

University Radio Foundation, Inc.

Financial Statements

Years Ended June 30, 2016 and 2015

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Independent Auditors' Report

Board of Directors
University Radio Foundation, Inc.
Charlotte, North Carolina

We have audited the accompanying statements of financial position of University Radio Foundation, Inc. (a non-profit organization) ("WFAE") as of June 30, 2016 and 2015 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.

Auditors' 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 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 auditors' 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 WFAE as of June 30, 2016 and 2015, 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.

Dixon Hughes Goodman LLP

**Charlotte, North Carolina
October 21, 2016**

University Radio Foundation, Inc.
Statements of Financial Position
June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 723,408 | \$ 1,033,596 |
| Restricted cash | 42,003 | 33,092 |
| Pledge receivables, net of allowance for doubtful accounts of \$68,122 (2016) and \$40,358 (2015) | 757,647 | 547,686 |
| Underwriting receivables, net of allowance for doubtful accounts of \$20,753 (2016) and (2015) | 217,589 | 189,609 |
| Prepaid and other current assets | <u>161,594</u> | <u>126,055</u> |
| Total current assets | 1,902,241 | 1,930,038 |
| Pledges, receivable, less discount | 33,500 | 101,827 |
| Investments | 3,276,028 | 3,453,830 |
| Property and equipment: | | |
| Land | 28,432 | 28,432 |
| Transmitters, antenna, and tower | 1,195,191 | 1,194,775 |
| Equipment-studio and broadcast | 675,316 | 671,383 |
| Furniture and fixtures | 310,327 | 303,879 |
| Leasehold improvements | <u>95,781</u> | <u>95,781</u> |
| | 2,305,047 | 2,294,250 |
| Less accumulated depreciation | <u>1,954,252</u> | <u>1,846,787</u> |
| Property and equipment, net | <u>350,795</u> | <u>447,463</u> |
| Total assets | <u>\$ 5,562,564</u> | <u>\$ 5,933,158</u> |

See accompanying notes.

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 129,336 | \$ 63,262 |
| Accrued payroll and payroll benefits | 129,867 | 296,742 |
| Deferred revenue | <u>48,115</u> | <u>17,808</u> |
| Total current liabilities | 307,318 | 377,812 |
| Accrued rent | <u>49,329</u> | <u>53,885</u> |
| Total liabilities | 356,647 | 431,697 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 4,462,519 | 4,853,129 |
| Unrealized loss on investments in available for sale securities | (89,752) | (9,293) |
| Temporarily restricted | <u>833,150</u> | <u>657,625</u> |
| Total net assets | <u>5,205,917</u> | <u>5,501,461</u> |
| | | |
| Total liabilities and net assets | <u>\$ 5,562,564</u> | <u>\$ 5,933,158</u> |

University Radio Foundation, Inc.
Statements of Activities
Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Changes in unrestricted net assets | | |
| Revenues and support: | | |
| Contributions | \$ 2,331,668 | \$ 2,238,176 |
| Corporation for Public Broadcasting | 298,629 | 317,122 |
| Underwriting fees | 1,703,237 | 1,657,830 |
| Interest and other | 159,776 | 105,502 |
| Realized gain on investments | 5,076 | 61,384 |
| | <u>4,498,386</u> | <u>4,380,014</u> |
| Total unrestricted revenues and support | | |
| Net assets released from restrictions | <u>525,826</u> | <u>439,810</u> |
| | | |
| Total unrestricted revenues and other support | <u>5,024,212</u> | <u>4,819,824</u> |
| Expenses: | | |
| Program services: | | |
| Programming and production | 2,445,407 | 2,417,509 |
| Broadcast engineering | 371,173 | 359,358 |
| Program information | 361,939 | 294,383 |
| | <u>3,178,519</u> | <u>3,071,250</u> |
| Total program services | | |
| Supporting services: | | |
| General administration | 813,965 | 689,038 |
| Fundraising | 741,803 | 705,821 |
| Underwriting | 671,242 | 596,962 |
| | <u>2,227,010</u> | <u>1,991,821</u> |
| Total supporting services | | |
| Total expenses | <u>5,405,529</u> | <u>5,063,071</u> |
| Decrease in unrestricted net assets before before net unrealized loss on investments | <u>(381,317)</u> | <u>(243,247)</u> |
| Unrealized loss on investments in available for sale securities | <u>(89,752)</u> | <u>(9,293)</u> |
| Decrease in unrestricted net assets | <u>(471,069)</u> | <u>(252,540)</u> |

See accompanying notes.

