

CAPITAL PUBLIC RADIO, INC.

FINANCIAL STATEMENTS
June 30, 2016 and 2015

CAPITAL PUBLIC RADIO, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Capital Public Radio, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

9261 Sierra College Boulevard
Roseville, California 95661

916.751.2900
916.751.2979 FAX

pccllp.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Public Radio, Inc. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of Capital Public Radio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital Public Radio, Inc.'s internal control over financial reporting and compliance.

Propp Christenson Caniglia LLP

September 27, 2016
Roseville, California

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	ASSETS	
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 300,642	\$ 317,018
Investments	49,748	151,052
Contributions receivable, net	952,742	657,601
Accounts receivable, net	531,303	518,239
Other receivables	208,203	211,116
Prepaid expenses	130,323	191,537
Total current assets	2,172,961	2,046,563
Donated artwork	35,025	35,025
Broadcast license	4,933,842	4,933,842
Deposits	87,586	56,281
Property and equipment, net	1,926,540	1,786,063
Total assets	<u>\$ 9,155,954</u>	<u>\$ 8,857,774</u>
	LIABILITIES AND NET ASSETS	
Current liabilities:		
Accounts payable	\$ 292,018	\$ 322,785
Accrued vacation	258,322	237,899
Retirement plan payable	6,310	12,862
FSA / HRA / HSA payable	3,347	2,573
Unearned revenue	34,526	111,450
Line of credit	225,000	-
Note payable, current portion	108,597	104,836
Capital lease obligation, current portion	150,503	145,349
Total current liabilities	1,078,623	937,754
Note payable, less current portion	288,637	397,234
Capital lease obligation, less current portion	1,724,580	1,875,082
Total liabilities	<u>3,091,840</u>	<u>3,210,070</u>
Net assets:		
Unrestricted:		
General operating	3,902,549	3,626,598
Designated:		
Investment in property and equipment	1,926,540	1,786,063
Donated artwork	35,025	35,025
Temporarily restricted:		
Grant	200,000	200,018
Total net assets	<u>6,064,114</u>	<u>5,647,704</u>
Total liabilities and net assets	<u>\$ 9,155,954</u>	<u>\$ 8,857,774</u>

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>
Revenue and support:			
Listener contributions	\$ 5,148,247	\$ -	\$ 5,148,247
Grant funding	595,390	471,890	1,067,280
Advertising and underwriting	2,967,279	-	2,967,279
Fundraising	849,339	-	849,339
Rental income	108,633	-	108,633
Other revenue	9,364	-	9,364
Interest and dividends	6,476	-	6,476
Net realized and unrealized loss on investments	(1,843)	-	(1,843)
Non-cash:			
CSUS administrative support	1,920,428	-	1,920,428
In-kind donations	569,208	-	569,208
Total revenue and support	<u>12,172,521</u>	<u>471,890</u>	<u>12,644,411</u>
Net assets released from restriction:			
Grant expenditures	<u>471,908</u>	<u>(471,908)</u>	<u>-</u>
Total revenue and support and net assets released from restrictions	<u>12,644,429</u>	<u>(18)</u>	<u>12,644,411</u>
Expenditures:			
Programs:			
Programming and production	6,153,671	-	6,153,671
Broadcasting	2,159,246	-	2,159,246
Marketing and promotion	708,570	-	708,570
Support:			
Membership development	1,959,134	-	1,959,134
Management and general	1,247,380	-	1,247,380
Total expenditures	<u>12,228,001</u>	<u>-</u>	<u>12,228,001</u>
Change in net assets	416,428	(18)	416,410
Net assets, beginning of year	<u>5,447,686</u>	<u>200,018</u>	<u>5,647,704</u>
Net assets, end of year	<u>\$ 5,864,114</u>	<u>\$ 200,000</u>	<u>\$ 6,064,114</u>

