

Essential Public Media, Inc.

Financial Statements

Fiscal Years Ended June 30, 2015 and 2014 with
Independent Auditor's Report

MaherDuessel
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ESSENTIAL PUBLIC MEDIA, INC.

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statement of Activities - Fiscal Year Ended June 30, 2015	3
Statement of Activities - Fiscal Year Ended June 30, 2014	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), a subsidiary of Pittsburgh Community Broadcasting Corporation, which comprise the statements 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 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, 2015 and 2014, 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
December 7, 2015

ESSENTIAL PUBLIC MEDIA, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 1,282,844	\$ 1,243,236
Accounts receivable	99,474	157,839
Accounts receivable - affiliate	69,193	28,860
Grants receivable	250,000	1,103,748
Prepaid expenses	81,889	65,915
Total current assets	1,783,400	2,599,598
Non-current assets:		
Grants receivable	-	250,000
Security deposit	104	162
Cash held in escrow	126,855	251,512
Fixed assets:		
Equipment and software	82,204	74,112
Building and improvements	207,783	207,783
Furniture and fixtures	13,244	13,244
Other assets	116,552	116,552
Total fixed assets	419,783	411,691
Accumulated depreciation	(110,391)	(78,988)
Net fixed assets	309,392	332,703
License	5,500,000	5,500,000
Total non-current assets	5,936,351	6,334,377
Total Assets	\$ 7,719,751	\$ 8,933,975
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 80,998	\$ 37,927
Deferred underwriting revenue	100,000	100,000
Deferred revenue - Jazz Works	4,600	2,400
Loans payable - current	375,000	-
Other liabilities	202	6,791
Total current liabilities	560,800	147,118
Non-current liabilities:		
Loans payable	1,750,000	3,000,000
Accrued interest	-	83,750
Deferred underwriting revenue	749,252	604,172
Total non-current liabilities	2,499,252	3,687,922
Total Liabilities	3,060,052	3,835,040
Net Assets:		
Unrestricted	3,425,085	2,786,099
Temporarily restricted	1,234,614	2,312,836
Total Net Assets	4,659,699	5,098,935
Total Liabilities and Net Assets	\$ 7,719,751	\$ 8,933,975

See accompanying notes to financial statements.

ESSENTIAL PUBLIC MEDIA, INC.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support:			
Membership dues and contributions	\$ 1,423,160	\$ -	\$ 1,423,160
Grants	126,867	32,500	159,367
Grants from affiliate	-	198,054	198,054
Underwriting revenue	1,166,553	-	1,166,553
In-kind contributions	2,050	-	2,050
In-kind contributions - affiliates	21,670	-	21,670
Special event	1,800	-	1,800
Jazz Works	30,650	-	30,650
Interest	1,455	-	1,455
Miscellaneous	8,394	-	8,394
Net assets released from restrictions	1,308,776	(1,308,776)	-
Total revenues and other support	4,091,375	(1,078,222)	3,013,153
Expenses:			
Programming	2,337,280	-	2,337,280
Management and general	330,111	-	330,111
Fundraising	784,998	-	784,998
Total expenses	3,452,389	-	3,452,389
Change in Net Assets	638,986	(1,078,222)	(439,236)
Net Assets:			
Beginning of fiscal year	2,786,099	2,312,836	5,098,935
End of fiscal year	\$ 3,425,085	\$ 1,234,614	\$ 4,659,699

See accompanying notes to financial statements.

ESSENTIAL PUBLIC MEDIA, INC.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support:			
Membership dues and contributions	\$ 1,344,658	\$ -	\$ 1,344,658
Grants	51,029	2,262,500	2,313,529
Grants from affiliate	-	277,172	277,172
Underwriting revenue	1,017,874	-	1,017,874
In-kind contribution	78,125	-	78,125
In-kind contribution - affiliates	79,693	-	79,693
Special event	11,391	-	11,391
Jazz Works	44,585	-	44,585
Interest	1,529	-	1,529
Miscellaneous	11,113	-	11,113
Net assets released from restrictions	566,593	(566,593)	-
	3,206,590	1,973,079	5,179,669
Expenses:			
Programming	2,276,864	-	2,276,864
Management and general	350,572	-	350,572
Fundraising	720,201	-	720,201
	3,347,637	-	3,347,637
Change in Net Assets	(141,047)	1,973,079	1,832,032
Net Assets:			
Beginning of fiscal year	2,927,146	339,757	3,266,903
End of fiscal year	\$ 2,786,099	\$ 2,312,836	\$ 5,098,935

See accompanying notes to financial statements.

ESSENTIAL PUBLIC MEDIA, INC.

STATEMENT OF CASH FLOWS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (439,236)	\$ 1,832,032
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	31,403	32,880
Change in:		
Accounts receivable	58,365	(1,559)
Accounts receivable - affiliate	(40,333)	52,131
Grants receivable	1,103,748	(1,106,252)
Prepaid expenses	(15,974)	(907)
Security deposit	58	320
Accounts payable	43,071	(19,774)
Deferred underwriting revenue	20,080	(103,071)
Deferred revenue - Jazz Works	2,200	(4,600)
Other liabilities	(90,339)	35,172
Total adjustments	1,112,279	(1,115,660)
Net cash provided by (used in) operating activities	673,043	716,372
<u>Cash Flows From Investing Activities:</u>		
Payments on long-term debt	(750,000)	-
Fixed asset purchases	(8,092)	(35,574)
Net cash provided by (used in) investing activities	(758,092)	(35,574)
Increase (Decrease) in Cash and Cash Equivalents	(85,049)	680,798
<u>Cash and Cash Equivalents:</u>		
Beginning of fiscal year	1,494,748	813,950
End of fiscal year	\$ 1,409,699	\$ 1,494,748
<u>Supplemental Disclosure:</u>		
Cash paid for interest	\$ 114,106	\$ 158,420
<u>Noncash Activity:</u>		
In-kind contributions	\$ 23,720	\$ 157,818
Debt restructuring	500,000	-
Total noncash activity	\$ 523,720	\$ 157,818

See accompanying notes to financial statements.

