cash (Used in) Provided by Operations	 <u>65,062</u>	 <u>145,250</u>	 <u>(128,961)</u>	 <u>81,351</u>	 <u>51,233</u>
Cash Flows from Investing Activities					
(Purchase) Sale of investments, net	110,638	-	-	110,638	(8,482)
Purchase of equipment, net	(28,870)	(145,250)	-	(174,120)	(51,790)
 Net Cash (Used In) Investing	 <u>81,768</u>	 <u>(145,250)</u>	 <u>-</u>	 <u>(63,482)</u>	 <u>(60,272)</u>
Cash Flows from Financing Activities					
Payments of principal	(7,229)	-	-	(7,229)	(25,000)
Due to/Due from	(122,169)	-	122,169	-	-
 Net Cash (used in) from Financing	 <u>(129,398)</u>	 <u>-</u>	 <u>122,169</u>	 <u>(7,229)</u>	 <u>(25,000)</u>
Net Increase (Decrease) in Cash	17,432	-	(6,792)	10,640	(34,039)
Cash and Cash Equivalents					
Beginning of the year	-	-	6,792	6,792	40,831
 End of the year	 <u>\$ 17,432</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 17,432</u>	 <u>\$ 6,792</u>
 Interest paid				 <u>\$ 3,830</u>	 <u>\$ 5,970</u>

The accompanying notes are an integral part of the financial statements

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

1. ORGANIZATION

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM, ("WHQR" or "the Station") a nonprofit corporation organized under the laws of North Carolina, was established for the purpose of operating WHQR-FM, a public radio broadcasting station transmitting from Wilmington, North Carolina. The station's support comes primarily from individual donors' contributions and various government and art agency grants.

Friends of Public Radio, Inc. qualifies under Internal Revenue Code 501(c) (3) as an organization exempt from income taxation. Accordingly, income related to its exempt purpose is not subject to income tax and contributions may be deductible by donors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WHQR have been prepared on the accrual basis. The organization has adopted the provisions of Statement of Financial Accounting Standards (SFAS): #116, "Accounting for Contributions Received and Contributions Made"; SFAS #117, "Financial Statements of Not-For-Profit Organizations"; and, SFAS #124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classes of Net Assets

Net assets of WHQR and changes therein are classified and reported as follows:

- a) **Unrestricted net assets** are currently available at the discretion of the board for use in WHQR's operations and not subject to donor imposed stipulations.
- b) **Temporarily restricted net assets** amounts are those which are stipulated by grantors and donors for specific purposes.

Revenue Recognition

Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Station. The Station recognizes gifts of cash and other assets as temporarily restricted if they are received with donor stipulations of purpose or time and when cash or ownership of donated assets is unconditionally promised to the Station. Net assets are released from restriction when a donor stipulated restriction expires or purpose restriction is accomplished.

In accordance with accrual accounting, other income is recognized when earned. Accordingly, revenue is recognized when the service is provided or the fund raising event is held. Allowance for uncollectible receivables is based on management's experience, analysis, and aging of accounts.

Gifts of long-lived assets

The Station reports gifts of land, buildings, equipment and in-kind contributions as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Station reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Materials and Services

Where contributed services and materials meet the criteria for recognition under FASB 116 *"Accounting for Contributions Received and Contributions Made,"* they are recorded as in kind revenues. During fiscal 2009 the Station recognized \$85,486 of donated materials and free use of space. A substantial number of unpaid volunteers have made significant contributions of their time that did not meet the criteria for recognition. Volunteers contributed services to further the Station principally in membership, development, program planning, and fundraising activities.

Pledges and Accounts Receivable

Receivables are stated at the amount that management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Allowances for uncollectible receivables is based on analysis and aging of receivables.

Functional Allocation of Expenses

The costs of providing various activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the program and supporting activities using objective bases such as time spent, square feet, and others.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. From time to time during the periods presented, the Station has had cash balances in a financial institution that have exceeded federal depository insurance limits. The cash and cash equivalents balance consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Operations checking	<u>17,432</u>	<u>6,792</u>
Total	<u>\$ 17,432</u>	<u>\$ 6,792</u>

Property and Equipment

The organization reports purchased or constructed property at cost and gifts of land, buildings, and equipment at fair value at the date of donation. Certain property was purchased with government grants and restrictive financing agreements; if these assets were sold or not used for their intended charitable purpose they may require repayment. Improvements are capitalized over their estimated useful lives, whereas repairs and maintenance expenditures on the assets are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Office furniture	7-10 years
Equipment	5-10 years
Leasehold improvements	5-39 years
Technology	3-5 years

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

3. OPERATING LEASES AND IN-KIND RENT RECEIVABLE

The Station leases its principal broadcast tower space under an operating lease for fifteen years starting May 1, 1999. No rent payment is due under the lease terms. However, \$15,000 per year is the fair value, which is recorded as annual in-kind expense.

