

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

Financial Statements
For the Year Ended June 30, 2007
(With comparative totals for 2006)

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 91.3 FM ("WHQR") as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of WHQR's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized information has been derived from the Organization's 2006 financial statements and, in our report dated September 15, 2006 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards of 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., as of June 30, 2007, and the changes in its net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

November 16, 2007
Wilmington, North Carolina

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

STATEMENT OF FINANCIAL POSITION

	as of June 30, 2007				2006
	Unrestricted		Temporarily	Total	Comparative
	Operations	Property	Restricted		
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 32,831	\$ -	\$ 8,000	\$ 40,831	\$ 132,551
Investments (Note 5)	-	125,499	-	125,499	111,501
Receivables, net of \$6,500 allowance for uncollectibles	36,449	-	-	36,449	21,943
Pledge Receivables, net of \$4,500 allowance for uncollectibles	26,978	-	-	26,978	11,200
Prepaid expenses	37,577	-	-	37,577	53,890
Total Current Assets	<u>133,835</u>	<u>125,499</u>	<u>8,000</u>	<u>267,334</u>	<u>331,085</u>
In-kind rent receivable (Note 3)	-	-	74,436	74,436	84,069
Property and Equipment					
Office furniture	-	21,463	-	21,463	18,584
Broadcast equipment	-	480,908	-	480,908	476,408
Leasehold improvements	-	274,337	-	274,337	274,337
Technology	-	35,582	-	35,582	35,582
		812,290		812,290	804,911
Less: accumulated depreciation	-	(617,685)	-	(617,685)	(543,522)
Net Property & Equipment	<u>-</u>	<u>194,605</u>	<u>-</u>	<u>194,605</u>	<u>261,389</u>
Total Assets	<u>\$ 133,835</u>	<u>\$ 320,104</u>	<u>\$ 82,436</u>	<u>\$ 536,375</u>	<u>\$ 676,543</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 63,300	\$ -	\$ -	\$ 63,300	\$ 46,316
Current maturities of notes payable	-	29,630	-	29,630	29,471
Total Current Liabilities	<u>63,300</u>	<u>29,630</u>	<u>-</u>	<u>92,930</u>	<u>75,787</u>
Notes payable (Note 8)	-	11,966	-	11,966	15,449
Total Liabilities	<u>63,300</u>	<u>41,596</u>	<u>-</u>	<u>104,896</u>	<u>91,236</u>
Net Assets					
Unrestricted					
Undesignated	18,452	153,010	-	171,462	271,947
Board Designated					
- Operating reserves	23,124	-	-	23,124	51,491
- Capital additions	-	125,498	-	125,498	149,112
- Endowment	28,959	-	-	28,959	28,688
Total Unrestricted	<u>70,535</u>	<u>278,508</u>	<u>-</u>	<u>349,043</u>	<u>501,238</u>
Temporarily restricted	-	-	82,436	82,436	84,069
Total Net Assets	<u>70,535</u>	<u>278,508</u>	<u>82,436</u>	<u>431,479</u>	<u>585,307</u>
Total Liabilities and Net Assets	<u>\$ 133,835</u>	<u>\$ 320,104</u>	<u>\$ 82,436</u>	<u>\$ 536,375</u>	<u>\$ 676,543</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, 2007				2006 Comparative Total
	Unrestricted		Temporarily Restricted	Total	
	Operations	Property			
Support & Revenue					
Corporation for Public Broadcasting	\$ -	\$ -	\$ 151,913	\$ 151,913	\$ 138,778
Other government Grants (Note 6)	-	-	22,500	22,500	7,600
Contributions					
- Individuals	424,675	-	-	424,675	457,082
- Corporations	41,640	-	14,600	56,240	31,577
Program underwriting	218,959	-	-	218,959	204,257
In-kind contributions	59,482	-	-	59,482	71,309
Net assets released from restrictions	158,146	32,500	(190,646)	-	-
Special events (net of \$32,302 of direct cost)	25,707	-	-	25,707	9,920
Cinematique income	84,586	-	-	84,586	89,427
Rental income	2,550	-	-	2,550	2,805
Investment income	16,150	-	-	16,150	9,560
Other revenue	12,832	-	-	12,832	715
Total Support and Revenue	<u>1,044,727</u>	<u>32,500</u>	<u>(1,633)</u>	<u>1,075,594</u>	<u>1,023,030</u>
Operating Expenses					
Program services	770,300	59,331	-	829,631	794,103
Administrative	207,235	7,416	-	214,651	196,192
Fundraising	177,724	7,416	-	185,140	168,586
Total Expenses	<u>1,155,259</u>	<u>74,163</u>	<u>-</u>	<u>1,229,422</u>	<u>1,158,881</u>
Change in Net Assets	(110,532)	(41,663)	(1,633)	(153,828)	(135,851)
Net Assets					
Beginning of Year	135,657	365,581	84,069	585,307	721,158
Transfers to Fund Property	45,410	(45,410)	-	-	-
End of Year	<u>\$ 70,535</u>	<u>\$ 278,508</u>	<u>\$ 82,436</u>	<u>\$ 431,479</u>	<u>\$ 585,307</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

