

CAPITAL PUBLIC RADIO, INC.

FINANCIAL STATEMENTS
June 30, 2022 and 2021

CAPITAL PUBLIC RADIO, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Capital Public Radio, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Capital Public Radio, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Capital Public Radio, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Capital Public Radio, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2022, 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 solely 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 the effectiveness of Capital Public Radio, Inc.'s 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

September 30, 2022
Roseville, California

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

ASSETS

| | 2022 | 2021 |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,188,700 | \$ 6,733,446 |
| Investments | 271,945 | 1,582,894 |
| Contributions receivable, net | 78,220 | 17,272 |
| Accounts receivable, net | 621,031 | 407,448 |
| Capital campaign receivable, current portion, net | 438,936 | 660,820 |
| Other receivables | 1,208,935 | 869,889 |
| Prepaid expenses | 103,950 | 97,547 |
| Total current assets | 5,911,717 | 10,369,316 |
| Capital campaign receivable, net of current portion and allowance | 274,347 | 636,308 |
| Donated artwork | 35,025 | 35,025 |
| Broadcast license | 4,933,842 | 4,933,842 |
| Deposits | 133,712 | 124,570 |
| Property and equipment, net | 14,386,260 | 4,061,015 |
| Right-of-use assets | 14,797,662 | - |
| Total assets | <u>\$ 40,472,565</u> | <u>\$ 20,160,076</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable | \$ 2,231,885 | \$ 560,951 |
| Accrued vacation | 592,714 | 569,641 |
| Retirement plan payable | - | 26,339 |
| Unearned revenue | 35,717 | 279,162 |
| Line of credit payable, current portion | 400,000 | 24,844 |
| Loan payable - related party, current portion | 1,113,004 | 1,368,178 |
| Finance lease obligations, current portion | 355,981 | 179,150 |
| Operating lease liability, current portion | 635,815 | - |
| Total current liabilities | 5,365,116 | 3,008,265 |
| Loan payable - related party, less current portion | 5,518,818 | 1,711,297 |
| Finance lease obligations, less current portion | 1,286,943 | 846,645 |
| Operating lease liability, less current portion | 15,104,404 | - |
| Total liabilities | <u>27,275,281</u> | <u>5,566,207</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| General operating | 745,825 | 5,243,088 |
| Designated: | | |
| Investment in property and equipment | 7,754,438 | 4,061,015 |
| Donated artwork | 35,025 | 35,025 |
| Net assets without donor restrictions | <u>8,535,288</u> | <u>9,339,128</u> |
| With donor restrictions: | | |
| Grants | 1,243,125 | 1,392,197 |
| Capital campaign | 3,418,871 | 3,862,544 |
| Net assets with donor restrictions | <u>4,661,996</u> | <u>5,254,741</u> |
| Total net assets | <u>13,197,284</u> | <u>14,593,869</u> |
| Total liabilities and net assets | <u>\$ 40,472,565</u> | <u>\$ 20,160,076</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, 2022 and 2021

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total |
|---|-------------------------------|----------------------------|----------------------|
| Revenue and support: | | | |
| Listener contributions | \$ 8,020,151 | \$ - | \$ 8,020,151 |
| Grant funding | 1,085,987 | 2,138,664 | 3,224,651 |
| Underwriting | 3,227,979 | - | 3,227,979 |
| Fundraising | - | 749,319 | 749,319 |
| Contributions of nonfinancial assets | 757,142 | - | 757,142 |
| Rental income | 79,815 | - | 79,815 |
| Other revenue | 86,455 | - | 86,455 |
| Net return on investments | (14,165) | - | (14,165) |
| Non-cash: | | | |
| CSUS administrative support | 3,767,339 | - | 3,767,339 |
| In-kind donations | 466,315 | - | 466,315 |
| Total revenue and support | <u>17,477,018</u> | <u>2,887,983</u> | <u>20,365,001</u> |
| Net assets released from restriction: | | | |
| Capital campaign expenditures | 1,192,992 | (1,192,992) | - |
| Grant expenditures | 2,287,736 | (2,287,736) | - |
| Total net assets released from restrictions | <u>3,480,728</u> | <u>(3,480,728)</u> | <u>-</u> |
| Total revenue and support and net assets released from restrictions | <u>20,957,746</u> | <u>(592,745)</u> | <u>20,365,001</u> |
| Expenditures: | | | |
| Programs: | | | |
| Programming and production | 11,154,220 | - | 11,154,220 |
| Broadcasting | 2,472,984 | - | 2,472,984 |
| Marketing and promotion | 1,514,338 | - | 1,514,338 |
| Support: | | | |
| Membership development | 4,279,234 | - | 4,279,234 |
| Management and general | 2,340,810 | - | 2,340,810 |
| Total expenditures | <u>21,761,586</u> | <u>-</u> | <u>21,761,586</u> |
| Change in net assets | (803,840) | (592,745) | (1,396,585) |
| Net assets, beginning of year | <u>9,339,128</u> | <u>5,254,741</u> | <u>14,593,869</u> |
| Net assets, end of year | <u>\$ 8,535,288</u> | <u>\$ 4,661,996</u> | <u>\$ 13,197,284</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, 2022 and 2021

