

NORTHERN COMMUNITY RADIO, INC.

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
AND
SEPTEMBER 30, 2007**

NORTHERN COMMUNITY RADIO, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northern Community Radio, Inc.
Grand Rapids, Minnesota 55744

We have audited the accompanying statements of financial position of Northern Community Radio, Inc. (a nonprofit organization) as of September 30, 2008, and September 30, 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Northern Community Radio, Inc., as of September 30, 2008, and September 30, 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Northern Community Radio, Inc., taken as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

LAURA A. GLOOR, LTD.

Laura A. Gloor
Certified Public Accountant

Hibbing, Minnesota
February 9, 2009

NORTHERN COMMUNITY RADIO, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

	2008	2007
<u>Assets</u>		
Current Assets		
Cash - Unrestricted	\$ 115,068	\$ 112,485
Cash - Restricted	131,105	23,970
Total Cash	246,173	136,455
Accounts Receivable	12,929	5,646
Pledges Receivable	27,885	29,938
Grants Receivable	12,000	44,696
Prepaid Expenses	16,317	6,283
Total Current Assets	315,304	223,018
Property and Equipment		
Building and Land Improvements	898,873	882,211
Equipment	635,325	613,244
	1,534,198	1,495,455
Less Accumulated Depreciation	(508,267)	(493,061)
Total Property and Equipment	1,025,931	1,002,394
Total Assets	\$1,341,235	\$1,225,412
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts Payable	\$ 17,045	\$ 29,644
Accrued Payroll and Payroll Taxes	1,128	1,143
Total Current Liabilities	18,173	30,787
Long-Term Liabilities	—	—
Total Liabilities	18,173	30,787
Net Assets		
Unrestricted	1,191,957	1,170,655
Temporarily Restricted	131,105	23,970
Permanently Restricted	—	—
Total Net Assets	1,323,062	1,194,625
Total Liabilities and Net Assets	\$1,341,235	\$1,225,412

See Accompanying Notes to Financial Statements.

NORTHERN COMMUNITY RADIO, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Other Support</u>			
Contributions	\$ 195,868	\$ 16,845	\$ 212,713
Corporation for Public Broadcasting	131,826	-	131,826
State of Minnesota	24,046	36,364	60,410
Blandin Foundation Grants	-	130,422	130,422
Other Grants	80,591	-	80,591
Endowment Income	16,000	-	16,000
Underwriting	230,341	-	230,341
Rentals	13,450	-	13,450
Fundraising Special Events (Net of 36,571)	(12,203)	-	(12,203)
In Kind Contributions	37,326	-	37,326
Production Revenue	-	-	-
Other Income, Refunds	9,026	-	9,026
Interest	2,131	-	2,131
Net Assets Released From Restrictions	<u>76,496</u>	<u>(76,496)</u>	<u>-</u>
Total Revenue and Other Support	804,898	107,135	912,033
Expenses			
Program Services			
Programming and Production	337,731	-	337,731
Engineering and Broadcasting	89,802	-	89,802
Program Information	<u>47,618</u>	<u>-</u>	<u>47,618</u>
Total Program Services	<u>475,151</u>	<u>-</u>	<u>475,151</u>
Supporting Services			
Management and General	126,703	-	126,703
Membership and Fundraising	175,476	-	175,476
Underwriting and Grant Solicitation	<u>5,172</u>	<u>-</u>	<u>5,172</u>
Total Supporting Services	<u>307,351</u>	<u>-</u>	<u>307,351</u>
Total Expenses	<u>782,502</u>	<u>-</u>	<u>782,502</u>
Changes in Net Assets before Other Items	22,396	107,135	129,531
Other Income (Expense)			
Loss on Disposal of Old Equipment	<u>(1,094)</u>	<u>-</u>	<u>(1,094)</u>
Change in Net Assets	21,302	107,135	128,437
Net Assets at Beginning of Year	<u>1,170,655</u>	<u>23,970</u>	<u>1,194,625</u>
Net Assets at End of Year	<u>\$1,191,957</u>	<u>\$ 131,105</u>	<u>\$1,323,062</u>

See Accompanying Notes to Financial Statements.

