

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

Financial Statements
For the Year Ended June 30, 2006
(With comparative totals for 2005)

EARNEY & COMPANY

L L P

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Friends of Public Radio, Inc. d/b/a WHQR
Wilmington, North Carolina

We have audited the accompanying statement of financial position of Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM ("WHQR") as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of WHQR's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized information has been derived from the Organization's 2005 financial statements and, in our report dated August 9, 2005 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Public Radio, Inc., as of June 30, 2006, and the changes in its net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.



September 15, 2006
Wilmington, North Carolina

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

STATEMENT OF FINANCIAL POSITION

	as of June 30, 2006				2005
	Unrestricted		Temporarily	Total	Comparative Total
	Operations	Property	Restricted		
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 94,940	\$ 37,611	\$ -	\$ 132,551	\$ 214,556
Investments (Note 5)	-	111,501	-	111,501	63,603
Receivables, net of \$4,000 allowance for uncollectibles	21,943	-	-	21,943	42,080
Pledge Receivables, net of \$5,000 allowance for uncollectibles	11,200	-	-	11,200	2,758
Prepaid expenses	53,890	-	-	53,890	40,565
Total Current Assets	<u>181,973</u>	<u>149,112</u>	<u>-</u>	<u>331,085</u>	<u>363,562</u>
In-kind rent receivable (Note 3)	-	-	84,069	84,069	92,964
Property and Equipment					
Office furniture	-	18,584	-	18,584	18,584
Broadcast equipment	-	476,408	-	476,408	430,441
Leasehold improvements	-	274,337	-	274,337	274,337
Technology	-	35,582	-	35,582	32,552
		804,911		804,911	755,914
Less: accumulated depreciation	-	(543,522)	-	(543,522)	(468,876)
Net Property & Equipment	<u>-</u>	<u>261,389</u>	<u>-</u>	<u>261,389</u>	<u>287,038</u>
				-	-
Total Assets	<u>\$ 181,973</u>	<u>\$ 410,501</u>	<u>\$ 84,069</u>	<u>\$ 676,543</u>	<u>\$ 743,564</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 46,316	\$ -	\$ -	\$ 46,316	\$ 22,406
Current maturities of notes payable	-	29,471	-	29,471	-
Total Current Liabilities	<u>46,316</u>	<u>29,471</u>	<u>-</u>	<u>75,787</u>	<u>22,406</u>
Notes payable (Note 8)	-	15,449	-	15,449	-
Total Liabilities	<u>46,316</u>	<u>44,920</u>	<u>-</u>	<u>91,236</u>	<u>22,406</u>
Net Assets					
Unrestricted					
Undesignated	55,478	216,469	-	271,947	347,841
Board Designated					
- Operating reserves	51,491	-	-	51,491	36,478
- Capital additions	-	149,112	-	149,112	164,332
- Endowment	28,688	-	-	28,688	26,786
Total Unrestricted	<u>135,657</u>	<u>365,581</u>	<u>-</u>	<u>501,238</u>	<u>575,437</u>
Temporarily restricted	-	-	84,069	84,069	145,721
Total Net Assets	<u>135,657</u>	<u>365,581</u>	<u>84,069</u>	<u>585,307</u>	<u>721,158</u>
Total Liabilities and Net Assets	<u>\$ 181,973</u>	<u>\$ 410,501</u>	<u>\$ 84,069</u>	<u>\$ 676,543</u>	<u>\$ 743,564</u>