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2016 and 2015

	Unrestricted	Temporarily Restricted	2015 Total
Revenue and support:			
Listener contributions	\$ 4,525,748	\$ -	\$ 4,525,748
Grant funding	575,662	741,816	1,317,478
Advertising and underwriting	2,601,773	-	2,601,773
Fundraising	457,552	-	457,552
Rental income	108,606	-	108,606
Other revenue	24,565	-	24,565
Interest and dividends	7,740	-	7,740
Net realized and unrealized loss on investments	(5,702)	-	(5,702)
Non-cash:			
CSUS administrative support	1,672,315	-	1,672,315
In-kind donations	425,769	-	425,769
 Total revenue and support	 <u>10,394,028</u>	 <u>741,816</u>	 <u>11,135,844</u>
Net assets released from restriction:			
Grant expenditures	954,805	(954,805)	-
 Total revenue and support and net assets released from restrictions restrictions	 <u>11,348,833</u>	 <u>(212,989)</u>	 <u>11,135,844</u>
Expenditures:			
Programs:			
Programming and production	5,722,671	-	5,722,671
Broadcasting	2,087,889	-	2,087,889
Marketing and promotion	662,970	-	662,970
Support:			
Membership development	1,498,198	-	1,498,198
Management and general	1,240,188	-	1,240,188
 Total expenditures	 <u>11,211,916</u>	 <u>-</u>	 <u>11,211,916</u>
Change in net assets	136,917	(212,989)	(76,072)
Net assets, beginning of year	5,310,769	413,007	5,723,776
Net assets, end of year	<u>\$ 5,447,686</u>	<u>\$ 200,018</u>	<u>\$ 5,647,704</u>

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2016 Total
Personnel	\$ 2,666,476	\$ 1,001,813	\$ 200,843	\$ 461,918	\$ 661,993	\$ 4,993,043
Professional fees	81,450	21,191	6,800	222,604	34,223	366,268
Commissions	-	20,021	-	-	20,021	40,042
In-kind	1,238,207	495,283	247,641	247,641	247,641	2,476,413
Printing and supplies	183	-	24,337	59,029	37,861	121,410
Program guides	-	-	9,338	-	-	9,338
Telephone	29,567	99,423	-	29,712	6,667	165,369
Telemarketing	-	-	-	56,086	-	56,086
Postage and freight	-	-	11,972	13,042	11,233	36,247
Travel and training	76,427	15,104	11,185	47,359	49,081	199,156
Recruiting	-	-	-	-	4,209	4,209
Advertising	-	-	38,579	-	-	38,579
Utilities	17,293	160,824	5,188	3,459	3,459	190,223
Repairs and maintenance	55,337	58,796	19,022	10,376	12,105	155,636
Program acquisition	1,473,863	-	-	-	-	1,473,863
Dues and subscriptions	8,381	-	2,852	134	8,958	20,325
Bank charges	-	-	-	82,314	1,583	83,897
Bad debt	-	-	-	19,352	9,750	29,102
Outside services	-	-	79,887	547,318	28,967	656,172
Computer	191,651	11,822	-	42,755	6,710	252,938
Premiums	-	-	-	46,533	-	46,533
Rent	168,560	149,113	23,788	23,788	30,506	395,755
Depreciation	108,049	43,219	21,610	21,610	146	194,634
Insurance	21,863	8,745	4,373	4,373	4,373	43,727
Interest	-	68,821	-	-	20,132	88,953
Miscellaneous	16,364	5,071	1,155	19,731	47,762	90,083
Total functional expenses	\$ 6,153,671	\$ 2,159,246	\$ 708,570	\$ 1,959,134	\$ 1,247,380	\$ 12,228,001

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the Years Ended June 30, 2016 and 2015

