

# **TERMINAL RADIO, INC.**

Financial Statements

June 30, 2015

**DRAFT**

**BLANK & SMITH, CPA'S**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Terminal Radio, Inc.

We have audited the accompanying financial statements of Terminal Radio, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years 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 audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Terminal Radio, Inc. as of June 30, 2015 and 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.

Blank & Smith, Certified Public Accountants

Anchorage, Alaska

September xx, 2015

**DRAFT**

TERMINAL RADIO, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2015

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 88,073	\$ 45,034
Accounts receivable, net	6,519	9,458
Inventories	3,515	1,394
Prepaid expenses	<u>13,470</u>	<u>9,843</u>
Total current assets	111,577	65,729
Property and equipment, net	<u>336,074</u>	<u>371,099</u>
Total assets	<u>\$ 447,651</u>	<u>\$ 436,828</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 6,294	\$ 530
Accrued expenses	9,436	16,118
Refundable advance	<u>3,857</u>	<u>3,596</u>
Total current liabilities/total liabilities	19,587	20,244
Net assets		
Unrestricted	410,089	413,030
Temporarily restricted	<u>17,975</u>	<u>3,554</u>
Total net assets	<u>428,064</u>	<u>416,584</u>
Total liabilities and net assets	<u>\$ 447,651</u>	<u>\$ 436,828</u>

DRAFT

The accompanying notes are an integral part of these financial statements

TERMINAL RADIO, INC.  
STATEMENT OF ACTIVITIES  
YEARS ENDED JUNE 30, 2015

	2015	2014
Changes in unrestricted net assets		
Revenues and other support:		
Grants and donations	\$ 132,453	\$ 127,415
Gaming proceeds	11,089	6,409
Underwriting contributions	49,744	33,362
In-kind contributions	76,457	61,901
Rental income	28,800	22,776
Membership dues	10,590	17,075
Other	19,041	11,154
Loss on disposition of assets	(804)	-
Investment income	5	11
Total net assets released from restrictions	<u>185,955</u>	<u>171,702</u>
Total revenues and other support	513,330	451,805
Expenses and other deductions		
Program and production	166,927	134,995
Broadcasting and transmission	124,529	157,951
Management and general	129,295	106,175
Fund-raising and gaming	75,081	54,116
Rental expenses	20,439	13,355
Total expenses and other deductions	<u>516,271</u>	<u>466,592</u>
(Decrease) in unrestricted net assets	(2,941)	(14,787)
Changes in temporarily restricted net assets		
Grants	200,376	168,897
Net assets released from restrictions	<u>(185,955)</u>	<u>(171,702)</u>
Increase (decrease) in temporarily restricted net assets	14,421	(2,805)
Change in net assets	11,480	(17,592)
Net assets - beginning of year	416,584	434,176
Net assets - end of year	<u>\$ 428,064</u>	<u>\$ 416,584</u>

DRAFT

The accompanying notes are an integral part of these financial statements

TERMINAL RADIO, INC.  
STATEMENT OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 11,480	\$ (17,592)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	36,483	39,510
Loss on disposition of assets	804	-
Changes in current assets and liabilities:		
Decrease (increase) in accounts receivable	2,939	(8,699)
Decrease (increase) in inventories	(2,121)	-
Decrease (increase) in prepaid expenses	(3,627)	(2,682)
(Decrease) increase in accounts payable	5,764	(2,147)
(Decrease) increase in accrued expenses	(6,682)	(1,673)
(Decrease) increase in refundable advance	261	3,596
	45,301	10,313
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(2,262)	(240)
Net cash(used) in investing activities	(2,262)	(240)
Net (decrease) in cash and cash equivalents	43,039	10,073
Cash and cash equivalents- beginning of year	45,034	34,961
Cash and cash equivalents - end of year	\$ 88,073	\$ 45,034

DRAFT

The accompanying notes are an integral part of these financial statements

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Terminal Radio, Inc. is a public service radio station whose purpose is to serve the educational, cultural and informational needs of the south central Alaskan community in the Copper River Basin and Prince William Sound areas. Terminal Radio, Inc. is a non-profit 501(c)(3) organization since 1980 governed by a nine member Board of Directors. As such, the accompanying statements of financial position and related statements of activities and statements of cash flows reflect the assets owned by the Organization. Terminal Radio, Inc. is funded by a variety of sources including but not limited to membership dues, federal, state and local grants, gaming operations, underwriting, in-kind donations, and other miscellaneous sources of funding. The Organization's office is located in Valdez, Alaska and operates a station there as KCHU 770 AM. In addition, the Organization has additional licensed stations located in Glennallen (KXGA 90.5 FM) and McCarthy (KXKM 89.7FM) and is repeated by translators in Cordova, Chenega Bay and Tatitlek at 88.1 FM, and Whittier at 88.3 FM.

