

# **Essential Public Media, Inc.**

## Financial Statements

Fiscal Years Ended June 30, 2013 and 2012 with  
Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

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# ESSENTIAL PUBLIC MEDIA, INC.

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

## TABLE OF CONTENTS

<b>Independent Auditor's Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position	2
Statement of Activities - Fiscal Year Ended June 30, 2013	3
Statement of Activities - Fiscal Year Ended June 30, 2012	4
Statements of Cash Flows	5
Notes to Financial Statements	6

## Independent Auditor's Report

Board of Directors  
Essential Public Media, Inc.

We have audited the accompanying financial statements of Essential Public Media, Inc. (EPM), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 EPM as of June 30, 2013 and 2012, 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.

*Maher Duessel*

Pittsburgh, Pennsylvania  
November 21, 2013

# ESSENTIAL PUBLIC MEDIA, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 563,159	\$ 1,010,518
Accounts receivable	156,280	183,558
Accounts receivable - affiliate	80,991	310,743
Grants receivable	168,748	-
Prepaid expenses	65,008	51,548
Total current assets	1,034,186	1,556,367
Grants receivable	78,748	-
Security deposit	482	4,526
Cash held in escrow	250,791	250,000
Fixed assets:		
Equipment and software	74,112	58,442
Building and improvements	172,209	172,209
Furniture and fixtures	13,244	13,244
Other assets	116,552	116,552
Total fixed assets	376,117	360,447
Accumulated depreciation	(46,108)	(16,574)
Net fixed assets	330,009	343,873
License	5,500,000	5,500,000
<b>Total Assets</b>	<b>\$ 7,194,216</b>	<b>\$ 7,654,766</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 57,701	\$ 159,264
Deferred underwriting revenue	100,000	100,000
Deferred revenue - Jazz Works	7,000	-
Other liabilities	1,619	7,470
Total current liabilities	166,320	266,734
Non-current liabilities:		
Loans payable	3,000,000	3,000,000
Accrued interest	53,750	23,750
Deferred underwriting revenue	707,243	814,723
Total non-current liabilities	3,760,993	3,838,473
Total Liabilities	3,927,313	4,105,207
Net Assets:		
Unrestricted	2,927,146	3,260,960
Temporarily restricted	339,757	288,599
Total Net Assets	3,266,903	3,549,559
<b>Total Liabilities and Net Assets</b>	<b>\$ 7,194,216</b>	<b>\$ 7,654,766</b>

See accompanying notes to financial statements.

# ESSENTIAL PUBLIC MEDIA, INC.

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Other Support:</b>			
Membership dues and contributions	1,160,021	\$ -	\$ 1,160,021
Grants	6,010	446,712	452,722
Grants from affiliate	-	309,893	309,893
Underwriting revenue	994,535	-	994,535
In-kind contributions	77,050	-	77,050
In-kind contributions - affiliates	30,420	-	30,420
Jazz Works	52,510	-	52,510
Interest	2,418	-	2,418
Miscellaneous	7,887	-	7,887
Net assets released from restrictions	705,447	(705,447)	-
Total revenues and other support	3,036,298	51,158	3,087,456
<b>Expenses:</b>			
Programming	2,134,393	-	2,134,393
Management and general	442,058	-	442,058
Fundraising	793,661	-	793,661
Total expenses	3,370,112	-	3,370,112
<b>Investment in Subsidiary</b>	-	-	-
<b>Change in Net Assets</b>	(333,814)	51,158	(282,656)
<b>Net Assets:</b>			
Beginning of fiscal year	3,260,960	288,599	3,549,559
End of fiscal year	\$ 2,927,146	\$ 339,757	\$ 3,266,903

See accompanying notes to financial statements.