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2015 Total
Personnel	\$ 2,439,733	\$ 1,029,954	\$ 216,128	\$ 453,476	\$ 665,716	\$ 4,805,007
Professional fees	85,415	17,095	1,558	14,184	35,813	154,065
Commissions	-	26,305	-	-	26,305	52,610
In-kind	1,049,042	419,617	209,808	209,808	209,808	2,098,083
Printing and supplies	934	-	18,665	56,657	44,600	120,856
Program guides	-	-	10,100	-	-	10,100
Telephone	20,724	83,443	-	28,494	9,416	142,077
Telemarketing	-	-	-	44,826	-	44,826
Postage and freight	-	-	9,054	18,108	12,181	39,343
Travel and training	84,621	15,551	11,029	48,254	47,796	207,251
Recruiting	-	-	-	-	5,404	5,404
Advertising	-	-	27,225	-	-	27,225
Utilities	16,235	150,982	4,870	3,247	3,247	178,581
Repairs and maintenance	51,951	55,198	17,858	9,741	11,364	146,112
Program acquisition	1,493,577	-	-	-	-	1,493,577
Dues and subscriptions	19,805	-	9,375	6,149	13,032	48,361
Bank charges	-	-	-	79,033	1,105	80,138
Bad debt	-	-	-	98,788	26,475	125,263
Outside services	-	-	70,230	277,752	18,707	366,689
Computer	164,559	12,335	-	42,887	7,064	226,845
Premiums	-	-	-	49,151	-	49,151
Rent	167,798	148,892	24,237	24,237	30,195	395,359
Depreciation	96,159	38,463	19,232	19,232	19,231	192,317
Insurance	22,156	8,863	4,431	4,431	4,432	44,313
Interest	-	73,799	-	-	19,805	93,604
Miscellaneous	9,962	7,392	9,170	9,743	28,492	64,759
Total functional expenses	<u>\$ 5,722,671</u>	<u>\$ 2,087,889</u>	<u>\$ 662,970</u>	<u>\$ 1,498,198</u>	<u>\$ 1,240,188</u>	<u>\$ 11,211,916</u>

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 416,410	\$ (76,072)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	155,733	192,317
Net realized and unrealized gains	1,843	5,702
Donated securities	(19,524)	(1,615)
Provision for bad debt	29,102	125,263
Changes in operating assets and liabilities:		
Contributions receivable	(295,141)	(23,712)
Accounts receivable	(42,166)	(246,232)
Other receivables	2,913	19,891
Prepaid expenses	61,214	(115,487)
Deposits	(31,305)	54,819
Accounts payable	(30,767)	119,947
Accrued vacation	20,423	18,417
Other employee benefits payable	(5,778)	(4,361)
Unearned revenue	(76,924)	52,480
	186,033	121,357
Net cash provided by operating activities		
Cash flows from investing activities:		
Net proceeds from sale of investments	118,985	72,845
Cash paid for purchase and construction of property and equipment	(296,210)	(399,828)
	(177,225)	(326,983)
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments on note payable	(104,836)	(101,287)
Proceeds from line of credit	300,000	-
Principal payments on line of credit	(75,000)	-
Principal payments on capital lease obligation	(145,348)	(140,371)
	(25,184)	(241,658)
Net cash used in financing activities		
Net change in cash and cash equivalents	(16,376)	(447,284)
Cash and cash equivalents, beginning of year	317,018	764,302
Cash and cash equivalents, end of year	\$ 300,642	\$ 317,018
<u>Supplementary disclosure of cash flow information:</u>		
Interest paid	\$ 88,953	\$ 93,604

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1: NATURE OF ORGANIZATION

Capital Public Radio, Inc. (the "Station") is a nonprofit auxiliary organization of California State University, Sacramento ("CSUS"). Its purpose is to provide a trusted source of information, music, arts, and entertainment for curious and thoughtful people in an efficient, sustainable way, strengthening the civic and cultural life of the community served. CSUS owns the licenses under which the Station is allowed to broadcast.

The Station also manages programs and operates the non-commercial radio station KUOP (FM) in Stockton, California. University of the Pacific ("UOP") owned the license under which KUOP was allowed to broadcast until January 2009, when CSUS purchased the license.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Station presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Station 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 Station is required to present a statement of cash flows. Accordingly, net assets of the Station 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 Station and/or the passage of time.

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

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.

Unrestricted grants are recognized as support in the statement of activities upon receipt or accrual. The Station reports certain grants as restricted support if they are received with grantor stipulations that limit their use.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Revenue for program underwriting is recorded on a pro rata basis for the period.

Receivable balances are stated at unpaid balance, less an allowance for doubtful accounts. Capital Public Radio, Inc. provides for losses on receivable balances using the allowance method. This method is based on experience and other circumstances which may affect the collectability of the balance. Uncollectible receivables are charged off when management determines the receivable will not be collected.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value when it is received. Capital Public Radio, Inc. provides for depreciation over the estimated useful lives of the assets using the straight-line method. The estimated lives of these assets range from 5 to 30 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the useful lives of assets are capitalized.

Equipment purchased with grant funds from the National Telecommunications and Information Administration ("NTIA") is to revert to that agency if Capital Public Radio, Inc. wishes to dispose of the equipment within ten years from the date of the grant.