University Radio Foundation, Inc.
Statements of Activities
Years Ended June 30, 2016 and 2015

(Continued)

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|----------------------------|
| Changes in temporarily restricted net assets | | |
| Restricted contributions | 701,351 | 569,956 |
| Net assets released from restrictions | <u>(525,826)</u> | <u>(439,810)</u> |
| Increase in temporarily restricted net assets | <u>175,525</u> | <u>130,146</u> |
| Decrease in net assets | <u>(295,544)</u> | <u>(122,394)</u> |
| Net assets at beginning of year | <u>5,501,461</u> | <u>5,623,855</u> |
| Net assets at end of year | <u><u>\$ 5,205,917</u></u> | <u><u>\$ 5,501,461</u></u> |

See accompanying notes.

University Radio Foundation, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (295,544) | \$ (122,394) |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities: | | |
| Allowance for doubtful pledge receivables | 27,764 | (12,853) |
| Depreciation | 108,127 | 120,774 |
| Loss on sale of property and equipment | 1,858 | - |
| Realized gain on investments in available for sale securities | (5,076) | (61,384) |
| Unrealized loss on investments in available for sale securities | 89,752 | 9,293 |
| Net changes in operating assets and liabilities: | | |
| Pledge receivables | (169,398) | (151,717) |
| Underwriting receivables | (27,980) | 27,129 |
| Prepaid and other current assets | (35,539) | 7,322 |
| Accounts payable | 66,074 | 13,488 |
| Accrued payroll and payroll benefits | (166,875) | (36,062) |
| Deferred revenue | 30,307 | 10,357 |
| Accrued rent | (4,556) | 24,153 |
| Net cash used by operating activities | <u>(381,086)</u> | <u>(171,894)</u> |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (13,317) | (97,226) |
| Net change in long-term investments | <u>93,126</u> | <u>(53,610)</u> |
| Net cash provided (used) by investing activities | <u>79,809</u> | <u>(150,836)</u> |
| Net decrease in cash | <u>(301,277)</u> | <u>(322,730)</u> |
| Cash and cash equivalents, beginning of year | <u>1,066,688</u> | <u>1,389,418</u> |
| Cash and cash equivalents, end of year | <u>\$ 765,411</u> | <u>\$ 1,066,688</u> |
| Cash and cash equivalents | \$ 723,408 | \$ 1,033,596 |
| Restricted cash | <u>42,003</u> | <u>33,092</u> |
| | <u>\$ 765,411</u> | <u>\$ 1,066,688</u> |

See accompanying notes.

Notes to Financial Statements

1. Nature of Activities and Summary of Accounting Policies

Organization

University Radio Foundation, Inc. ("WFAE") operates independent public radio stations located in Charlotte (WFAE-FM) and Hickory (WFHE-FM), North Carolina.

Financial statement presentation

The accompanying financial statements are prepared on the accrual basis of accounting. WFAE reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets.

Contributions and support

Contributions are recognized when the donor makes a promise to give to WFAE that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Accounts receivable

Accounts receivable from the sale of underwriting credits and pledges receivable are recorded at net realizable value. Gross long-term pledges receivable are discounted at a rate commensurate with the risk involved. This rate was 5.00% for the year ended June 30, 2015. There was no discount for the year ended June 30, 2016. WFAE provides an allowance for doubtful accounts that is based upon a review of outstanding receivables and historical collection information. Receivables are due upon presentation of an invoice and are considered delinquent after 90 days. Delinquent receivables are written off based on the specific circumstances of the patron. The allowance for doubtful accounts for underwriting receivables totaled \$20,753 as of June 30, 2016 and 2015. The allowance for doubtful accounts for pledges receivable totaled \$68,122 and \$40,358 as of June 30, 2016 and 2015, respectively.

