CAPITAL PUBLIC RADIO, INC.

FINANCIAL STATEMENTS
June 30, 2017

CAPITAL PUBLIC RADIO, INC.

CONTENTS

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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 statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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.

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, 2017, and the changes in its net assets and its cash flows for the year 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 January 4, 2018, 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 Christensen Caniglia LLP

January 4, 2018
Roseville, California

CAPITAL PUBLIC RADIO, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	$ 448,770
Investments	52,672
Contributions receivable, net	61,536
Accounts receivable, net	523,263
Capital campaign receivable, net	93,527
Other receivables	374,941
Prepaid expenses	88,728
Total current assets	1,643,437
Capital campaign receivable, net of current portion and allowance	214,693
Donated artwork	35,025
Broadcast license	4,933,842
Deposits	60,726
Property and equipment, net	1,851,222
Total assets	$ 8,738,945
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 264,603
Accrued vacation	303,156
Retirement plan payable	16,839
FSA / HRA / HSA payable	2,976
Unearned revenue	13,563
Line of credit	575,000
Note payable, current portion	112,448
Capital lease obligation, current portion	155,840
Total current liabilities	1,444,425
Note payable, less current portion	176,189
Capital lease obligation, less current portion	1,568,740
Total liabilities	3,189,354
Net assets:	
Unrestricted:	
General operating	2,881,766
Designated:	
Investment in property and equipment	1,851,222
Donated artwork	35,025
Temporarily restricted:	
Grants	287,000
Capital campaign	494,578
Total net assets	5,549,591
Total liabilities and net assets	$ 8,738,945

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

CAPITAL PUBLIC RADIO, INC.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Listener contributions	$ 5,000,360	$ -	$ 5,000,360
Grant funding	623,881	903,910	1,527,791
Advertising and underwriting	2,987,023	-	2,987,023
Fundraising	719,143	494,578	1,213,721
Rental income	107,304	-	107,304
Other revenue	27,401	-	27,401
Interest and dividends	2,334	-	2,334
Net realized and unrealized gain on investments	2,922	-	2,922
Non-cash:			
CSUS administrative support	1,955,513	-	1,955,513
In-kind donations	526,175	-	526,175
Total revenue and support	11,952,056	1,398,488	13,350,544
Net assets released from restriction:			
Grant expenditures	816,910	(816,910)	-
Total revenue and support and net assets released from restrictions	12,768,966	581,578	13,350,544
Expenditures:			
Programs:			
Programming and production	6,424,424	-	6,424,424
Broadcasting	2,077,788	-	2,077,788
Marketing and promotion	1,116,338	-	1,116,338
Support:			
Membership development	1,903,743	-	1,903,743
Management and general	1,609,051	-	1,609,051
Total expenditures	13,131,344	-	13,131,344
Change in net assets	(362,378)	581,578	219,200
Net assets, beginning of year, as restated	5,130,391	200,000	5,330,391
Net assets, end of year	$ 4,768,013	$ 781,578	$ 5,549,591

CAPITAL PUBLIC RADIO, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	Total
Personnel	$ 2,345,920	$ 994,724	$ 445,471	$ 472,648	$ 698,236	$ 4,956,999
Professional fees	340,873	14,455	25,560	183,310	218,190	782,388
Research and development	69,865	-	525	26,272	-	96,662
Underwriting support	35,464	-	35,464	-	-	70,928
In-kind	1,214,976	485,990	242,995	242,995	294,732	2,481,688
Printing and supplies	771	20,112	8,378	54,346	34,254	117,861
Telephone	28,621	118,106	240	19,806	6,454	173,227
Telemarketing	-	-	-	54,643	-	54,643
Postage and freight	-	-	55,921	60,918	2,412	119,251
Travel and training	107,460	22,344	16,547	70,061	26,350	242,762
Recruiting	-	-	-	350	1,997	2,347
Advertising	-	-	117,512	13,885	-	131,397
Utilities	73,781	183,763	14,221	14,221	37,265	323,251
Repairs and maintenance	84,925	33,970	16,985	16,985	16,985	169,850
Program acquisition	1,615,184	-	-	-	-	1,615,184
Dues and subscriptions	6,955	82	370	4,256	31,346	43,009
Bank charges	-	-	-	89,083	365	89,448
Bad debts	-	-	-	-	30,908	30,908
Outside services	-	-	78,775	451,802	25,508	556,085
Web maintenance & hosting	174,840	-	-	-	-	174,840
Management fees	-	-	-	-	18,092	18,092
Premiums	-	-	-	37,168	-	37,168
Rent	170,577	143,098	24,593	24,645	31,792	394,705
Depreciation	99,843	39,937	19,968	19,968	5,483	185,199
Insurance	40,329	16,132	8,066	8,066	8,066	80,659
Interest	-	-	-	18,803	80,145	98,948
Miscellaneous	14,040	5,075	4,747	19,512	40,471	83,845
Total functional expenses	$ 6,424,424	$ 2,077,788	$ 1,116,338	$ 1,903,743	$ 1,609,051	$ 13,131,344