Donated Assets

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

Donations of property and equipment (and other assets with explicit restrictions regarding their use) and contributions of cash that must be used to acquire such assets are reported as restricted contributions. The Station reports gifts of artwork as unrestricted because there are no donor stipulations specifying how the donated assets must be used.

Donated Services

Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Station. Volunteers also provide assistance in program and supporting services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958-605 are not met.

Cash and Cash Equivalents

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

Investments

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.

Broadcast Rights

Programming broadcast rights are expensed annually as purchased.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Financial instruments which potentially subject the Station to concentrations of credit risk consist principally of contribution receivables, cash deposits, and investments at brokerage firms. The Station does not generally require collateral for receivables, and operations are dependent upon these contributions. The Station's contributors are primarily located within and are dependent upon the economy of the broadcast areas of Stockton and the greater Sacramento area. The Station does not believe a material risk of loss exists with respect to its financial position due to this concentration of credit risk.

The Station maintains its cash and cash equivalents in bank deposit accounts. These accounts are insurable by the Federal Deposit Insurance Corporation up to \$250,000 per bank for each category of legal ownership. On June 30, 2016 and 2015, the Station's uninsured cash balances totaled \$136,465 and \$117,948, respectively. The Station has not experienced any losses on these accounts, and management believes the Station is not exposed to any significant risk on cash accounts.

For those investments held by a broker 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.

Functional Expenses

Functional expenses are allocated to program and supporting services based on direct expenditures incurred. Expenses not directly chargeable to a particular functional category are allocated based on an analysis of personnel time and space or other resources utilized for the related activities.

Income Taxes

The Station 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 Station's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

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.

Fair Value Measurements

The Station 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 Station 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, Level 2, and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Station has the ability to access at the measurement date.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 Station'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 Station'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 27, 2016, the date that the financial statements were available to be issued.

NOTE 3: LINE OF CREDIT

At June 30, 2016 and 2015, the Station had a letter of credit in the amount of \$50,000 available at a local bank in the event that tower equipment on the Walnut Grove site were removed.

The Station has available a \$600,000 line of credit with a local bank that is secured by accounts receivable and equipment. There was a draw of \$300,000 on the line of credit during the year ended June 30, 2016 and \$225,000 remains payable at June 30, 2016. There were no amounts drawn on the line of credit at June 30, 2015.

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Contributions receivable	\$ 1,203,699	\$ 998,176
Less allowance for contributions receivable	<u>(250,957)</u>	<u>(340,575)</u>
Contributions receivable, net	<u>\$ 952,742</u>	<u>\$ 657,601</u>
Accounts receivable	\$ 552,858	\$ 539,794
Less allowance for accounts receivable	<u>(21,555)</u>	<u>(21,555)</u>
Accounts receivable, net	<u>\$ 531,303</u>	<u>\$ 518,239</u>
Accounts receivable - other	\$ 8,203	\$ 11,098
Accounts receivable - grants	<u>200,000</u>	<u>200,018</u>
Other accounts receivable	<u>\$ 208,203</u>	<u>\$ 211,116</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5: FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy, the Station's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Fair Values as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Exchange-traded and closed-end funds	<u>\$ 49,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,748</u>
	Fair Values as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Exchange-traded and closed-end funds	<u>\$ 151,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,052</u>

NOTE 6: BROADCAST LICENSE PURCHASE

In 2008, on behalf of the Station, CSUS entered into an Asset Purchase Agreement to purchase the broadcast license of FM station KUOP from the University of the Pacific. The terms of the Asset Purchase Agreement established the purchase price at \$4,700,000, of which \$4,000,000 was to be paid in cash, and the remaining \$700,000 was considered underwriting.

In addition to the purchase price, the Station incurred \$233,842 in legal, appraisal, and escrow closing costs related to the purchase. The cost of the broadcast license totaling \$4,933,842 has been capitalized. The broadcast license is deemed to have an indefinite life and, as such, is not subject to amortization. The Station will review the license for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

NOTE 7: PROPERTY AND EQUIPMENT

At June 30, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Tower	\$ 1,300,947	\$ 1,307,826
Engineering and production	1,536,424	1,568,821
Office equipment	293,602	282,822
Computer equipment	626,198	612,657
Expansion projects	724,524	615,713
Leasehold improvements	<u>612,670</u>	<u>427,283</u>
	5,094,365	4,815,122
Less accumulated depreciation and amortization	<u>(3,167,825)</u>	<u>(3,029,059)</u>
Total property and equipment	<u>\$ 1,926,540</u>	<u>\$ 1,786,063</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8: NOTE PAYABLE

During 2013, the Station entered into a financing agreement with CSUS in the original amount of \$750,000 for the construction of a new tower to broadcast KXPR. The financing agreement provides for an interest rate of 3.5% per annum with quarterly principal and interest payments of \$30,273 for a period of 7 years, maturing in December of 2019. As of June 30, 2016, construction had not yet begun.