The accompanying notes are an integral part of the financial statements

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

STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2006				2005
	Unrestricted		Temporarily Restricted	Total	Comparative Total
	Operations	Property			
Support & Revenue					
Corporation for Public Broadcasting	\$ -	\$ -	\$ 138,778	\$ 138,778	\$ 129,408
Other government grants (Note 6)	-	-	7,600	7,600	17,000
Contributions					
- Individuals	457,082	-	-	457,082	423,476
- Corporations	19,278	-	12,299	31,577	46,420
Program guide advertising	140	-	-	140	4,400
Program underwriting	204,257	-	-	204,257	211,376
In-kind contributions	71,309	-	-	71,309	86,185
Net assets released from restrictions	184,637	35,692	(220,329)	-	-
Special events (net of \$31,566 of direct cost)	10,495	-	-	10,495	31,521
Cinematique income	89,427	-	-	89,427	75,555
Rental income	2,805	-	-	2,805	2,625
Investment income	9,560	-	-	9,560	7,199
Total Support and Revenue	<u>1,048,990</u>	<u>35,692</u>	<u>(61,652)</u>	<u>1,023,030</u>	<u>1,035,165</u>
Operating Expenses					
Program services	734,387	59,716	-	794,103	805,485
Administrative	188,727	7,465	-	196,192	204,392
Fund raising	161,121	7,465	-	168,586	145,503
Total Expenses	<u>1,084,235</u>	<u>74,646</u>	<u>-</u>	<u>1,158,881</u>	<u>1,155,380</u>
Change in Net Assets	(35,245)	(38,954)	(61,652)	(135,851)	(120,215)
Net Assets					
Beginning of Year	124,067	451,370	145,721	721,158	841,373
Transfers to Fund Property	46,835	(46,835)	-	-	-
End of Year	<u>\$ 135,657</u>	<u>\$ 365,581</u>	<u>\$ 84,069</u>	<u>\$ 585,307</u>	<u>\$ 721,158</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

	For the Year Ended June 30, 2006				2005
	Program	Administrative	Fund Raising	Total	Comparative Total
Salaries	\$ 197,556	\$ 108,858	\$ 96,762	\$ 403,176	\$ 418,698
Employee benefits	27,748	15,289	13,591	56,628	60,583
Payroll taxes	<u>20,147</u>	<u>11,101</u>	<u>9,868</u>	<u>41,116</u>	<u>41,282</u>
Total salaries & related expenses	245,451	135,248	120,221	500,920	520,563
General & administrative	90,800	43,477	34,721	168,998	147,422
Interest expense	-	1,660	-	1,660	-
Development expense	15,592	7,943	5,883	29,418	34,346
Promotional expense	783	399	296	1,478	9,647
National Public Radio	129,313	-	-	129,313	130,223
Public Radio International	32,746	-	-	32,746	43,565
In kind expenses	80,204	-	-	80,204	94,398
Technical	9,100	-	-	9,100	9,055
Cinematique expense	70,953	-	-	70,953	60,340
Other programming	<u>59,445</u>	<u>-</u>	<u>-</u>	<u>59,445</u>	<u>39,916</u>
	734,387	188,727	161,121	1,084,235	1,089,475
Depreciation	<u>59,716</u>	<u>7,465</u>	<u>7,465</u>	<u>74,646</u>	<u>65,905</u>
Total Expenses	<u>\$ 794,103</u>	<u>\$ 196,192</u>	<u>\$ 168,586</u>	<u>\$ 1,158,881</u>	<u>\$ 1,155,380</u>

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

STATEMENT OF CASH FLOWS

	For the Year Ended June 30, 2006				2005 Comparative Total
	Unrestricted		Temporarily Restricted	Total	
	Operations	Property			
Cash Flows from Operating Activities					
Change in Net Assets	\$ (35,245)	\$ (38,954)	\$ (61,652)	\$ (135,851)	\$ (120,215)
Adjustments to reconcile to net cash provided by (used in) operating activities:					
Depreciation	-	74,646	-	74,646	65,905
In-kind rent amortization	-	-	8,895	8,895	8,213
Unrealized (gain)/loss	(274)	-	-	(274)	(5,958)
Changes in current assets and liabilities (use) source					
Receivables	9,705	-	1,990	11,695	34,462
Prepaid expenses	(2,305)	-	-	(2,305)	2,854
Accounts payable	23,909	-	-	23,909	6,614
 Net Cash (Used in) Provided by Operations	 <u>(4,210)</u>	 <u>35,692</u>	 <u>(50,767)</u>	 <u>(19,285)</u>	 <u>(8,125)</u>
Cash Flows from Investing Activities					
(Purchase) Sale of investments, net	-	(42,468)	-	(42,468)	2,815
(Purchase) of equipment, net	-	(40,988)	-	(40,988)	(16,959)
 Net Cash (Used In) Investing	 <u>-</u>	 <u>(83,456)</u>	 <u>-</u>	 <u>(83,456)</u>	 <u>(14,144)</u>
Cash Flows from Financing Activities					
Proceeds from note payable	-	25,000	-	25,000	-
Payments of principal	-	(4,264)	-	(4,264)	-
 Net Cash from Financing	 <u>-</u>	 <u>20,736</u>	 <u>-</u>	 <u>20,736</u>	 <u>-</u>
Transfers	36,090	(36,090)	-	-	-
 Net Increase (Decrease) in Cash	 31,880	 (63,118)	 (50,767)	 (82,005)	 (22,269)
Cash and Cash Equivalents					
Beginning of the year	63,060	100,729	50,767	214,556	236,825
 End of the year	 <u>\$ 94,940</u>	 <u>\$ 37,611</u>	 <u>\$ -</u>	 <u>\$ 132,551</u>	 <u>\$ 214,556</u>
 Interest paid				 <u>\$ 1,660</u>	 <u>\$ -</u>