Property and equipment

WFAE records purchases of property and equipment at cost and records contributions of property and equipment at approximate fair value at the time of donation. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 13 years for transmitters, antenna, tower and improvements, 10 years for studio equipment, 7 years for furniture and office equipment, and 5 years for computers. Leasehold improvements are amortized over 13 years.

Management reviews the carrying value of property and equipment for impairment whenever changes in circumstances or events indicate that such carrying values may not be recoverable. If projected undiscounted cash flows are not sufficient to recover the carrying value of the potentially impaired asset, the carrying value is reduced to fair value.

University Radio Foundation, Inc.
Notes to Financial Statements

Donated services and materials and trade transactions

In the ordinary course of business, WFAE at times receives donated services and materials and engages in trade transactions. Such transactions involve donation of goods or services or the exchange of underwriting time for certain goods or services. These transactions, approximating \$127,000 and \$95,000 for the years ended June 30, 2016 and 2015, respectively, are recorded in the statements of activities at the estimated market value of the related goods or services received. The value of unpaid volunteers' contributed time is not reflected in the accompanying financial statements since their time does not meet the criteria for recognition under accounting principles generally accepted in the United States of America ("GAAP").

Estimates

The preparation of financial statements in conformity with GAAP 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 and assumptions.

Cash and cash equivalents

Cash and cash equivalents include cash and money market accounts on deposit with banks.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized holding gains and losses on available for sale securities are reported as a separate component of unrestricted net assets until realized and is a reduction of undesignated net assets.

Concentrations of credit risk

WFAE has funds on deposit with financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000. The uninsured portion of these accounts as of June 30, 2016 and 2015 totaled \$482,877 and \$765,782, respectively.

Deferred revenue

Underwriting fees received for the next fiscal year are deferred and will be recognized when earned in that year.

Advertising costs

WFAE expenses advertising costs as incurred. Total advertising costs charged to expense were approximately \$7,000 and \$31,000 during the years ended June 30, 2016 and 2015, respectively.

Income taxes

WFAE is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation under Section 509(a)(2); accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. WFAE has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2016 and 2015.

University Radio Foundation, Inc.
Notes to Financial Statements

Subsequent events

WFAE evaluated the effect subsequent events would have on the financial statements through October 21, 2016, which is the date the financial statements were available to be issued.

2. Pledges Receivable

As of June 30, 2016, pledges receivable are expected to be collected as follows:

| | | |
|---|----|-----------------|
| 2017 | \$ | 825,769 |
| 2018 | | 18,500 |
| 2019 | | <u>15,000</u> |
| | | 859,269 |
| Less: allowance for uncollectible pledges receivable | | <u>(68,122)</u> |
| Total | \$ | <u>791,147</u> |

3. Fair Value Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. WFAE's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 or 2015:

Investments

Mutual funds are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

Exchange-Traded Product funds are funds that track an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. These funds are classified within Level 1 of the valuation hierarchy.

University Radio Foundation, Inc.
Notes to Financial Statements

Money Market Funds are public investment vehicles using \$1 for the NAV. As transacted values for money market funds are readily available in the active market in which those securities are traded, they are categorized as Level 1.

The following table sets forth by level, within the fair value hierarchy, WFAE's investments at fair value as of June 30, 2016 and 2015:

| | 2016 | | | |
|------------------------------------|---------------------|----------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
| Investments: | | | | |
| Money Market Fund | \$ 32,892 | \$ -- | \$ -- | \$ 32,892 |
| Mutual Funds: | | | | |
| Blended funds: | | | | |
| Large cap index funds | 1,408,469 | -- | -- | 1,408,469 |
| Small cap index funds | 150,979 | -- | -- | 150,979 |
| International stock index funds | 279,420 | -- | -- | 279,420 |
| Bond fund | 884,824 | -- | -- | 884,824 |
| Government fund | 227,394 | -- | -- | 227,394 |
| Exchange-Traded Products | <u>292,050</u> | <u>--</u> | <u>--</u> | <u>292,050</u> |
| | <u>\$ 3,276,028</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 3,276,028</u> |