Maturities of the note payable in each of the next five years and thereafter are as follows:

<u>Year Ending June 30:</u>	
2017	\$ 108,597
2018	112,448
2019	116,435
2020	<u>59,754</u>
Total	<u>\$ 397,234</u>

NOTE 9: LEASE COMMITMENTS

Capital Lease

In accordance with the terms of the KUOP Facilities Agreement, as previously referred to herein, the Station has entered into a long-term capital lease financing agreement with CSUS relating to the purchase of the broadcast license referred to in Note 6.

The following is a schedule of future minimum capital lease payments:

<u>Year Ending June 30:</u>	
2017	\$ 214,170
2018	214,170
2019	214,170
2020	214,170
2021	214,170
Thereafter	<u>1,177,937</u>
Total minimum lease payments	2,248,787
Less amount representing interest	<u>(373,704)</u>
Principal balance due on obligations under capital leases as of June 30, 2016	1,875,083
Less current portion	<u>(150,503)</u>
Total long-term obligations under capital lease	<u>\$ 1,724,580</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9: LEASE COMMITMENTS (CONTINUED)

Operating Leases

The Station leases office space and real property upon which towers are located. These obligations extend through 2033. These leases include the lease of a public radio station facility located at California State University, Sacramento. The lease is for a term of thirty years with semi-annual payments beginning in May 2004. Each installment of rent payable is secured by a pledge of all Station revenues as set forth in the lease.

Certain real property leases contain renewal options up to five years. Several of the real property leases contain an escalation clause which requires additional rent on each anniversary date of the lease. Rent expense totaled \$395,755 and \$395,359, respectively, for the years ended June 30, 2016 and 2015.

Future minimum lease payments at June 30, 2016, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year Ending June 30:</u>	
2017	\$ 393,323
2018	338,598
2019	321,135
2020	326,358
2021	318,663
Thereafter	<u>3,125,025</u>
Total minimum lease payments	<u>\$ 4,823,102</u>

Rental income on real properties sub-leased to others totaled \$108,633 and \$108,606, respectively, for the years ended June 30, 2016 and 2015.

Future minimum rental income on real properties sub-leased to others at June 30, 2016, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year Ending June 30:</u>	
2017	\$ 108,633
2018	108,633
2019	108,633
2020	104,960
2021	27,302
Thereafter	<u>6,639</u>
Total minimum rental income	<u>\$ 464,800</u>

NOTE 10: RELATED PARTY TRANSACTIONS

Included in accounts receivable at June 30, 2015, \$3,200 was due from CSUS and related auxiliaries for program underwriting. There were no amounts due at June 30, 2016. For the years ended June 30, 2016 and 2015, revenue received from CSUS and related auxiliaries for services, space, and programs was \$64,486 and \$47,800, respectively.

Included in accounts payable at June 30, 2016 and 2015, is \$39,534 and \$35,906, respectively, due to CSUS. During the years ended June 30, 2016 and 2015, the Station incurred expenses of \$229,257 and \$185,506 for office building maintenance and various items other than salaries of CSUS personnel, respectively. The Station paid \$236,876 and \$242,368 to the Board of Trustees of CSUS for office building rent during the years ended June 30, 2016 and 2015, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10: RELATED PARTY TRANSACTIONS (CONTINUED)

The Station entered the KUOP Facilities Agreement (the "Agreement") with CSUS on August 14, 2008. The Agreement provides for the financing of certain costs related to the Asset Purchase Agreement between CSUS and the University of the Pacific to secure the purchase of the broadcast license of the FM broadcasting station KUOP (Note 6). The terms of the Agreement, which were amended in 2013, provide for a long-term capital lease financing arrangement between the Station and CSUS, which requires the repayment of \$3,000,000 at 3.5% interest in annual installments over a period of 18 years (Note 9). During the year ended June 30, 2016, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$145,349 in principal payments and \$68,821 in interest. During the year ended June 30, 2015, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$140,371 in principal payments and \$73,799 in interest.