The accompanying notes are an integral part of the financial statements

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. ORGANIZATION

Friends of Public Radio, Inc. d/b/a WHQR 91.3 FM, ("WHQR" or "the Station") a nonprofit corporation organized under the laws of North Carolina, was established for the purpose of operating WHQR-FM, a public radio broadcasting station transmitting from Wilmington, North Carolina. The station's support comes primarily from individual donors' contributions and various government and art agency grants.

Friends of Public Radio, Inc. qualifies under Internal Revenue Code 501(c) (3) as an organization exempt from income taxation. Accordingly, income related to its exempt purpose is not subject to income tax and contributions may be deductible by donors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WHQR have been prepared on the accrual basis. The organization has adopted the provisions of Statement of Financial Accounting Standards (SFAS): #116, "Accounting for Contributions Received and Contributions Made"; SFAS #117, "Financial Statements of Not-For-Profit Organizations"; and, SFAS #124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classes of Net Assets

Net assets of WHQR and changes therein are classified and reported as follows:

- a) **Unrestricted net assets** are currently available at the discretion of the board for use in WHQR's operations and not subject to donor imposed stipulations. Memorials and certain fund raising proceeds have been designated by the Board of Directors as an endowment. Separately, specific cash and investment accounts have been designated for capital additions.

- b) **Temporarily restricted net assets** are subject to donor-imposed stipulations that may, or will be met by actions of WHQR for specific operating purposes and/or by the passage of time. Net assets at June 30, 2006 were principally restricted for in-kind rent.

Revenue Recognition

Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Station. The Station recognizes gifts of cash and other assets as temporarily restricted if they are received with donor stipulations of purpose or time and when cash or ownership of donated assets is unconditionally promised to the Station. Net assets are released from restriction when a donor stipulated restriction expires or purpose restriction is accomplished.

In accordance with accrual accounting, other income is recognized when earned. Accordingly, revenue is recognized when the service is provided or the fund raising event is held. Allowance for uncollectible receivables is based on management's experience, analysis, and aging of accounts.

Pledges and Accounts Receivable

Receivables are stated at the amount that management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Allowances for uncollectible receivables is based on analysis and aging of receivables.

Contributed Materials and Services

Where contributed services and materials meet the criteria for recognition under FASB 116 *"Accounting for Contributions Received and Contributions Made,"* they are recorded as in kind revenues. During fiscal 2006 the Station recognized \$71,309 of donated materials and free use of space. A substantial number of unpaid volunteers have made significant contributions of their time that did not meet the criteria for recognition. Volunteers contributed services to further the Station principally in membership, development, program planning, and fundraising activities.

Functional Allocation of Expenses

The costs of providing various activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the program and supporting activities using objective bases such as time spent, square feet, and others.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. From time to time during the periods presented, the Station has had cash balances in a financial institution that have exceeded federal depository insurance limits. The confirmed bank cash balance was \$133,206 versus a book balance of \$132,551 at June 30, 2006. The confirmed bank cash balance was \$214,595 versus a book balance of \$214,556 at June 30, 2005.

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

	<u>2006</u>	<u>2005</u>
Operations checking	\$ 52,372	\$ 62,630
Operating and capital reserve money market	51,491	125,141
Quasi endowment memorial fund	<u>28,688</u>	<u>26,785</u>
 Total	 <u>\$ 132,551</u>	 <u>\$ 214,556</u>

Property and Equipment

The organization reports purchased or constructed property at cost and gifts of land, buildings, and equipment at fair value at the date of donation. All construction and equipment is valued at cost. Certain property was purchased with government grants and restrictive financing agreements; if these assets were sold or not used for their intended charitable purpose they may require repayment. Betterments and improvements are capitalized over their estimated useful lives, whereas repairs and maintenance expenditures on the assets are charged to expense as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Office furniture	7-10 years
Equipment	5-10 years
Leasehold improvements	5-39 years
Technology	3-5 years

Gifts of long-lived assets

The Station reports gifts of land, buildings, equipment and in-kind contributions as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Station reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

3. OPERATING LEASES AND IN-KIND RENT RECEIVABLE

The Station leases its principal broadcast tower space under an operating lease for fifteen years starting May 1, 1999. No rent payment is due under the lease terms. However, \$15,000 per year is the fair value, which is recorded as annual in-kind expense.