Basis of Presentation

The financial statements of Terminal Radio, Inc. have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Terminal Radio, Inc. and changes therein are classified and reported as follows:

*Unrestricted Net Assets-*

Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets-*

Net assets subject to donor-imposed stipulations on the use of the assets that will be met either by actions of Terminal Radio, Inc. and /or the passage of time.

*Permanently Restricted Net Assets-*

Net assets subject to donor imposed stipulations that are to be maintained permanently by Terminal Radio, Inc. The donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes. Terminal Radio, Inc. has no permanently restricted assets as of June 30, 2015.

Cash and Cash Equivalents

Cash and cash equivalents as presented in the accompanying financial statements are defined as cash held on account and/or all highly liquid investments with a maturity of three months or less. In accordance with State of Alaska law, gaming income is deposited into a separate account and held until used for an approved purpose.

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to a valuation allowance and a credit to accounts receivable. At June 30, 2015 and 2014 all receivables are estimated to be fully collectible and due within one year.

Inventories

Inventories consist of pull-tabs used in Terminal Radio, Inc.'s gaming operations and premiums. Inventories are stated at cost and were as follows:

	2015	2014
Premium inventory	\$ 2,121	\$ -
Pull-tab inventory	<u>1,394</u>	<u>1,394</u>
	<u>\$ 3,515</u>	<u>\$ 1,394</u>

Property and Equipment

Acquisitions of property and equipment in excess of \$300 are capitalized when the useful life extends beyond a year. Acquisitions less than \$300 are expensed when incurred. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The cost of property and equipment is depreciated over the estimated useful life of each class of depreciable assets and depreciation is computed using the straight-line method.

Estimated useful lives of the assets are as follows:

<u>Asset Category</u>	<u>Estimated Useful Life (in years)</u>
Buildings	31
Broadcasting equipment	7-15
Furniture and fixtures	3-7
Intangible asset	5

Property acquired is considered to be owned by Terminal Radio, Inc. However, assets purchased through Alaska Public Broadcasting Inc. (APBI) may not be put to a different purpose or disposed of without the written permission of APBI.

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Licensed Program Rights

Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. Generally these program and products are amortized on a straight-line basis over the period of the license agreement. At fiscal year ended June 30, 2015 and 2014, the Organization did not have any unamortized program rights.

Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast are recorded as deferred assets. Such costs relate to programs produced by Terminal Radio, Inc. that will be broadcast subsequent to June 30, 2015. As the programs are broadcast, the costs incurred are included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value. At June 30, 2015 there were no long-term costs incurred for programs not yet broadcast.

Income Taxes

Terminal Radio, Inc. is organized exclusively for charitable and educational purposes within the meaning of Internal Revenue Code Section 501( c)(3). The Organization has been determined by the Internal Revenue Service not to be a private foundation with the meaning of Section 509(a) of the Code. Although the Organization is exempt from federal income taxes, any income derived from unrelated business activities is subject to the requirement of filing Federal Income Tax Form 990-T and a tax liability may be determined on these activities. The Organization's Forms 990, *Return of Organization Exempt from Income Tax* and 990T *Exempt Organization Business Income Tax Returns*, for the years ended 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they were filed.



TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a “release of restrictions” in the accompanying statement of activities.

Terminal Radio, Inc. engages in periodic fund-raising campaigns manifested by offering some special radio programs and on-air and mail fund-raising appeals. These appeals encourage support, both from individuals and organizations, to provide financial contributions to Terminal Radio, Inc. for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. All member pledges receivable are promises to give within one year. Contributions and collected pledges are unrestricted as to their usage if not limited to specific activities of Terminal Radio, Inc. This usage is consistent with appeals for contributions and pledges.