NORTHERN COMMUNITY RADIO, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Other Support</u>			
Contributions	\$ 179,401	\$ -	\$ 179,401
Corporation for Public Broadcasting	171,500	5,000	176,500
State of Minnesota	25,500	-	25,500
Blandin Foundation Grant	-	25,000	25,000
Other Grants	65,000	6,500	71,500
Endowment Income	16,000	-	16,000
Underwriting	209,959	-	209,959
Rentals	13,280	-	13,280
Fundraising Special Events (Net)	(3,715)	-	(3,715)
In Kind Contributions	5,095	-	5,095
Production Revenue	820	-	820
Other Income, Refunds	9,699	-	9,699
Interest	1,109	-	1,109
Net Assets Released From Restrictions	<u>14,353</u>	<u>(14,353)</u>	<u>-</u>
Total Revenue and Other Support	708,001	22,147	730,148
<u>Expenses</u>			
Program Services			
Programming and Production	303,303	-	303,303
Engineering and Broadcasting	95,515	-	95,515
Program Information	<u>47,908</u>	<u>-</u>	<u>47,908</u>
Total Program Services	<u>446,726</u>	<u>-</u>	<u>446,726</u>
Supporting Services			
Management and General	131,024	-	131,024
Membership and Fundraising	135,766	-	135,766
Underwriting and Grant Solicitation	<u>5,070</u>	<u>-</u>	<u>5,070</u>
Total Supporting Services	<u>271,860</u>	<u>-</u>	<u>271,860</u>
Total Expenses	<u>718,586</u>	<u>-</u>	<u>718,586</u>
Changes in Net Assets before Other Items	(10,585)	22,147	11,562
Other Income (Expense)			
Loss on Disposal of Old Equipment	<u>(3,969)</u>	<u>-</u>	<u>(3,969)</u>
Change in Net Assets	(14,554)	22,147	7,593
Net Assets at Beginning of Year	<u>1,185,209</u>	<u>1,823</u>	<u>1,187,032</u>
Net Assets at End of Year	<u>\$1,170,655</u>	<u>\$23,970</u>	<u>\$1,194,625</u>

See Accompanying Notes to Financial Statements.

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF CASH FLOWS
SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

	2008	2007
Cash Flows from Operating Activities		
Change in Net Assets	\$ 128,437	\$ 7,593
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities		
Depreciation and Amortization	53,156	52,117
Contributed Property and Equipment	—	—
Property and Equipment Exchanged for Underwriting	—	—
(Increase) Decrease in Operating Assets		
Accounts Receivable	(7,283)	679
Pledges Receivable	2,053	(6,029)
Grants Receivable	32,696	1,587
Prepaid Expenses	(10,034)	2,973
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(12,599)	26,894
Accrued Payroll and Payroll Taxes	(15)	(4,756)
Cash Receipts and Grants Restricted for Building	(16,845)	—
Net Cash Flows from Operating Activities	169,566	81,058
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(77,787)	(7,526)
Loss on Disposal of Equipment	1,094	3,969
Net Cash Flows from Investing Activities	(76,693)	(3,557)
Cash Flows from Financing Activities		
Support Restricted for Building	16,845	—
Net Cash from Financing Activities	16,845	—
Net Increase (Decrease) in Cash	109,718	77,501
Cash at Beginning of Year	136,455	58,954
Cash at End of Year	\$ 246,173	\$ 136,455

Supplemental Information:

	09/30/08	09/30/07
Interest Paid	\$ 54	\$ 66
Non-Cash Donations	\$37,326	\$ 5,095
Non-Cash Trades for Underwriting	\$55,362	\$45,351

See Accompanying Notes to Financial Statements.

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies

Nature of Activities

Northern Community Radio is a 501(c)(3) nonprofit corporation with a mission to strengthen the northeastern and north central Minnesota region through radio broadcasting, cultural events, and interactive media. The organization owns a 100,000 watt FM public education radio station, 91.7 KAXE, licensed to broadcast from Grand Rapids, Minnesota. Northern Community Radio also operates translators in Bemidji and Brainerd. Northern Community Radio provides a website with streaming audio at www.kaxe.org. 91.7 KAXE operates an outdoor amphitheater for cultural and community events.

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis. The significant accounting policies are described below.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made", whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Cash and Cash Equivalents

Restricted cash, if any, represents resources currently available for use but expendable only for those purposes specified by the donor. Resources originate from grants and contributions.

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Revenue Recognition

Contributions and grants that are unrestricted are recorded as revenue in the Statement of Activities when pledged. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Reclassifications

Certain items have been reclassified to conform with the current year presentation.