The Station's agreement for free use of tower space was recorded at its net present value using an effective annual interest rate of 8%. The principal of the receivable is to be collected as follows:

	<u>2009</u>	<u>2008</u>
In less than one year	\$ 11,299	\$ 11,298
In one to five years	41,407	52,706
After five years	<u>-</u>	<u>-</u>
Total in-kind rent receivable	<u>\$ 52,706</u>	<u>\$ 64,004</u>

In addition, the Station has another in-kind lease of broadcast tower space under a year to year operating lease which is recorded at its stated fair value of \$250 per month.

The Station leases a generator for \$250 per month in connection with an operating lease for fifteen years starting May 31, 1998.

The Station leases office space paid in monthly installments under a five year operating lease ending April 30, 2015. The rental payments were \$39,921 for the year ended June 30, 2009, and \$38,400 for the year ended June 30, 2008.

4. CORPORATION FOR PUBLIC BROADCASTING

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. The Station uses these funds for purposes relating primarily to production and acquisition of programming.

The Community Service Grants received and expended by the Station during the fiscal year ended June 30, 2009 was \$100,334. The total received is more than 12% of the Station's total support and revenue for the fiscal year ended June 30, 2009. A significant reduction in the level of this support, if this were to occur, could have a significant effect on the Station's programs and activities.

5. INVESTMENTS

Investments at Morgan Keegan are recorded at fair market value. During fiscal 2009 the station liquidated this account to fund the purchase of a transmitter and operational deficits. Balances are as follows as of June 30:

	June 30, 2009			June 30, 2008		
	Cost	Fair Value	Unrealized Gain/(Loss)	Cost	Fair Value	Unrealized Gain/(Loss)
Cash	\$ -	\$ -	\$ -	\$ 36	\$ 36	\$ -
Equity Mutual Funds	-	-	-	112,874	110,603	(2,271)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,910</u>	<u>\$ 110,639</u>	<u>\$ (2,271)</u>
Change in unrealized gain /(loss)			-			(10,242)
Interest and dividends			-			5,841
Realized gain (loss)			(7,529)			(169)
Investment income			<u>(7,529)</u>			<u>(4,570)</u>

6. OTHER GOVERNMENT GRANTS

Other government grants on the statement of activities consist of the following for the years ended June 30:

	2009	2008
Brunswick County	\$ 1,200	\$ 1,200
City of Wilmington	-	6,975
NC Arts Council	-	-
U.S. Department of Commerce & Telecommunications	-	110,250
	<u>\$ 1,200</u>	<u>\$ 118,425</u>

7. RETIREMENT PLAN

The Station has adopted a defined contribution retirement plan ("tax deferred annuity"). For full-time employees the Station matches a participant's salary reduction contribution (minimum of 2% of employee salary) up to 5% of the participant's salary. Total Station matching contributions were \$8,774 in 2009 and \$8,771 in 2008.

8. RESTRUCTURED DEBT & NOTES PAYABLE

As of June 30, 2009 the Station has successfully restructured their debt with three important vendors. All three restructurings include paying off debt over a longer period of time, and are as follows:

	<u>Due 2010</u>	<u>Due After</u>	<u>Total Restructured Payable</u>
Monthly payments to Memsys Corp. for a lease on development software. The Station defaulted on a lease dated in 2006. Memsys has agreed to let the Station pay \$477 per month until paid off.	\$ 5,724	\$ 3,643	\$ 9,367
The Station purchases programming for Public Radio International (PRI). In 2009 PRI entered an agreement with the Station to pay off certain debts in fiscal 2010, then the remainder in payments of \$761.54 for sixty months.	25,311	34,280	59,591
The Station purchases programming from American Public Media (APM). In 2009 APM entered an agreement that allows the Station to pay \$168 per month beginning September 2009 to pay down debt for one year. In subsequent years the monthly payment will increase to \$266 and continue until paid off.	<u>2,016</u>	<u>38,190</u>	<u>40,206</u>
	<u>\$ 33,051</u>	<u>\$ 76,113</u>	<u>\$ 109,164</u>

Five year maturities are as follows:

2010	\$ 16,878
2011	15,973
2012	12,642
2013	12,642
2014	12,642
After	<u>38,387</u>
Total	<u>\$ 109,164</u>

9. **BOARD OF DIRECTOR RESPONSE TO OPERATING LOSSES**

The Station has reported operating losses in each of the last four years. This unrestricted operating losses total \$602,888 for the most recent four fiscal years. These losses have left the Station with a deficit of unrestricted net assets. Recent deficits have been funded by increases in payables and reductions in current assets.

These circumstances leave substantial doubt about the Organization's ability to continue as a going concern, pay its obligations, and meet the requirements of grant restrictions.

To address these circumstances, the Board has made the following changes prior to June 30, 2009 and continuing into fiscal 2010:

- In early calendar 2009, the Board reduced the number of full time staff members to five. This is estimated to save approximately \$150,000 per year. Strategies for revenue increases in pledge drives and underwriting have been implemented.
- The Board successfully renegotiated the payment of accounts payable with three of the Station's largest vendors. See Note 8.
- The Board is continuing to negotiate payment terms with other major vendors. The Board expects positive results from these negotiations during fiscal 2010.