| | 2015 | | | |
|------------------------------------|---------------------|----------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
| Investments: | | | | |
| Money Market Fund | \$ 43,916 | \$ -- | \$ -- | \$ 43,916 |
| Mutual Funds: | | | | |
| Blended funds: | | | | |
| Large cap index funds | 1,447,259 | -- | -- | 1,447,259 |
| Mid cap index funds | 76,450 | -- | -- | 76,450 |
| Small cap index funds | 156,475 | -- | -- | 156,475 |
| International stock index funds | 295,415 | -- | -- | 295,415 |
| Bond fund | 898,002 | -- | -- | 898,002 |
| Government fund | 312,689 | -- | -- | 312,689 |
| Exchange-Traded Products | <u>223,624</u> | <u>--</u> | <u>--</u> | <u>223,624</u> |
| | <u>\$ 3,453,830</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 3,453,830</u> |

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although WFAE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

University Radio Foundation, Inc.
Notes to Financial Statements

4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of subscriptions, memberships and pledges received for activities or projects that will take place in subsequent years.

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-------------------|-------------------|
| Subscription, memberships and pledges | <u>\$ 833,150</u> | <u>\$ 657,625</u> |

Net assets were released from donor restriction as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-------------------|-------------------|
| Subscription, memberships and pledges | <u>\$ 525,826</u> | <u>\$ 439,810</u> |

5. Leases

WFAE leases building space pursuant to an operating lease which expires on July 31, 2019. The agreement contains scheduled increases in the base rent at various times throughout the lease term to a maximum of \$16,866 per month. As of June 30, 2016, monthly rent payments are \$15,434. Rent expense is reported using the straight line method and this has generated a liability of approximately \$49,000 and \$54,000 at June 30, 2016 and 2015, respectively. In addition, WFAE leases transmitter towers under leases expiring on various dates through 2019. Under the terms of one of the transmitter tower leases WFAE has the right to renew the lease for up to two additional five year terms including a 3% increase in rent from the prior term. Rent for the transmitter tower leases is payable in equal monthly installments of approximately \$4,200.

During the years ended June 30, 2016 and 2015, rental expense was as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------|-------------------|-------------------|
| Office space | <u>\$ 178,423</u> | <u>\$ 178,776</u> |
| Transmitter | <u>47,141</u> | <u>47,124</u> |
| Total rental expense | <u>\$ 225,564</u> | <u>\$ 225,900</u> |

As of June 30, 2016, future minimum lease payments are as follows:

| <u>Year ending June 30,</u> | |
|---------------------------------|-------------------|
| 2017 | \$ 242,173 |
| 2018 | 239,580 |
| 2019 | 245,408 |
| 2020 | 40,503 |
| 2021 | <u>1,740</u> |
| Total | <u>\$ 769,404</u> |

6. Defined Contribution Plan

WFAE has a defined contribution plan (the "Plan") for the benefit of its employees under Section 403(b) of the Internal Revenue Code. The Plan covers all full time employees with at least one year of service as defined under the plan agreement. The Plan requires the employees to contribute 6% of salary, which is matched by WFAE. WFAE contributed approximately \$90,000 and \$110,000 to the Plan for the years ended June 30, 2016 and 2015, respectively.

7. Line of Credit

WFAE has one commercial bank line of credit which totals \$500,000. The line of credit is secured by substantially all assets, is payable in full on demand and renews annually. Interest is payable monthly at the bank's prime rate plus 1.0%, (subject to a floor of 5.00% at June 30, 2016). The line of credit expires on March 17, 2017. There were no outstanding borrowings under this agreement as of June 30, 2016 and 2015.

8. Related Party

A Board Member of WFAE owns a staffing company that provided services of approximately \$62,000 for the year ended June 30, 2016.