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

CAPITAL PUBLIC RADIO, INC.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	$ 219,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	185,199
Net realized and unrealized gains	(2,922)
Donated securities	(1,556)
Contributions received restricted for capital campaign	(126,745)
Provision for bad debts	30,908
Changes in operating assets and liabilities:	
Contributions receivable	153,783
Accounts receivable	40,445
Capital campaign receivable	(367,833)
Other receivables	(166,738)
Prepaid expenses	41,595
Deposits	26,860
Accounts payable	(27,415)
Accrued vacation	44,834
Other employee benefits payable	10,158
Unearned revenue	(20,963)
Net cash provided by operating activities	38,810
Cash flows from investing activities:	
Net proceeds from sale of investments	1,554
Cash paid for purchase and construction of property and equipment	(109,881)
Net cash used in investing activities	(108,327)
Cash flows from financing activities:	
Contributions received restricted for capital campaign	126,745
Principal payments on note payable	(108,597)
Proceeds from line of credit	350,000
Principal payments on capital lease obligation	(150,503)
Net cash provided by financing activities	217,645
Net change in cash and cash equivalents	148,128
Cash and cash equivalents, beginning of year	300,642
Cash and cash equivalents, end of year	$ 448,770
Supplementary disclosure of cash flow information:	
Interest paid	$ 98,948

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.

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.

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. The Station 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. The Station 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 the Station 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 less.

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.

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 insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution for each category of legal ownership. On June 30, 2017, the Station's uninsured cash balances totaled $265,843. 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 Internal Revenue Code Section 501(c)(3) and from franchise taxes under the provisions of 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.

Advertising
Advertising expense for the year ended June 30, 2017 totaled $131,397.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 and are therefore valued at Level 1 of the fair value hierarchy.

Subsequent Events
Events and transactions have been evaluated for potential recognition or disclosure through January 4, 2018, the date that the financial statements were available to be issued.

NOTE 3: LINE OF CREDIT

At June 30, 2017, 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. The Station drew $50,000 on the line of credit during the year ended June 30, 2017, and $275,000 was payable at June 30, 2017.

During the year ended June 30, 2017, the local bank approved an additional line of credit for $500,000, and the Station drew $300,000 on the new line of credit, which was payable at June 30, 2017.

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2017:

Contributions receivable	$ 72,395
Less allowance for doubtful accounts	(10,859)
Contributions receivable, net	$ 61,536
Accounts receivable	$ 544,818
Less allowance for doubtful accounts	(21,555)
Accounts receivable, net	$ 523,263
Capital campaign receivable	$ 397,420
Less discount to present value	(29,587)
Less allowance for doubtful accounts	(59,613)
Capital campaign receivable, net	$ 308,220
Accounts receivable - other	$ 1,545
Accounts receivable - grants	366,562
Accounts receivable - related party	6,834
Other accounts receivable	$ 374,941

In 2016, the Station began a capital campaign designed to raise funds for building expansion. The unconditional promises to give reported as capital campaign receivable consist of the following at June 30, 2017:

Receivable in less than one year	$ 110,032
Less allowance for doubtful accounts	(16,505)
Current capital campaign receivable, net	$ 93,527
Receivable in one to five years	$ 287,388
Less discount to present value at 3.5%	(29,587)
Less allowance for doubtful accounts	(43,108)
Noncurrent capital campaign receivable, net	$ 214,693

NOTE 5: FAIR VALUE MEASUREMENTS

The following table 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, 2017:

	Fair Values as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Exchange-traded and closed-end funds	$ 52,672	$ -	$ -	$ 52,672

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, 2017, property and equipment consisted of the following:

Tower	$ 1,300,947
Engineering and production	1,550,129
Office equipment	301,776
Computer equipment	649,064
Expansion projects	775,999
Leasehold improvements	626,331
	5,204,246
Less accumulated depreciation and amortization	(3,353,024)
Property and equipment, net	$ 1,851,222

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, 2017, construction had not yet begun.

NOTE 8: NOTE PAYABLE (CONTINUED)

Maturities of the note payable in each of the next three years are as follows:

Year ending June 30:	
2018	$ 112,448
2019	116,435
2020	59,754
Total	$ 288,637

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:

Year ending June 30:	
2018	$ 214,170
2019	214,170
2020	214,170
2021	214,170
2022	214,170
Thereafter	963,766
Total minimum lease payments	2,034,616
Less amount representing interest	(310,036)
Principal balance due on obligations under capital leases as of June 30, 2017	1,724,580
Less current portion	(155,840)
Total long-term obligations under capital lease	$ 1,568,740

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 $394,705 for the year ended June 30, 2017.