# ESSENTIAL PUBLIC MEDIA, INC.

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Other Support:</b>			
Membership dues and contributions	\$ 1,041,286	\$ -	\$ 1,041,286
Grants	2,000	61,763	63,763
Grants from affiliate	245,823	2,318,728	2,564,551
Underwriting revenue	758,718	-	758,718
In-kind contribution	3,045	-	3,045
In-kind contribution - affiliates	5,376,899	-	5,376,899
Jazz Works	134,407	-	134,407
Interest	3,127	-	3,127
Miscellaneous	2,114	-	2,114
Net assets released from restrictions	4,003,566	(4,003,566)	-
	<u>11,570,985</u>	<u>(1,623,075)</u>	<u>9,947,910</u>
<b>Expenses:</b>			
Programming	7,444,122	-	7,444,122
Management and general	497,939	-	497,939
Fundraising	632,653	-	632,653
	<u>8,574,714</u>	<u>-</u>	<u>8,574,714</u>
<b>Investment in Subsidiary</b>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
<b>Change in Net Assets</b>	3,246,271	(1,623,075)	1,623,196
<b>Net Assets:</b>			
Beginning of fiscal year	<u>14,689</u>	<u>1,911,674</u>	<u>1,926,363</u>
End of fiscal year	<u>\$ 3,260,960</u>	<u>\$ 288,599</u>	<u>\$ 3,549,559</u>

See accompanying notes to financial statements.

# ESSENTIAL PUBLIC MEDIA, INC.

## STATEMENT OF CASH FLOWS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (282,656)	\$ 1,623,196
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	29,534	16,574
Change in:		
Accounts receivable	27,278	(183,558)
Accounts receivable - affiliate	229,752	189,257
Grants receivable	(247,496)	-
Prepaid expenses	(13,460)	(51,548)
Security deposit	4,044	(4,526)
Accounts payable	(101,563)	37,819
Accounts payable - affiliate	-	(52,393)
Deferred underwriting revenue	(107,480)	(85,277)
Deferred revenue - Jazz Works	7,000	-
Other liabilities	24,149	31,220
Total adjustments	(148,242)	(102,432)
Net cash provided by (used in) operating activities	(430,898)	1,520,764
<b>Cash Flows From Investing Activities:</b>		
License purchase	-	(4,000,000)
Fixed asset purchases	(15,670)	(345,758)
Net cash provided by (used in) investing activities	(15,670)	(4,345,758)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	-	2,500,000
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(446,568)	(324,994)
<b>Cash and Cash Equivalents:</b>		
Beginning of fiscal year	1,260,518	1,585,512
End of fiscal year	\$ 813,950	\$ 1,260,518
<b>Supplemental Disclosure:</b>		
Cash paid for interest	158,420	\$ 149,618
<b>Noncash Activity:</b>		
Deferred underwriting in connection with license purchase	\$ -	\$ 1,000,000
Loan in connection with license purchase	\$ -	\$ 500,000
In-kind contributions	\$ 77,050	\$ 5,379,944

See accompanying notes to financial statements.

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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### 1. ORGANIZATION

#### Basis of Reporting

The financial statements present only the activity of Essential Public Media, Inc. (EPM) and do not include the activity of Pittsburgh Community Broadcasting Corporation, an affiliate of EPM. Separate consolidated financial statements are prepared and are available upon request.

#### Nature of Operations

EPM is a nonprofit corporation which is an independent voice, providing our community with National Public Radio (NPR) Programming. The majority of revenues and support is derived from membership dues, annual grants from the Corporation for Public Broadcasting, grants from other organizations, and underwriting fees received from individuals or companies.

EPM was created to establish a platform for ownership and operation of public broadcasting stations, so that every community will have access to strong, vibrant, local public broadcasting services. EPM owns the former WDUQ 90.5 station (WDUQ). The new station is an all-news and talk public radio station. During fiscal year 2013, EPM's name was formally changed to Essential Public Media, Inc. from Pittsburgh EPM, Inc.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of EPM conform to accounting principles generally accepted in the United States of America. The following is a summary of the more significant policies:

#### Net Asset Classes

The assets, liabilities, and net assets of EPM are reported in net asset classes of unrestricted and temporarily restricted funds that are used to accumulate all unrestricted or temporarily restricted resources, respectively, from operations. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. All restricted revenue received in the fiscal year is

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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reported as temporarily restricted revenue and released when time restriction ends or purpose restriction is accomplished.

### Basis of Accounting

The accrual basis of accounting is followed by EPM. Accordingly, revenues and support are recorded when earned and expenses are recognized when the liabilities are incurred.