The Station entered into a financing agreement for the construction of the new KXPR tower (Note 8). The agreement provides for repayment of \$750,000 over a seven year period at 3.5% interest. During the year ended June 30, 2016, the Station paid \$121,092 to CSUS in debt service relating to this financing agreement. This included \$104,836 in principal payments and \$16,256 in interest payments. During the year ended June 30, 2015, the Station paid \$121,092 to CSUS in debt service relating to this financing agreement. This included \$101,287 in principal payments and \$19,805 in interest payments.

NOTE 11: GRANTS

The following is a list of the grants received during the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Corporation for Public Broadcasting:		
Community service grant	\$ 694,018	\$ 692,755
Cable grant	13,867	18,233
Environmental reporting grants	11,600	6,500
Healthcare reporting grants	150,000	242,518
Food reporting grants	68,850	290,500
Other grants	<u>128,945</u>	<u>66,972</u>
Total	<u>\$ 1,067,280</u>	<u>\$ 1,317,478</u>

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 enhance the quality of programming and expand the scope of public broadcasting services.

According to the CPB Radio CSG General Provisions and Eligibility Criteria, a certain portion of the funds may be used as specified in Section 396(k)(7) of the Communications Act of 1934, 47 U.S.C. 396(k)(7), which provides that these funds "may be used at the discretion of the Grantees for purposes related primarily to the production or acquisition of programming." This portion of the Grants may also be used to sustain activities begun with previous CPB CSG funds. The remaining portion of the funds must be used as specified in Section 396(k)(3)(A)(iii) of the Communications Act of 1934, which provides that these funds are "solely to be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience." Each CSG must be expended within two years of the initial grant authorization.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2016 and 2015, respectively:

	2016	2015
Environmental reporting grants	\$ 150,000	\$ -
Healthcare reporting grants	-	150,018
Other grants	50,000	50,000
Total	\$ 200,000	\$ 200,018

NOTE 13: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support

During the fiscal years ending June 30, 2016 and 2015, CSUS provided numerous services for the Station. Amounts are calculated on the basis of percentage of use by the Station in relationship to the total respective University costs as recorded in the respective University financial reports. During the years ended June 30, 2016 and 2015, donated services in the amounts of \$1,920,428 and \$1,672,315, respectively, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations

During the years ended June 30, 2016 and 2015, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$569,208 and \$425,769, respectively. The in-kind donations are reported as revenue and expense in the accompanying statement of activities.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Station in meeting its program objectives. During the years ended June 30, 2016 and 2015, the Station received approximately 872 and 1,102 in volunteer hours, respectively.

NOTE 14: FUND-RAISING EXPENSES

Total fund-raising expenses for the years ending June 30, 2016 and 2015, were \$1,959,134 and \$1,498,198, respectively.

NOTE 15: RETIREMENT PLAN

Effective October 1, 2010, the Station adopted a new Internal Revenue Code Section 401(k) plan. All employees are eligible on the date of hire to participate in salary deferrals to the plan; however, employees must have 1,000 hours of service to be eligible for matching and profit sharing contributions. For all eligible employees, the Station will match 100% of employees' respective salary contributions up to 5% of their compensation. The total retirement plan contributions for the years ending June 30, 2016 and 2015, were \$148,251 and \$143,546, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 16: UNRELATED BUSINESS INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by unrelated business activities is taxable as unrelated business income. Unrelated business activities conducted by the Station include advertising income from the Station's quarterly program guide and rentals of tower space.

For the years ended June 30, 2016 and 2015, net income as calculated for income tax purposes was not sufficient to yield any income tax expense. In addition, the Station has been determined by the Internal Revenue Code not to be a private foundation within the meaning of Section 509(a) of the Code.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Capital Public Radio, Inc., a nonprofit organization, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Capital Public Radio, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capital Public Radio, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Capital Public Radio, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Public Radio, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Capital Public Radio, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital Public Radio, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Propp Christenson Caniglia LLP

September 27, 2016
Roseville, California