

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

FINANCIAL STATEMENTS
June 30, 2015 and 2014

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capital Public Radio Endowment, Inc.
Sacramento, California

We have audited the accompanying financial statements of Capital Public Radio Endowment, Inc. (the "Endowment"), a nonprofit organization, 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 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 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 Capital Public Radio Endowment, Inc. 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.

Propp Christensen Caniglia LLP

September 23, 2015
Roseville, California

9261 Sierra College Boulevard
Roseville, California 95661

916.751.2900
916.751.2979 FAX

pccllp.com

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	ASSETS	
	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 32,764	\$ 19,337
Investments	1,397,377	1,449,342
Land	<u>67,589</u>	<u>67,589</u>
Total assets	<u>\$ 1,497,730</u>	<u>\$ 1,536,268</u>
	NET ASSETS	
Net assets:		
Unrestricted	\$ 370,679	\$ 370,679
Temporarily restricted	426,480	512,498
Permanently restricted:		
Endowment	632,982	585,502
Land	<u>67,589</u>	<u>67,589</u>
Total net assets	<u>\$ 1,497,730</u>	<u>\$ 1,536,268</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Revenue and support:				
Donor contributions	\$ -	\$ -	\$ 47,480	\$ 47,480
Interest and dividends	-	43,313	-	43,313
Net realized and unrealized gain on investments	-	10,303	-	10,303
Total revenue and support	-	53,616	47,480	101,096
Net assets released from restriction:				
Board approved distributions	100,130	(100,130)	-	-
Investment advisory and administrative fees	7,262	(7,262)	-	-
Property taxes	32,242	(32,242)	-	-
Total revenue and support and net assets released from restrictions	139,634	(86,018)	47,480	101,096
Expenditures:				
Board approved distributions	100,130	-	-	100,130
Investment advisory and administrative fees	7,262	-	-	7,262
Property taxes	32,242	-	-	32,242
Total expenditures	139,634	-	-	139,634
Change in net assets	-	(86,018)	47,480	(38,538)
Net assets, beginning of year	370,679	512,498	653,091	1,536,268
Net assets, end of year	<u>\$ 370,679</u>	<u>\$ 426,480</u>	<u>\$ 700,571</u>	<u>\$ 1,497,730</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Revenue and support:				
Donor contributions	\$ -	\$ -	\$ 8,018	\$ 8,018
Interest and dividends	-	37,461	-	37,461
Net realized and unrealized gain on investments	-	197,263	-	197,263
	<u>-</u>	<u>197,263</u>	<u>-</u>	<u>197,263</u>
Total revenue and support	-	234,724	8,018	242,742
Net assets released from restriction:				
Board approved distributions	50,000	(50,000)	-	-
Investment advisory and administrative fees	6,765	(6,765)	-	-
	<u>56,765</u>	<u>(6,765)</u>	<u>-</u>	<u>-</u>
Total revenue and support and net assets released from restrictions	<u>56,765</u>	<u>177,959</u>	<u>8,018</u>	<u>242,742</u>
Expenditures:				
Board approved distributions	50,000	-	-	50,000
Investment advisory and administrative fees	6,765	-	-	6,765
	<u>56,765</u>	<u>-</u>	<u>-</u>	<u>56,765</u>
Total expenditures	<u>56,765</u>	<u>-</u>	<u>-</u>	<u>56,765</u>
Change in net assets	-	177,959	8,018	185,977
Net assets, beginning of year	<u>370,679</u>	<u>334,539</u>	<u>645,073</u>	<u>1,350,291</u>
Net assets, end of year	<u>\$ 370,679</u>	<u>\$ 512,498</u>	<u>\$ 653,091</u>	<u>\$ 1,536,268</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (38,538)	\$ 185,977
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Permanently restricted contributions	(47,480)	(8,018)
Net realized and unrealized (gains) losses	<u>(10,303)</u>	<u>(197,263)</u>
Net cash used in operating activities	<u>(96,321)</u>	<u>(19,304)</u>
Cash flows from investing activities:		
Purchases of investments	(640,653)	(251,377)
Proceeds from sale of investments	<u>702,921</u>	<u>143,581</u>
Net cash provided by (used in) investing activities	<u>62,268</u>	<u>(107,796)</u>
Cash flows from financing activities:		
Permanently restricted contributions	<u>47,480</u>	<u>8,018</u>
Net change in cash and cash equivalents	13,427	(119,082)
Cash and cash equivalents, beginning of year	<u>19,337</u>	<u>138,419</u>
Cash and cash equivalents, end of year	<u>\$ 32,764</u>	<u>\$ 19,337</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1: NATURE OF ORGANIZATION

Capital Public Radio Endowment, Inc. (the "Endowment"), is a nonprofit public benefit organization, specifically organized for the benefit of Capital Public Radio, Inc. and other similar organizations providing information, music, and arts.

The Endowment's primary activity is overseeing an endowment fund consisting of both restricted and unrestricted cash and investments.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Endowment have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Under FASB ASC 958-205, the Endowment is required to report information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Endowment is required to present a statement of cash flows. Accordingly, net assets of the Endowment and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Endowment and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Endowment.

Revenues and gains and losses on investments are reported as changes in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition

In accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 958-605, *Not-for-Profit Entities – Revenue Recognition* (FASB ASC 958-605), unconditional contributions are generally recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give (pledges) are recognized as revenues once a valid pledge has been received. The receivable and the corresponding revenue are recognized concurrently. Conditional contributions and pledges are recorded when the conditions have been met.