	For the Year Ended June 30, 2007				2006
	Program	Administrative	Fund Raising	Total	Comparative Total
Salaries	\$ 218,327	\$ 120,303	\$ 106,937	\$ 445,567	\$ 403,176
Employee benefits	27,476	15,139	13,457	56,072	56,628
Payroll taxes	21,380	11,781	10,472	43,633	41,116
Contract staffing	3,429	1,889	1,679	6,997	-
Total salaries & related expenses	270,612	149,112	132,545	552,269	500,920
General & administrative	110,591	46,374	37,035	194,000	168,998
Interest expense	-	750	-	750	1,660
Development expense	15,782	9,553	7,074	32,409	29,418
Promotional expense	2,838	1,446	1,070	5,354	1,478
National Public Radio	129,313	-	-	129,313	129,313
Public Radio International	26,499	-	-	26,499	32,746
In kind expenses	69,115	-	-	69,115	80,204
Technical	13,203	-	-	13,203	9,100
Cinematique expense	83,496	-	-	83,496	70,953
Other programming	48,851	-	-	48,851	59,445
	770,300	207,235	177,724	1,155,259	1,084,235
Depreciation	59,331	7,416	7,416	74,163	74,646
Total Expenses	\$ 829,631	\$ 214,651	\$ 185,140	\$ 1,229,422	\$ 1,158,881

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, 2007				2006
	Unrestricted		Temporarily	Total	Comparative Total
	Operations	Property	Restricted		
Cash Flows from Operating Activities					
Change in Net Assets	\$ (110,532)	\$ (41,663)	\$ (1,633)	\$ (153,828)	\$ (135,851)
Adjustments to reconcile to net cash provided by (used in) operating activities:					
Depreciation	74,163	-	-	74,163	74,646
In-kind rent amortization	-	-	9,633	9,633	8,895
Unrealized (gain)/loss	(8,245)	-	-	(8,245)	(274)
Changes in current assets and liabilities (use) source					
Receivables	(30,284)	-	-	(30,284)	11,695
Prepaid expenses	16,313	-	-	16,313	(2,305)
Accounts payable	16,984	-	-	16,984	23,909
 Net Cash (Used in) Provided by Operations	 <u>(41,601)</u>	 <u>(41,663)</u>	 <u>8,000</u>	 <u>(75,264)</u>	 <u>(19,285)</u>
Cash Flows from Investing Activities					
(Purchase) Sale of investments, net	(5,753)	-	-	(5,753)	(42,468)
(Purchase) of equipment, net	(7,379)	-	-	(7,379)	(40,988)
 Net Cash (Used In) Investing	 <u>(13,132)</u>	 <u>-</u>	 <u>-</u>	 <u>(13,132)</u>	 <u>(83,456)</u>
Cash Flows from Financing Activities					
Proceeds from note payable	-	-	-	-	25,000
Payments of principal	(3,324)	-	-	(3,324)	(4,264)
 Net Cash (used in) from Financing	 <u>(3,324)</u>	 <u>-</u>	 <u>-</u>	 <u>(3,324)</u>	 <u>20,736</u>
Transfers	(4,052)	4,052	-	-	-
Net Increase (Decrease) in Cash	(62,109)	(37,611)	8,000	(91,720)	(82,005)
Cash and Cash Equivalents					
Beginning of the year	94,940	37,611	-	132,551	214,556
 End of the year	 <u>\$ 32,831</u>	 <u>\$ -</u>	 <u>\$ 8,000</u>	 <u>\$ 40,831</u>	 <u>\$ 132,551</u>
Interest paid				<u>\$ 750</u>	<u>\$ 1,660</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, 2007

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. Memorials and certain fund raising proceeds have been designated by the Board of Directors as an endowment. Separately, specific cash and investment accounts have been designated for capital additions.
- b) **Temporarily restricted net assets** are subject to donor-imposed stipulations that may, or will be met by actions of WHQR for specific operating purposes and/or by the passage of time. Net assets at June 30, 2007 were principally restricted for in-kind rent.