| | Without Donor Restrictions | With Donor Restrictions | 2021 Total |
|--|-------------------------------|----------------------------|----------------------|
| Revenue and support: | | | |
| Listener contributions | \$ 7,664,445 | \$ - | \$ 7,664,445 |
| Grant funding | 855,178 | 3,249,380 | 4,104,558 |
| Underwriting | 2,658,376 | - | 2,658,376 |
| Fundraising | - | 607,535 | 607,535 |
| Contributions of nonfinancial assets | 1,182,031 | - | 1,182,031 |
| Rental income | 71,618 | - | 71,618 |
| Other revenue | 1,425,040 | - | 1,425,040 |
| Net return on investments | 110,869 | - | 110,869 |
| Non-cash: | | | |
| CSUS administrative support | 2,992,940 | - | 2,992,940 |
| In-kind donations | 226,628 | - | 226,628 |
| Total revenue and support | <u>17,187,125</u> | <u>3,856,915</u> | <u>21,044,040</u> |
| Net assets released from restriction: | | | |
| Capital campaign expenditures | 587,941 | (587,941) | - |
| Grant expenditures | 2,500,621 | (2,500,621) | - |
| Total net assets released from restrictions | <u>3,088,562</u> | <u>(3,088,562)</u> | <u>-</u> |
| Total revenue and support and net assets released from restrictions | <u>20,275,687</u> | <u>768,353</u> | <u>21,044,040</u> |
| Expenditures: | | | |
| Programs: | | | |
| Programming and production | 9,248,286 | - | 9,248,286 |
| Broadcasting | 2,518,088 | - | 2,518,088 |
| Marketing and promotion | 1,528,944 | - | 1,528,944 |
| Support: | | | |
| Membership development | 2,471,165 | - | 2,471,165 |
| Management and general | 1,889,724 | - | 1,889,724 |
| Total expenditures | <u>17,656,207</u> | <u>-</u> | <u>17,656,207</u> |
| Change in net assets | 2,619,480 | 768,353 | 3,387,833 |
| Net assets, beginning of year | <u>6,719,648</u> | <u>4,486,388</u> | <u>11,206,036</u> |
| Net assets, end of year | <u>\$ 9,339,128</u> | <u>\$ 5,254,741</u> | <u>\$ 14,593,869</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, 2022 and 2021

| | Programming and Production | Broadcasting | Marketing and Promotion | Membership Development | Management and General | 2022 Total |
|----------------------------------|----------------------------------|---------------------|-------------------------------|---------------------------|------------------------------|----------------------|
| Personnel | \$ 4,956,531 | \$ 631,002 | \$ 382,453 | \$ 2,500,934 | \$ 1,061,187 | \$ 9,532,107 |
| Professional Fees | 411,373 | 48,485 | 76,236 | 30,548 | 214,526 | 781,168 |
| Research & Development | - | - | - | - | 80 | 80 |
| In-kind | 2,116,826 | 846,730 | 423,365 | 423,365 | 423,365 | 4,233,651 |
| Printing & Supplies | 90,212 | 36,085 | 18,042 | 18,042 | 18,042 | 180,423 |
| Underwriting Support | - | - | - | 251,063 | - | 251,063 |
| Telephone | 72,241 | 121,834 | 450 | 3,074 | - | 197,599 |
| Telemarketing | - | - | - | 98,314 | - | 98,314 |
| Postage & Freight | - | - | - | 326,703 | - | 326,703 |
| Travel & Training | 117,865 | 12,106 | 23,340 | 38,579 | 16,688 | 208,578 |
| Recruiting | - | - | - | - | 63,036 | 63,036 |
| Advertising | - | - | 163,760 | 13,695 | - | 177,455 |
| Utilities | - | 182,334 | - | - | 34,828 | 217,162 |
| Repairs & Maintenance | 32,547 | - | - | - | 98,874 | 131,421 |
| Program Acquisition | 1,937,939 | - | - | - | - | 1,937,939 |
| Dues and subscriptions | 11,213 | - | 4,612 | 949 | 37,857 | 54,631 |
| Bank Charges | - | - | - | 109,957 | 9,871 | 119,828 |
| Outside Services | - | - | 16,113 | 133,761 | - | 149,874 |
| Web Maintenance & Hosting | 118,764 | 78,925 | 4,044 | 144,600 | 525 | 346,858 |
| Management Fees | 94,781 | 37,912 | 18,956 | 18,956 | 18,956 | 189,561 |
| Rent | 728,109 | 291,244 | 283,601 | 76,632 | 76,632 | 1,456,218 |
| Depreciation | 91,550 | 36,620 | 18,310 | 18,310 | 18,310 | 183,100 |
| Insurance | 62,033 | 24,813 | 18,609 | 9,305 | 9,305 | 124,065 |
| Interest | - | - | - | - | 176,281 | 176,281 |
| Miscellaneous | 312,236 | 124,894 | 62,447 | 62,447 | 62,447 | 624,471 |
| Total functional expenses | \$ 11,154,220 | \$ 2,472,984 | \$ 1,514,338 | \$ 4,279,234 | \$ 2,340,810 | \$ 21,761,586 |