Land

Land consists of a permanently restricted piece of property where a transmitting tower owned by Capital Public Radio, Inc. (the "Station") currently resides. This land was previously owned by Tower 91, Inc., a nonprofit public benefit corporation, which was dissolved as of February 28, 2013, when Tower 91, Inc.'s Board voted to transfer title to this asset to the Endowment upon dissolution.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets

In accordance with the provisions of FASB ASC 958-605, donated marketable securities and other non-cash donations received are valued at fair value at the date of contribution.

Cash and Cash Equivalents

Cash equivalents consist of all highly liquid investments with original maturities of three months or fewer.

Concentration of Credit Risk

The Endowment maintains its cash and cash equivalents and investments with a brokerage company who is a member of the Securities Investor Protection Corporation. The cash and securities are insured up to \$500,000 in the event the brokerage firm goes out of business.

Marketable Securities

Marketable equity securities and debt securities which are held to maturity are valued at fair market value with realized and unrealized gains and losses reflected in the statement of activities.

Endowment

The Endowment consists of a fund established to provide funding to the Station and includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment classifies the following as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the following factors are considered in making a determination to appropriate or to accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Endowment and the donor-restricted endowment fund, (3) the general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the other resources of the Endowment, and (7) the investment policies of the Endowment.

The Endowment has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to supported programs while seeking to maintain the purchasing power of the endowment assets long-term. To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

The Endowment may, at the discretion of the board of directors, appropriate for distribution amounts which exceed the planned minimum accumulation of the fund if approved by the majority of the board. In establishing this policy, the Endowment considered the long-term expected return on endowment funds. Accordingly, over the long-term, the Endowment expects the current spending policy to allow endowment funds to reach and maintain certain minimum levels, which have been established by the donors and the board. This is consistent with the Endowment's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

The endowment fund consists of monetary funds and investments comprised of equity securities stated at fair value based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Income Taxes

The Endowment is exempt from income taxes under the provisions of the Internal Revenue Code Section 501(c)(3) and from franchise taxes under the provisions of the California Revenue and Taxation Code Section 23701d, except as they may be levied for unrelated business income. After they are filed, the Endowment's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

Fair Value Measurements

The Endowment has implemented the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, Subtopic 10, *Fair Value Measurements and Disclosures* (FASB ASC 820-10), which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Endowment determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10. The standard describes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Endowment has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Endowment's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Endowment's own data.

The fair values of investments are based on unadjusted quoted market prices within active markets.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through September 23, 2015, the date that the financial statements were available to be issued.

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosures at the date of the financial statements and that also affect reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3: INVESTMENTS

At June 30, 2015 and 2014, investments consisted of the following:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Stocks	\$ 692,358	\$ 1,064,710	\$ 670,410	\$ 1,062,461
Corporate fixed income	187,395	191,133	228,798	235,649
Exchange-traded and closed-end funds	104,761	141,534	114,462	151,232
Total	<u>\$ 984,514</u>	<u>\$ 1,397,377</u>	<u>\$ 1,013,670</u>	<u>\$ 1,449,342</u>

NOTE 4: FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy, the Endowment's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015 and 2014:

	Fair Values as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 1,064,710	\$ -	\$ -	\$ 1,064,710
Corporate fixed income	191,133	-	-	191,133
Exchange-traded and closed-end funds	141,534	-	-	141,534
Total	<u>\$ 1,397,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,397,377</u>

	Fair Values as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 1,062,461	\$ -	\$ -	\$ 1,062,461
Corporate fixed income	235,649	-	-	235,649
Exchange-traded and closed-end funds	151,232	-	-	151,232
Total	<u>\$ 1,449,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,449,342</u>

CAPITAL PUBLIC RADIO ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 5: ENDOWMENT

The following is a reconciliation, classed by net assets, of the beginning and ending balances of the donor restricted endowment for the years ended June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2013	\$ 370,679	\$ 334,539	\$ 645,073	\$ 1,350,291
Donor contributions	-	-	8,018	8,018
Interest and dividends	-	37,461	-	37,461
Net realized and unrealized gain/loss	-	197,263	-	197,263
Released from restrictions	56,765	(56,765)	-	-
Expenditures	<u>(56,765)</u>	<u>-</u>	<u>-</u>	<u>(56,765)</u>
Balance, June 30, 2014	370,679	512,498	653,091	1,536,268
Donor contributions	-	-	47,480	47,480
Interest and dividends	-	43,313	-	43,313
Net realized and unrealized gain/loss	-	10,303	-	10,303
Released from restrictions	139,634	(139,634)	-	-
Expenditures	<u>(139,634)</u>	<u>-</u>	<u>-</u>	<u>(139,634)</u>
Balance, June 30, 2015	<u>\$ 370,679</u>	<u>\$ 426,480</u>	<u>\$ 700,571</u>	<u>\$ 1,497,730</u>

NOTE 6: RELATED PARTIES

Through February 2013, Capital Public Radio Endowment, Inc. (the "Endowment") and Tower 91, Inc. were consolidated into the Station's financial statements because they met the criteria for consolidation under Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 810, *Not-for-Profit Entities – Consolidation* (FASB ASC 958-810). FASB ASC 958-810 requires consolidation if the nonprofit organizations are related to one another by means of ownership, control, and/or economic interest. The Station exercised control through common members and appointment of members of the boards of directors of the related entities and had an economic interest as the sole beneficiary of the assets and resources of the other organizations.

In February 2013, furthering their stated intention for a distinct separation between the two entities, the following changes were made which resulted in the determination that deconsolidation was necessary:

- Tower 91 was dissolved by Board action at the end of February 2013, and all remaining assets were transferred to the Endowment.
- The Endowment voted to change its bylaws, allowing for financial support to any organization meeting the Endowment's mission. Prior to the change, the bylaws only allowed for support to the Station.

The Endowment's Board entered into a professional services agreement with the Station to provide financial management.