The Station's agreement for free use of tower space was recorded at its net present value using an effective annual interest rate of 8%. The principal of the receivable is to be collected as follows:

	<u>2006</u>	<u>2005</u>
In less than one year	\$ 9,633	\$ 8,895
In one to five years	45,514	43,599
After five years	<u>28,922</u>	<u>40,470</u>
Total in-kind rent receivable	<u>\$ 84,069</u>	<u>\$ 92,964</u>

In addition, the Station has another in-kind lease of broadcast tower space under a year to year operating lease which is recorded at its stated fair value of \$250 per month.

The Station leases a generator for \$250 per month in connection with an operating lease for fifteen years starting May 31, 1998.

The Station leases office space paid in monthly installments under a five year operating lease ending April 30, 2009. The rental payments were \$38,400 for the year ended June 30, 2006, and \$38,400 for the year ended June 30, 2005.

4. CORPORATION FOR PUBLIC BROADCASTING

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. The Station uses these funds for purposes relating primarily to production and acquisition of programming.

The Community Service Grants received and expended by the Station during the fiscal year ended June 30, 2006 was \$138,778. The total received is more than 14% of the Station's total support and revenue for the fiscal year ended June 30, 2006. A significant reduction in the level of this support, if this were to occur, could have a significant effect on the Station's programs and activities.

5. INVESTMENTS – CAPITAL ADDITIONS

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

	June 30, 2006			June 30, 2005		
	Cost	Fair Value	Unrealized Gain/(Loss)	Cost	Fair Value	Unrealized Gain/(Loss)
Cash	\$ 127	\$ 127	\$ -	\$ 23,685	\$ 23,685	\$ -
Equity Mutual Funds	<u>111,648</u>	<u>111,374</u>	<u>(274)</u>	<u>45,876</u>	<u>39,918</u>	<u>(5,958)</u>
	<u>\$ 111,775</u>	<u>\$ 111,501</u>	<u>\$ (274)</u>	<u>\$ 69,561</u>	<u>\$ 63,603</u>	<u>\$ (5,958)</u>
Change in unrealized gain /(loss)			5,684			(1,142)
Interest and dividends			6,933			6,406
Realized gain (loss)			<u>(3,057)</u>			<u>1,935</u>
Investment income			<u>\$ 9,560</u>			<u>\$ 7,199</u>

6. OTHER GOVERNMENT GRANTS

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

	2006	2005
Brunswick County	\$ 1,100	\$ 1,000
City of Wilmington	5,000	5,000
NC Humanities Council	-	5,000
NC Arts - NHC	-	1,000
NC Arts Council	<u>1,500</u>	<u>5,000</u>
	<u>\$ 7,600</u>	<u>\$ 17,000</u>

7. RETIREMENT PLAN

The Station has adopted a defined contribution retirement plan ("tax deferred annuity"). For full-time employees the Station matches a participant's salary reduction contribution (minimum of 2% of employee salary) up to 5% of the participant's salary. Total Station matching contributions were \$9,211 in 2006 and \$11,171 in 2005.

8. NOTES PAYABLE

Notes payable consists of the following at June 30, 2006:

Note payable to Cooperative Bank March 3, 2006. Payments of interest only are due monthly until September 3, 2006 at which date the principal is due. This note was refinanced subsequent to year end and prior to September 3, 2006. The interest rate is 2.4% and the loan is collateralized with WHQR's savings account.

\$ 25,000

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

19,920

Total

\$ 44,920

Maturities of the notes payable are as follows:

2007	\$ 29,471
2008	4,794
2009	5,208
2010	<u>5,447</u>
Total	44,920
Less: Current Maturities	<u>(29,471)</u>
Total Long Term Debt	<u>\$ 15,449</u>