In-kind Contributions

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, program activities and special events. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skill, are performed by people with those skills, and would otherwise be purchased by the Organization if not provided by donation.

Contributed materials, supplies, facilities, services and property are recorded at their estimated fair value at the date of donation. If the fair value of contributed materials, supplies, facilities, services, and property cannot be reasonably determined, they are not recorded. Terminal Radio, Inc. reports contributions of professional services, materials and other nonmonetary contributions as unrestricted revenue in the accompanying statement of activities. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of activities and in note 10. Certain costs have been allocated between the program and supporting services on the basis of the benefits received.

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued.

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.

Credit Risk due to Temporary Cash Investments

The Organization's cash is insured through the Federal Deposit Insurance Corporation (FDIC) for the maximum amount of \$250,000. All balances were below the insurance maximum at June 30, 2015 and 2014.

2. FUND-RAISING EXPENSE

Total fund-raising expense included in fund-raising and gaming expense for the year ended June 30, 2015 and June 30, 2014 was \$ 70,112 and \$ 49,957 respectively.

3. ACCOUNTS RECEIVABLE

Terminal Radio Inc.'s accounts receivable at June 30 consisted of the following:

	2015	2014
Donations and underwriting	\$ 6,519	\$ 6,123
Employee receivable	-	1,837
Rent receivable	-	1,498
	<u>\$ 6,519</u>	<u>\$ 9,458</u>

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2015	2014
Broadcast equipment	\$ 890,306	\$ 893,801
Building and improvements	234,082	234,082
Furniture and fixtures	51,388	49,126
Land	39,779	39,779
Website development	<u>5,046</u>	<u>5,046</u>
	1,220,601	1,221,834
Less accumulated depreciation	<u>(884,527)</u>	<u>(850,735)</u>
	<u>\$ 336,074</u>	<u>\$ 371,099</u>

Depreciation expense for 2015 and 2014 was \$ 36,483 and \$ 39,510 respectively.

5. DONATED SERVICES

In-kind contributions include a variety of donated services received throughout the year. In-kind contributions are primarily associated with the Organization's broadcasting and transmission activities. The largest contribution of in-kind services is provided by Alaska Public Broadcasting, Inc. (APBI) for satellite service fees, administrative services, training and other operational costs. The fair value of donated services included as support in the financial statements and the corresponding expenses for the year ended June 30, 2015 and 2014 was as follows:

	2015	2014
APBI support	\$ 37,771	\$ 38,212
Travel and lodging	4,384	11,906
Telephone, DSL, cell service	3,972	3,920
Advertising	7,657	3,004
Repair	4,224	-
Other	<u>18,449</u>	<u>4,859</u>
	<u>\$ 76,457</u>	<u>\$ 61,901</u>

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

6. TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donor. Net assets released for the year ended June 30 were:

Direct public broadcasting	\$ 138,314	\$ 139,340
Infrastructure and equipment upgrades	2,447	2,805
National program production/acquisition	25,417	25,307
Building maintenance	4,720	-
Other	15,057	4,250
	<u>\$ 185,955</u>	<u>\$ 171,702</u>

Temporarily restricted net assets of at year end were:

	2015	2014
Building maintenance	\$ 12,525	\$ -
Improving signal	3,554	3,554
Underwriting incentive	1,553	-
Education	343	-
	<u>\$ 17,975</u>	<u>\$ 3,554</u>

7. OPERATING LEASE COMMITMENTS AND CONTINGENCIES

The Organization leases tower space for certain repeater stations located on Tolsona Ridge from third parties. Total lease expense was \$11,565 in 2015 and \$7,966 in 2014. This lease expires January 1, 2020. Future minimum rental payments are:

Year ended	
2016	\$ 10,800
2017	10,800
2018	10,800
2019	10,800
2020	5,400
thereafter	-
	<u>\$ 48,600</u>

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

8. OPERATING LEASE COMMITMENTS

The Organization leases office space to a tenant under noncancelable operating leases with original terms of one year ended June 30, 2015. Subsequent to year end a new office space lease was signed extending the term for an additional year with the following future minimum lease payments:

Year ending June 30,	
2016	\$ 24,000
thereafter	-
	<u>\$ 24,000</u>

Additional office space is rented on a month-to-month basis. Cost of leased property at June 30, 2015 and 2014 were \$164,317 with accumulated depreciation of \$100,012 at June 30, 2015 and \$95,515 June 30, 2014. Total rental income from this activity was \$28,800 in 2015 and \$22,776 in the fiscal year ended June 30, 2014 with related expenses of \$ 20,439 and \$13,355 respectively.