### Revenue Recognition

Membership dues and contributions are recognized as revenues when received. A promise to give is a written or oral agreement to contribute cash or other assets to an entity. In order for the promise to be recognized in the financial statements, there must be sufficient evidence in the form of verifiable documentation that such a promise was made and that it is legally enforceable. Due to the fact that EPM's membership pledges are not supported by such documentation, they are not recognized as revenues when pledged.

### Deferred underwriting revenue

Deferred underwriting revenue represents future underwriting agreed to by the seller as a portion of the purchase price of the WDUQ station. Deferred underwriting revenue will be recognized ratably over the ten year period in which EPM is obligated to provide related benefits to the seller.

### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when acquired. The total cash held by EPM at June 30, 2013 and 2012 includes \$640,862 and \$516,872, respectively, in monies that are not insured by federal depository insurance. It is the opinion of management that the solvency of the financial institutions is not of particular concern at this time.

### Cash Held in Escrow

Cash held in escrow comprises funds provided to one of the loan providers for the WDUQ purchase as security for the loan. When EPM has repaid \$750,000 of the loan, \$125,000 of cash will be released from escrow. The remaining escrow funds will be released after the principal is reduced by an additional \$750,000.

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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### Accounts Receivable and Accounts Receivable - Affiliates

Accounts receivable are reported at amounts management expects to collect on balances outstanding at year-end. Accounts receivable are charged off as uncollectible when management determines the receivable will not be collected. No allowance for uncollectible accounts was deemed necessary as determined by management on the specific identification basis at June 30, 2013 and 2012. All receivables are expected to be collected within a year.

### Prepaid Assets

Prepaid assets represent health insurance, business insurance, workers' compensation insurance, and other fiscal year 2014 expenses paid in fiscal year 2013.

### Fixed Assets, Depreciation, and Amortization

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Effective July 1, 2011, EPM increased the fixed asset capitalization threshold to \$5,000. This policy change was not applied retrospectively.

Asset depreciation, which was \$21,764 for fiscal year 2013 and \$10,099 for fiscal year 2012, is calculated using the straight-line method over the following estimated useful lives:

Broadcasting and transmission equipment	3 to 15 years
Leasehold improvements	40 years
Office equipment	3 to 10 years
Furniture and fixtures	5 to 15 years

Acquisition costs are amortized using the straight-line method over 15 years.

### License

During fiscal year 2012, EPM purchased WDUQ, and assets of \$5,500,000 were recorded on the ledger. This asset represents the value of the radio station's license at time of purchase. Broadcast licenses are not amortized but are subject to testing for impairment each year. Based on the results of impairment testing performed in the current fiscal year, no impairment adjustments were made to the value of the license.

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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### Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

### Concentration of Risk Factors and Economic Dependency

EPM's main source of revenue is earned through memberships from listeners within the Allegheny County area and grants. Total support received by EPM in the form of grants and contributions was approximately 65% and 91% of total revenue for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, 16% and 57% of grants and contributions were provided by one contributor. Management anticipates that support will continue from EPM contributors and grantors. In addition, its employees, underwriters, and vendors primarily reside in the Allegheny County area. Thus, economic and demographic influences on the Allegheny County area have a substantial impact on EPM's operations.

### Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

## **3. TAX-EXEMPT STATUS**

EPM is a not-for-profit corporation and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), except on net income derived from unrelated business activities. Further, EPM annually files a Form 990 as applicable. The form filed is subject to examination by the Internal Revenue Service for three years after it is filed.

## **4. LOANS PAYABLE**

Long-term loans consist of the following:

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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	December 31,	
	<u>2013</u>	<u>2012</u>
A \$500,000 note payable to finance the purchase of WDUQ with a term of four years. The Note shall bear interest at 6% simple interest per year. Accrued interest and principal on the Note shall be due and payable in full at the end of the terms. The Note is secured by all equipment and operating assets of EPM.	\$ 500,000	\$ 500,000
A \$2,500,000 note payable to finance the purchase of WDUQ dated September 15, 2011. The outstanding principal balance of the loan shall bear interest at Prime Rate plus 3%. Interest is paid quarterly. The Note shall be due and payable in full at September 15, 2016. The Note is secured by all EPM deposit and security accounts, EPM accounts receivable, EPM donor pledges, all and future EPM incomes, and equipment and operating assets.	<u>2,500,000</u>	<u>2,500,000</u>
	<u>3,000,000</u>	<u>3,000,000</u>
Less: current portion of long-term debt	<u>-</u>	<u>-</u>
	<u><u>\$ 3,000,000</u></u>	<u><u>\$ 3,000,000</u></u>