NOTE 9: LEASE COMMITMENTS (CONTINUED)

Operating Leases (Continued)
Future minimum lease payments at June 30, 2017, under agreements classified as operating leases with noncancelable terms, are as follows:

Year ending June 30:	
2018	$ 375,711
2019	351,823
2020	353,536
2021	350,687
2022	349,998
Thereafter	2,903,775
Total minimum lease payments	$ 4,685,530

Rental income on real properties sub-leased to others totaled $107,304, for the year ended June 30, 2017.

Future minimum rental income on real properties sub-leased to others at June 30, 2017, under agreements classified as operating leases with noncancelable terms, are as follows:

Year ending June 30:	
2018	$ 108,633
2019	108,633
2020	104,960
2021	27,302
2022	6,639
Total minimum rental income	$ 356,167

NOTE 10: RELATED PARTY TRANSACTIONS

Included in other receivables at June 30, 2017 was $6,834 due from the Capital Public Radio Endowment, Inc. (the "Endowment") for property taxes the Station paid on behalf of the Endowment. For the year ended June 30, 2017, revenue received from CSUS and related auxiliaries for services, space, and programs was $66,050.

Included in accounts payable at June 30, 2017 was $35,588 due to CSUS. During the year ended June 30, 2017, the Station incurred expenses of $174,945 for office building maintenance and various items other than salaries of CSUS personnel. The Station paid $237,750 to the Board of Trustees of CSUS for office building rent during the year ended June 30, 2017.

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, 2017, the Station paid $214,170 to CSUS in debt service relating to the Agreement. This included $150,503 in principal payments and $63,667 in interest.

NOTE 10: RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2017, the Station paid $121,092 to CSUS in debt service relating to this financing agreement. This included $108,597 in principal payments and $12,495 in interest payments.

In 2016, the Station began a capital campaign intended to raise funds for the expansion of its building. Included in capital campaign receivables at June 30, 2017 are $210,838 in pledges from board and committee members, which are related to capital campaign fundraising revenues totaling $308,000 that were recorded during the year ended June 30, 2017.

NOTE 11: GRANTS

The following is a list of the grants received during the year ended June 30, 2017:

Corporation for Public Broadcasting:	
Community service grant	$ 680,873
State and local government grants	148,486
Corporate and foundation grants	698,432
Total	$ 1,527,791

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.

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2017:

Healthcare reporting grants	$ 187,000
California dream project	100,000
	287,000
Capital campaign	494,578
Total	$ 781,578

NOTE 13: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support
During the year ended June 30, 2017, 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 year ended June 30, 2017, donated services in the amount of $1,955,513, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations
During the year ended June 30, 2017, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to $526,175. 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 year ended June 30, 2017, the Station received approximately 901 volunteer hours.

NOTE 14: FUND-RAISING EXPENSES

Total fund-raising (membership development) expense for the year ended June 30, 2017, was $1,903,743.

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 contribution for the year ending June 30, 2017, was $148,431.

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 year ended June 30, 2017, 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.

NOTE 17: CAPITAL CAMPAIGN

In 2016, the Station began a capital campaign designed to raise funds for building expansion. The capital campaign is in the silent phase. Once 80% of the funds have been raised, the silent phase will end. During 2017, the Station recognized capital campaign pledges totaling $494,578, of which $397,420 was included in capital campaign receivable at June 30, 2017, less a present value discount and bad debt allowance of $29,587 and $59,613, respectively, resulting in a net receivable of $308,220.

NOTE 18: PRIOR PERIOD ADJUSTMENT

During 2017, management changed the Station's revenue recognition accounting policy related to the sustainer contribution program. Prior to the change, the Station typically accrued, as promises to give, the sustainer contributions that were likely to be fulfilled during the following fiscal year based on the historical sustainer retention rate. With the continued growth and development of this contribution model, management elected to change the related revenue recognition to more closely reflect the guidance in FASB ASC 958-605-25-10, which states that solicitations that clearly allow donors to rescind their contributions be treated as intentions to give, rather than promises to give, and recognized as revenue when received.

This change in accounting policy was applied retroactively through an adjustment to reduce previously reported net assets as of the year ended June 30, 2016. The effects of this adjustment are summarized as follows:

	Net Assets
June 30, 2016 balance, as originally stated	$ 6,064,114
Sustainer pledge receivable adjustment	(733,723)
June 30, 2016 balance, as restated	$ 5,330,391

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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, 2017, 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 January 4, 2018.

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 Christensen Caniglia LLP

January 4, 2018
Roseville, California