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, 2022 and 2021

| | Programming and Production | Broadcasting | Marketing and Promotion | Membership Development | Management and General | 2021 Total |
|----------------------------------|----------------------------------|---------------------|-------------------------------|---------------------------|------------------------------|----------------------|
| Personnel | \$ 4,230,036 | \$ 1,106,238 | \$ 706,763 | \$ 954,679 | \$ 939,187 | \$ 7,936,903 |
| Professional Fees | 589,301 | 95,958 | 116,438 | 20,903 | 91,292 | 913,892 |
| Research & Development | 140,962 | - | 1,050 | - | - | 142,012 |
| In-kind | 1,609,784 | 643,914 | 321,957 | 321,957 | 321,957 | 3,219,569 |
| Printing & Supplies | 6,441 | 16,332 | 1,383 | 67,183 | 26,285 | 117,624 |
| Telephone | 22,745 | 134,829 | 125 | 4,217 | 14,318 | 176,234 |
| Telemarketing | - | - | - | 72,537 | - | 72,537 |
| Postage & Freight | - | - | 27,994 | 30,496 | 2,086 | 60,576 |
| Travel & Training | 20,714 | 147 | 859 | 462 | 57,170 | 79,352 |
| Recruiting | - | - | - | - | 30,724 | 30,724 |
| Advertising | 13,416 | - | 216,953 | - | - | 230,369 |
| Utilities | 78,033 | 211,224 | 15,255 | 15,255 | 50,372 | 370,139 |
| Repairs & Maintenance | 114,389 | 45,756 | 22,878 | 22,878 | 22,878 | 228,779 |
| Program Acquisition | 1,690,844 | - | - | - | - | 1,690,844 |
| Dues and subscriptions | 15,101 | 100 | 254 | 7,558 | 33,801 | 56,814 |
| Bank Charges | - | - | - | 126,094 | 1,275 | 127,369 |
| Bad Debts | - | - | - | 2,380 | 102,490 | 104,870 |
| Outside Services | 15,791 | - | 25,403 | 652,909 | 30,109 | 724,212 |
| Web Maintenance & Hosting | 56,456 | - | - | - | - | 56,456 |
| Management Fees | - | - | - | - | 8,315 | 8,315 |
| Premiums | 2,700 | - | - | 99,528 | - | 102,228 |
| Rent | 432,438 | 183,312 | 31,504 | 31,570 | 40,727 | 719,551 |
| Depreciation | 85,183 | 34,073 | 17,037 | 17,037 | 17,037 | 170,367 |
| Insurance | 39,727 | 15,891 | 7,945 | 7,945 | 7,945 | 79,453 |
| Interest | - | - | - | - | 43,295 | 43,295 |
| Miscellaneous | 84,225 | 30,314 | 15,146 | 15,577 | 48,461 | 193,723 |
| Total functional expenses | \$ 9,248,286 | \$ 2,518,088 | \$ 1,528,944 | \$ 2,471,165 | \$ 1,889,724 | \$ 17,656,207 |