At December 31, 2013, the scheduled principal payments on the debt by fiscal year are as follows:

2014	\$ -
2015	-
2016	500,000
2017	<u>2,500,000</u>
	<u><u>\$ 3,000,000</u></u>

### 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets have been recorded for the following purposes:

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Fellowship Program	\$ 27,066	\$ 150,000
Learning Initiative	212,620	-
Purchase of equipment	75,071	-
Behavioral Health Care Reporting	25,000	-
Digital newsroom	-	138,599
	<u>\$ 339,757</u>	<u>\$ 288,599</u>

Net assets were released from donor restrictions during the years ended June 30, 2013 and 2012 by incurring expenses satisfying the restricted purpose and the lapsing of time restrictions in the amount of \$705,447 and \$4,003,566, respectively.

### 6. RETIREMENT PLAN

EPM participates in a 403(b) Employer Contributory Tax Deferred Annuity Plan (Plan). All full-time employees are eligible to participate in the Plan. Eligible employees may elect to contribute into the Plan a portion of their compensation up to the annual maximum allowed by the Internal Revenue Service. After six months of employment, eligible employees' contributions may be matched by the Corporation. During fiscal years 2013 and 2012, EPM elected to match, dollar-for-dollar, each employee's contribution up to a maximum of 6% of compensation per pay. Total contributions for fiscal years 2013 and 2012 were approximately \$23,415 and \$9,958, respectively.

### 7. IN-KIND CONTRIBUTIONS

Accounting principles generally accepted in the United States of America require recognition of contributed services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by the donor. Accordingly, donated services and donated fixed assets were recognized as in-kind contributions in the accompanying financial statements at their estimated fair values at the date of receipt. EPM recognized in-kind revenues and related expense of \$107,470 and \$29,944 for June 30, 2013 and 2012, respectively. In addition, for the year ending June 30, 2012, EPM capitalized in-kind contributions of \$5,350,000 related to WDUQ acquisition costs. Total in-kind contributions received for fiscal years 2013 and 2012 are as follows:

# ESSENTIAL PUBLIC MEDIA, INC.

## NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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	<u>2013</u>	<u>2012</u>
Programming:		
WDUQ acquisition costs	\$ -	\$ 5,350,000
Professional services	30,420	26,899
Management and general:		
Professional services	<u>77,050</u>	<u>3,045</u>
	<u>\$ 107,470</u>	<u>\$ 5,379,944</u>

### 8. RELATED PARTY ACTIVITY

In addition to the in-kind contributions discussed in Note 7, EPM received grants from its affiliates. During fiscal years 2013 and 2012, the Corporation provided \$309,893 and \$2,504,973 in grant funding for the purchase of WDUQ and the operations of EPM.

Beginning in November 2011, EPM leased space in the Parent Corporation's building. During fiscal years 2013 and 2012, EPM paid \$50,004 and \$31,947, respectively, to the Parent for rent. EPM considers the lease contract to have been negotiated at "arm's length" and not indicative of a conflict of interest. Lease payments are negotiated annually. During fiscal year 2014, the Parent will be forgiving or deferring annual rent of \$50,000.

A member of EPM's Board of Directors is employed by Public Media Company. Public Media Company provided consulting services to EPM. During fiscal years 2013 and 2012, EPM paid \$95,000 and \$111,297, respectively, to Public Media Company. EPM considers the consulting contract to have been negotiated at "arm's length" and not indicative of a conflict of interest.

Also, one member of EPM's Board of Directors is employed by Public Radio Capital, and another sits on its board. Public Radio Capital provided consulting services to EPM. During fiscal year 2012, EPM paid \$150,443 to Public Radio Capital. No funds were paid to Public Radio Capital during fiscal year 2013. EPM considers the consulting contract to have been negotiated at "arm's length" and not indicative of a conflict of interest.