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

Note 1: Summary of Significant Accounting Policies - continued

Gifts of Long-Lived Assets

The Organization reports gifts of land, buildings and equipment as unrestricted support 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 and other assets that must be used to acquire long-lived assets are reported as restricted support. The Organization reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Pledges

Legally enforceable pledges are recorded as receivables less an allowance for uncollectible pledges based on the Organization's past collection experience. Unless designated for use in future periods, unrestricted pledges are recorded as revenue in the Statements of Activity when pledged. The allowance for uncollectible pledges was \$2,408 and \$3,088 at September 30, 2008, and September 30, 2007, respectively.

Property and Equipment

Fixed assets are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the asset, which ranges from three to forty years. Depreciation and Amortization expense for the years ended September 30, 2008, and September 30, 2007, was \$53,156 and \$52,117, respectively. Assets acquired through lease/purchase arrangements have been capitalized. Costs of repairs and maintenance are charged to operating expense as incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Taxes

The Corporation has received recognition from the Internal Revenue Service that it qualifies as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Therefore, contributions to the corporation qualify as charitable contributions and the corporation itself is not subject to income tax. The Internal Revenue Service has classified Northern Community Radio, Inc., as one that is not a private foundation within the meaning of Section 509(a) of the IRS Code because they are described in Sections 509(a)(1) and 170(b)(1)(A)(vi).

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

Note 2: Property and Equipment

A summary of property and equipment follows:

	<u>2008</u>	<u>2007</u>
Land and Land Improvements	\$ 187,223	\$ 185,142
Building	697,767	697,069
Office Furniture and Fixtures	91,054	72,034
Equipment	<u>558,154</u>	<u>541,212</u>
Subtotal	1,534,198	1,495,457
Less Accumulated Depreciation	<u>(508,267)</u>	<u>(493,074)</u>
Total - Net	<u>\$1,025,931</u>	<u>\$1,002,383</u>

Note 3: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and grants restricted for the acquisition of equipment and a community internet project. It can be summarized as follows:

	<u>2008</u>	<u>2007</u>
Temporarily Restricted Net Assets		
Beginning Balance	\$ 23,970	\$ 1,823
Temporarily Restricted Revenue Corp.		
For Public Broadcasting Grant	-	5,000
Donations	16,845	-
Other Grants	36,364	6,500
Blandin Foundation Grants	<u>130,422</u>	<u>25,000</u>
	207,601	38,323
Restrictions Satisfied by Payments	<u>(76,496)</u>	<u>(14,353)</u>
Ending Balance	<u>\$ 131,105</u>	<u>\$ 23,970</u>

Note 4: Donated Services, Materials and Facilities

The Organization receives donated personal services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

Unrestricted In-Kind contributions can be summarized as follows:

	<u>2008</u>	<u>2007</u>
Premiums	\$ 1,431	\$ 241
Building and Equipment	32,136	1,720
Professional Services	-	1,600
Rent - Storage Space	1,440	1,200
Fundraising - Special Events	-	334
Facility Maintenance	500	-
Repair and Maintenance - Labor	<u>1,819</u>	<u>-</u>
Total	<u>\$37,326</u>	<u>\$5,095</u>

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2008, and SEPTEMBER 30, 2007

Note 5: Non-Monetary Transactions

The Organization exchanged certain items for underwriting services. These noncash transactions can be summarized as follows:

	<u>2008</u>	<u>2007</u>
Building and Equipment		\$ 3,470
Repairs and Maintenance	\$ 5,495	833
Premium	970	2,585
Advertising	45,054	31,937
Communications Systems	600	-
Telephone	-	3,025
Supplies	445	1,083
Professional Services	-	1,168
Special Events	2,798	950
Programs	-	300
Total	<u>\$55,362</u>	<u>\$45,351</u>

Note 6: Other Grants

The Organization received grants from three private foundations. Other grant income received from these private foundations was \$196,422 and \$106,000 for the years ended September 30, 2008, and September 30, 2007, respectively.

Note 7: Concentrations

During the years ended September 30, 2008, and September 30, 2007, respectively, 14% and 24% of the Organization's unrestricted revenues came from the Corporation for Public Broadcasting, 22% and 2% came from three private foundations, and 7% and 3% came from the State of Minnesota.