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 2007 the Station recognized \$59,482 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 confirmed bank cash balance was \$70,920 versus a book balance of \$40,831 at June 30, 2007. The confirmed bank cash balance was \$133,206 versus a book balance of \$132,551 at June 30, 2006.

The cash and cash equivalents balance consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Operations checking	\$ (11,252)	\$ 52,372
Operating and capital reserve money market	23,124	51,491
Quasi endowment memorial fund	<u>28,959</u>	<u>28,688</u>
Total	<u>\$ 40,831</u>	<u>\$ 132,551</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. All construction and equipment is valued at cost. 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. Betterments and 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>2007</u>	<u>2006</u>
In less than one year	\$ 10,432	\$ 9,633
In one to five years	57,795	45,514
After five years	<u>6,209</u>	<u>28,922</u>
Total in-kind rent receivable	<u>\$ 74,436</u>	<u>\$ 84,069</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, 2009. The rental payments were \$38,400 for the year ended June 30, 2007, and \$38,400 for the year ended June 30, 2006.

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, 2007 was \$151,913. The total received is more than 14% of the Station's total support and revenue for the fiscal year ended June 30, 2007. 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 – CAPITAL ADDITIONS

Investments at Morgan Keegan are designated for capital additions and are recorded at fair market value as follows:

	June 30, 2007			June 30, 2006		
	Cost	Fair Value	Unrealized Gain/(Loss)	Cost	Fair Value	Unrealized Gain/(Loss)
Cash	\$ 133	\$ 133	\$ -	\$ 127	\$ 127	\$ -
Equity Mutual Funds	<u>117,395</u>	<u>125,366</u>	<u>7,971</u>	<u>111,648</u>	<u>111,374</u>	<u>(274)</u>
	<u>\$ 117,528</u>	<u>\$ 125,499</u>	<u>\$ 7,971</u>	<u>\$ 111,775</u>	<u>\$ 111,501</u>	<u>\$ (274)</u>
Change in unrealized gain /(loss)			8,245			5,684
Interest and dividends			2,158			6,933
Realized gain (loss)			<u>5,747</u>			<u>(3,057)</u>
Investment income			<u>\$ 16,150</u>			<u>\$ 9,560</u>

6. OTHER GOVERNMENT GRANTS

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

	2007	2006
Brunswick County	\$ 1,200	\$ 1,100
City of Wilmington	20,000	5,000
NC Arts Council	<u>1,300</u>	<u>1,500</u>
	<u>\$ 22,500</u>	<u>\$ 7,600</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 \$8,209 in 2007 and \$9,211 in 2006.

8. NOTES PAYABLE

Notes payable consists of the following at June 30, 2007:

Note payable to Cooperative Bank March 3, 2006. Payments of interest only are due monthly until September 3, 2007 at which date the principal is due. The interest rate is 2.4% and the loan is collateralized with WHQR's savings account. \$ 25,000

In 2006 WHQR purchased software and financed this purchase with the vendor. The total amount financed was \$28,655 to be paid to vendor without interest in payments of \$477 per month for 60 months. The loan has been discounted to its present value using an estimated market interest rate of 7%. 16,596

Total \$ 41,596

Maturities of the notes payable are as follows:

2008	\$ 29,630
2009	4,964
2010	5,323
2011	<u>1,679</u>
Total	41,596
Less: Current Maturities	<u>(29,630)</u>
Total Long Term Debt	<u>\$ 11,966</u>

9. BOARD OF DIRECTOR RESPONSE TO OPERATING LOSSES

The Station has reported operating losses in each of the last two years. Total unrestricted operating losses were (\$110,532) in 2007 and (\$35,245) in 2006. These losses have left the Station with only \$18,452 of undesignated unrestricted net assets.

In response to the losses incurred in fiscal 2007 and 2006, the Board of Directors has made significant progress in developing long-range solutions to the operating deficits. There has been a change in the executive management and a plan has been enacted for increased fund raising and underwriting to produce favorable results in future years.