9. CONCENTRATIONS, COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Terminal Radio, Inc. receives grants that are subject to audit and adjustment by the grantor agencies. Any expenditure disallowed as a result of such an audit and for which grant monies had been expended would become a liability of the Organization. Management has determined this possibility is remote.

The Organization receives a significant amount of support from Corporation for Public Broadcasting (a federally funded agency) and the Alaska Corporation for Public Broadcasting, Inc. and the State of Alaska Public Broadcasting Commission. These organizations receive their monies (directly and indirectly, respectively) from the federal and state governments, therefore any changes in federal or state funding may have an impact on the Organization's ability to obtain support from one or the other of these agencies. For fiscal year ended June 30, 2015, the Organization received unrestricted and temporarily restricted grant monies from these entities in the amount of \$ 258,390 and \$261,572 in year ended June 30, 2014. These amounts represent approximately 60% of the Organization's total income.

Subsequent to year end the Organization was awarded a grant from the Alaska Public Broadcasting Commission in the amount of \$ 113,581 for the period ending June 30, 2016 subject to all requirements and conditions under the grant.

Subsequent events have been evaluated through September xx, 2015 which is the date these financial statements were available to be issued.

TERMINAL RADIO, INC.  
NOTES TO FINANCIAL STATEMENTS

10. FUNCTIONAL EXPENSES

June 30, 2015	PROGRAM		ADMINISTRATION AND GENERAL			2015 Total
	Program and Productions	Broadcasting and Transmissions	Management and General	Fund-raising and Gaming	Rental	
Personnel costs	\$ 84,837	\$ 7,615	\$ 66,251	\$ 43,690	\$ -	\$ 202,393
Program costs	66,665	-	-	-	-	66,665
Contract services	-	2,199	11,641	-	-	13,840
Telephone/internet	8,552	13,621	3,435	-	-	25,608
Maintenance	-	582	10,965	-	9,552	21,099
Rent	-	11,564	-	-	-	11,564
Supplies	4,292	4	3,832	10,132	-	18,260
Travel	604	12	302	1,033	-	1,951
Utilities	-	21,013	7,348	-	4,990	33,351
Postage	123	3	402	477	-	1,005
Broadcasting support	-	37,771	-	-	-	37,771
Other	573	2,870	21,932	19,506	1,400	46,281
Depreciation	1,281	27,275	3,187	243	4,497	36,483
Total	<u>\$ 166,927</u>	<u>\$ 124,529</u>	<u>\$ 129,295</u>	<u>\$ 75,081</u>	<u>\$ 20,439</u>	<u>\$ 516,271</u>

June 30, 2014	PROGRAM		ADMINISTRATION AND GENERAL			2014 Total
	Program and Productions	Broadcasting and Transmissions	Management and General	Fund-raising and Gaming	Rental	
Personnel costs	\$ 72,252	\$ 34,730	\$ 57,822	\$ 36,326	\$ 2,384	\$ 203,514
Program costs	41,438	-	-	-	-	41,438
Contract services	-	252	12,908	-	-	13,160
Telephone/internet	7,968	14,618	4,573	-	-	27,159
Maintenance	-	37	804	-	-	841
Rent	-	12,766	924	-	-	13,690
Supplies	5,082	284	1,735	4,898	-	11,999
Travel	6,033	560	1,034	2,690	-	10,317
Utilities	-	25,223	7,158	-	6,473	38,854
Postage	-	-	373	-	-	373
Broadcasting support	-	38,212	-	-	-	38,212
Other	866	1,246	15,303	10,110	-	27,525
Depreciation	1,356	30,023	3,541	92	4,498	39,510
Total	<u>\$ 134,995</u>	<u>\$ 157,951</u>	<u>\$ 106,175</u>	<u>\$ 54,116</u>	<u>\$ 13,355</u>	<u>\$ 466,592</u>

DRAFT