Note 8: Special Events

Fundraising special events can be summarized as follows:

	<u>2008</u>	<u>2007</u>
Gross Revenue - Special Events	\$ 24,368	\$ 17,867
Direct Costs, Excluding In-Kind	(33,773)	(21,341)
Direct Costs, In-Kind	<u>(2,798)</u>	<u>(241)</u>
Net Special Events Income (Loss)	<u>\$(12,203)</u>	<u>\$ (3,715)</u>

Note 9: Pension Plan

The Organization adopted a Simplified Employee Pension/Individual Retirement Account for the benefit of its employees effective August 26, 1999. Employees are eligible to participate immediately after employment. Pension expense for the years ended September 30, 2008, and September 30, 2007, was \$17,342 and \$16,700, respectively.

SUPPLEMENTARY INFORMATION

NORTHERN COMMUNITY RADIO, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2008

	Program Services			Supporting Services			Total
	Programming & Production	Engineering & Broadcasting	Program Information	Management & General	Membership & Fundraising	Underwriting & Grant Solicitation	
Salaries	\$152,614	\$34,685	\$13,873	\$ 69,370	\$ 72,838	\$3,468	\$346,848
Payroll Taxes & Employee Benefits	38,275	8,699	3,479	17,397	18,267	870	86,987
Contract Labor	34,703	-	-	-	-	-	34,703
Professional Services	-	1,600	-	-	20,040	-	21,640
Advertising & Promotions	-	-	28,376	-	28,375	-	56,751
Bad Debt Recovery	-	-	-	-	(680)	-	(680)
Banking	-	-	-	-	2,888	-	2,888
Depreciation and Amortization	26,236	21,604	-	5,316	-	-	53,156
Dues & Subscriptions	11,179	-	-	-	-	-	11,179
Fundraising	-	-	-	9,772	11,555	-	11,555
Insurance	-	-	-	-	-	-	9,772
Interest Expense	-	-	-	54	-	-	54
Membership Expense	-	-	-	-	-	-	-
Miscellaneous Expense	692	-	-	895	-	-	1,587
Postage	1,668	167	-	2,336	4,173	-	8,344
Program Acquisition	37,597	-	-	-	-	-	37,597
Rent	5,390	-	-	-	-	-	5,390
Repair & Maintenance	3,459	9,512	288	6,579	8,989	-	28,827
Staff Development	967	315	-	899	68	-	2,249
Supplies	2,725	370	222	529	3,033	518	7,397
Telephone	6,937	1,577	631	2,996	3,311	316	15,768
Travel & Board	1,590	1,310	749	3,087	2,619	-	9,355
Utilities & Heat	13,699	9,963	-	7,473	-	-	31,135
Totals	\$337,731	\$89,802	\$47,618	\$126,703	\$175,476	\$5,172	\$782,502

See Independent Auditor's Report.

NORTHERN COMMUNITY RADIO, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2007

	Program Services			Supporting Services			Total
	Programming & Production	Engineering & Broadcasting	Program Information	Management & General	Membership & Fundraising	Underwriting & Grant Solicitation	
Salaries	\$147,074	\$33,426	\$13,370	\$ 66,850	\$ 70,194	\$3,344	\$334,259
Payroll Taxes & Employee Benefits	36,415	8,730	3,492	17,463	18,335	873	87,307
Contract Labor	3,000	-	-	-	334	-	3,334
Professional Services	-	1,600	-	10,213	-	-	11,813
Advertising & Promotions	-	-	29,620	-	29,620	-	59,240
Bad Debts	-	-	-	-	625	-	625
Banking	-	-	-	-	2,168	-	2,168
Depreciation Expense	28,664	18,241	-	5,212	-	-	52,117
Dues & Subscriptions	11,868	-	-	-	-	-	11,868
Fundraising	-	-	-	-	2,471	-	2,471
Insurance	-	-	-	9,988	-	-	9,988
Interest Expense	-	-	-	66	-	-	66
Membership Expense	-	-	-	-	-	-	-
Miscellaneous Expense	668	-	-	377	33	-	1,078
Postage	1,387	139	-	1,942	3,469	3	6,940
Program Acquisition	49,111	-	-	-	-	-	49,111
Rent	-	5,185	-	-	-	-	5,185
Repair & Maintenance	-	15,845	-	3,955	-	-	19,800
Staff Development	1,167	380	-	1,085	81	-	2,713
Supplies	1,647	392	235	1,804	3,216	550	7,844
Telephone	6,620	1,505	602	2,859	3,159	300	15,045
Travel & Board	1,251	1,031	589	2,429	2,061	-	7,361
Utilities & Heat	12,431	9,041	-	6,781	-	-	28,253
Totals	\$303,303	\$95,515	\$47,908	\$131,024	\$135,766	\$5,070	\$718,586

See Independent Auditor's Report.