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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.

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 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.

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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 period in which EPM is obligated to provide related benefits to the seller. Reducing the total deferred underwriting amount of \$805,400 is a net discount of \$56,148, which will be amortized over nine years.

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 (including cash held in escrow) held by EPM at June 30, 2015 and 2014 includes \$1,169,064 and \$1,248,036, 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. During the year ended June 30, 2015, \$750,000 of the loan was repaid and \$125,000 in funds was released from escrow.

Accounts Receivable, Accounts Receivable – Affiliates, and Grants Receivable

Accounts and grants receivable are reported at amounts management expects to collect on balances outstanding at year-end. Accounts and grants receivable are charged off as uncollectible when management determines the receivable will not be

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

collected. No allowance for uncollectible accounts was deemed necessary as determined by management on the specific identification basis at June 30, 2015 and 2014. For fiscal year ending June 30, 2015, the entire grants receivable balance will be received within one year. For fiscal year ending June 30, 2014, \$250,000 of the grants receivable balance will not be received until fiscal year 2016. Due to the short-term nature of the expected collections, the net realizable value is considered a reasonable estimate of the fair value.

Prepaid Expenses

Prepaid expenses represent health insurance, business insurance, workers' compensation insurance, and other fiscal year 2016 expenses paid in fiscal year 2015.

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. The fixed asset capitalization threshold is \$5,000.

Asset depreciation, which was \$23,633 for fiscal year 2015 and \$25,110 for fiscal year 2014, 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. Amortization expense was \$7,770 for fiscal year 2015 and fiscal year 2014.

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 periodic testing for impairment. Based on the results of impairment testing performed in fiscal year 2013, and management review in 2014 and 2015, no impairment adjustments were made to the value of the license.

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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 60% and 78% of total revenue for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, 12% and 50%, respectively, of grants and contributions were provided by two contributors. 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.

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

4. LOANS PAYABLE

Long-term loans consist of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</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. The Note is secured by all equipment and operating assets of EPM. The note was restructured during the year ended June 30, 2015, which required EPM to provide additional underwriting. Accrued interest and principal on the Note was paid in full in August 2015.	\$ 375,000	\$ 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. Also, Note 2 discusses the escrow related to this note.	<u>1,750,000</u>	<u>2,500,000</u>
	2,125,000	3,000,000
Less: current portion of long-term debt	<u>(375,000)</u>	<u>-</u>
	<u>\$ 1,750,000</u>	<u>\$ 3,000,000</u>

As of June 30, 2015, the required principal payments on the debt are \$375,000 in fiscal year 2016 and \$1,750,000 in fiscal year 2017.

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Learning Initiative	\$ 55,124	\$ 133,872
Purchase of equipment	29,425	29,426
Operating	-	25,000
Expansion, debt reduction, and fundraising	250,000	1,000,000
Capacity building	898,125	1,122,048
Krauss Project	1,940	2,490
	<u>\$ 1,234,614</u>	<u>\$ 2,312,836</u>

Net assets were released from donor restrictions during the years ended June 30, 2015 and 2014 by incurring expenses satisfying the restricted purpose and the lapsing of time restrictions in the amount of \$1,308,776 and \$566,593, respectively.

6. RETIREMENT PLAN

EPM participates in a 403(b) Employer Contributory Tax Deferred Annuity Plan (Plan). All employees regularly working twenty hours per week or more 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 2015 and 2014, 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 2015 and 2014 were approximately \$27,341 and \$26,155, 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

ESSENTIAL PUBLIC MEDIA, INC.

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

\$23,720 and \$157,818 for June 30, 2015 and 2014, respectively. Total in-kind contributions received for fiscal years 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Programming:		
Professional services	\$ -	\$ 75,875
Occupancy	-	37,003
Other	-	823
Fundraising:		
Professional services	21,670	28,866
Occupancy	-	10,501
Management and general:		
Professional services	2,050	2,250
Occupancy	-	2,500
	<u>\$ 23,720</u>	<u>\$ 157,818</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 2015 and 2014, the Corporation provided \$198,054 and \$277,172, respectively, in grant funding for the operations of EPM.

Beginning in November 2011, EPM leased space in the Parent Corporation's building. Lease payments are negotiated annually between EPM and the Parent Corporation. As discussed in Note 7, the Parent Corporation provided rent as an in-kind contribution in the amount of \$0 and \$50,004 for the years ended June 30, 2015 and 2014, respectively.

9. SUBSEQUENT EVENTS

In October 2015, the board of directors of the Parent Corporation approved a merger with EPM. The merger will combine the board of directors into a single governing unit under the bylaws of the Parent Corporation. Final details of the merger are to be completed by the end of calendar year 2015. Consolidation of the board of directors will be effective upon completion of the formal legal merger of the entities.