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, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (1,396,585) | \$ 3,387,833 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 183,100 | 170,366 |
| Net realized and unrealized losses | - | - |
| Donated securities | - | (74,555) |
| Contributions restricted for capital campaign | (772,384) | (679,995) |
| Discount on pledges | 24,815 | 72,460 |
| Provision for bad debts | - | 104,870 |
| Right-of-use assets | (15,549,418) | - |
| Operating lease liability | 15,756,894 | - |
| Amortization - right of use assets | 751,756 | - |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | (99,923) | (307,718) |
| Accounts receivable | (213,583) | (73,012) |
| Other receivables | (339,046) | (224,954) |
| Prepaid expenses | (6,403) | (82,972) |
| Deposits | (9,142) | (81,056) |
| Accounts payable | 1,670,934 | 124,534 |
| Accrued vacation | 23,073 | 75,582 |
| Retirement plan payable | (26,339) | 6,844 |
| Unearned revenue | (243,445) | 192,109 |
| Operating lease liability | <u>(16,675)</u> | <u>-</u> |
| Net cash provided by (used in) operating activities | <u>(262,371)</u> | <u>2,610,336</u> |

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

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Cash flows from investing activities: | | |
| Purchases of investments | \$ - | \$ (1,807,825) |
| Net proceeds from sale of investments | 1,310,949 | 299,486 |
| Cash paid for purchase and construction of property and equipment | <u>(4,722,215)</u> | <u>(1,382,579)</u> |
| Net cash used in investing activities | <u>(3,411,266)</u> | <u>(2,890,918)</u> |
| Cash flows from financing activities: | | |
| Proceeds from loan payable - related party | - | 3,079,475 |
| Contributions received restricted for capital campaign | 1,370,389 | 785,817 |
| Proceeds from line of credit | 475,000 | - |
| Principal payments on line of credit | (99,844) | (71,738) |
| Principal payments on loan payable - related party | (1,368,178) | - |
| Principal payments on finance lease obligation | <u>(248,476)</u> | <u>(173,015)</u> |
| Net cash provided by financing activities | <u>128,891</u> | <u>3,620,539</u> |
| Net change in cash and cash equivalents | (3,544,746) | 3,339,957 |
| Cash and cash equivalents, beginning of year | <u>6,733,446</u> | <u>3,393,489</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,188,700</u> | <u>\$ 6,733,446</u> |
| <u>Supplementary disclosure of cash flow information:</u> | | |
| Interest paid | <u>\$ 176,281</u> | <u>\$ 43,295</u> |
| <u>Supplementary schedule of non-cash investing and financing activities:</u> | | |
| Construction in progress - financed by related party loan | <u>\$ 4,920,525</u> | <u>\$ -</u> |
| Fixed assets financed with financing lease obligations | <u>\$ 865,605</u> | <u>\$ -</u> |

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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. Additionally, during 2021 the Station took over operations of two stations licensed to Humboldt State University and California State University, Chico.

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 (FASB ASC) Topic 958, Subtopic 210 (FASB ASC 958-210), *Presentation of Financial Statements of Not-for-Profit Entities*. Under FASB ASC 958-210, the Station is required to report information regarding its financial position and activities according to the following two classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to stipulations;

Net assets with donor restrictions - Net assets that are subject to stipulations that will be met by actions or the passage of time.

Revenues and gains and losses on investments are reported as changes in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor 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 FASB ASC Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*, 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.

Grants without donor restrictions 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.

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.

The Station implements the guidance provided by ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, to provide a decision-making model to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

In accordance with the provisions of FASB ASC 606, the Station's other income received and exchange transactions are not recognized as revenues until the revenue is earned, which is at the time when the services are provided.

Property and Equipment

Property and equipment are 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 assets without donor restrictions 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.

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. As of June 30, 2022 and 2021, the Station's uninsured cash balances totaled \$3,772,039 and \$6,399,360, 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.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 years ended June 30, 2022 and 2021 totaled \$177,455 and \$230,369, respectively.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820). The amendments in this update are designed to improve the disclosure requirements in Subtopic 10 and provide users of the financial statements with information about assets and liabilities measured at fair value in the statements of financial position or disclosed in the notes to financial statements including 1) the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes; 2) the uncertainty in the fair value measurements as of the reporting date; and 3) how changes in fair value measurements affect an entity's performance and cash flows. This ASU was later amended by ASU 2019-0, *Codification Improvements to Topic 326*, and ASU 2020-03, *Codification Improvements to Financial Instruments*. The Organization has retrospectively adopted these provisions with no change to revenue or net assets as of June 30, 2021.

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. Interest, dividends, and investment fees are shown as net return on investments in the statements of activities.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Station has adopted the provisions of FASB ASC 842 as revised by ASU 2016-02 using the optional transition method which allows entities to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption. Accordingly, the Station's financial statements for the reported periods after July 1, 2021 are presented under this amended guidance, while prior period amounts are not adjusted and continued to be reported in accordance with historical accounting guidance.

The Station elected to apply the following package of practical expedients on a consistent basis permitting entities not to reassess: (i) whether any expired or existing contracts are or contain a lease; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance.

The impact of adopting the amended guidance primarily relates to the recognition of lease assets and lease liabilities on the balance sheet for all leases previously classified as operating leases. The Station recognized \$4,045,256 of right-of-use assets and \$4,252,825 of related lease liabilities on July 1, 2021 for all leases previously classified as operating leases. In addition, during the year ended June 30, 2022, the Station entered into various leases classified as operating leases, which are presented in accordance with ASU 2016-02. Leases with an initial term of 12 months or less were not been recorded on the balance sheet. The Station's accounting for financing leases, which were formerly referred to as capital leases, remained substantially unchanged. There were no other material impacts on the financial statements. See Note 10 for additional information and disclosures related to the adoption of this amended guidance.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified, with no effect to change in net assets, to conform to the 2022 financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through September 30, 2022, the date that the financial statements were available to be issued.

NOTE 3: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of the Station's liquidity management, the Station has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The Station's financial assets available within one year of the balance sheet date for general expenditure are as follows:

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 3,188,700 | \$ 6,733,446 |
| Investments | 271,945 | 1,582,894 |
| Contributions receivable, net | 78,220 | 17,272 |
| Accounts receivable, net | 621,031 | 407,448 |
| Capital campaign receivable, net | 438,936 | 660,820 |
| Other receivables | 993,184 | 614,574 |
| Financial assets | 5,592,016 | 10,016,454 |
| Less those unavailable for general expenditure within one year, due to purpose and time restrictions stipulated by donors | (4,387,649) | (4,618,433) |
| Financial assets available to meet cash needs for expenditures within one year | <u>\$ 1,204,367</u> | <u>\$ 5,398,021</u> |

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|---------------------|---------------------|
| Contributions receivable | \$ 78,220 | \$ 28,843 |
| Less allowance for doubtful accounts | <u>-</u> | <u>(11,571)</u> |
| Contributions receivable, net | <u>\$ 78,220</u> | <u>\$ 17,272</u> |
| Accounts receivable | \$ 622,818 | \$ 429,003 |
| Less allowance for doubtful accounts | <u>(1,787)</u> | <u>(21,555)</u> |
| Accounts receivable, net | <u>\$ 621,031</u> | <u>\$ 407,448</u> |
| Capital campaign receivable | \$ 868,351 | \$ 1,611,024 |
| Less discount to present value | (24,815) | (72,460) |
| Less allowance for doubtful accounts | <u>(130,253)</u> | <u>(241,436)</u> |
| Capital campaign receivable, net | <u>\$ 713,283</u> | <u>\$ 1,297,128</u> |
| Accounts receivable - other | \$ - | \$ 49,944 |
| Accounts receivable - grants | <u>1,208,935</u> | <u>819,945</u> |
| Other accounts receivable | <u>\$ 1,208,935</u> | <u>\$ 869,889</u> |

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, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Receivable in less than one year | \$ 516,395 | \$ 776,311 |
| Less allowance for doubtful accounts | <u>(77,459)</u> | <u>(115,491)</u> |
| Current capital campaign receivable, net | <u>\$ 438,936</u> | <u>\$ 660,820</u> |
| Receivable in one to five years | \$ 351,956 | \$ 1,152,388 |
| Less discount to present value at 3.5% | (24,815) | (72,460) |
| Less allowance for doubtful accounts | <u>(52,794)</u> | <u>(125,945)</u> |
| Noncurrent capital campaign receivable, net | <u>\$ 274,347</u> | <u>\$ 953,983</u> |

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021:

| | Fair Values as of June 30, 2022 | | | |
|--------------------------------------|---------------------------------|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks | \$ 196,667 | \$ - | \$ - | \$ 196,667 |
| Government securities | 75,278 | - | - | 75,278 |
| | <u>\$ 271,945</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 271,945</u> |
| | Fair Values as of June 30, 2021 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks | \$ 1,037,370 | \$ - | \$ - | \$ 1,037,370 |
| Exchange-traded and closed-end funds | 45,582 | - | - | 45,582 |
| Government securities | 499,942 | - | - | 499,942 |
| | <u>\$ 1,582,894</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,582,894</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 over the life of the capital lease agreement (Note 10), 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, 2022 and 2021, property and equipment consisted of the following:

| | 2022 | 2021 |
|--|----------------------|---------------------|
| Tower | \$ 1,348,341 | \$ 1,337,157 |
| Engineering and production | 1,815,182 | 1,813,614 |
| Office equipment | 348,563 | 318,626 |
| Computer equipment | 851,607 | 778,830 |
| Expansion projects | 4,400,789 | 3,207,797 |
| Leasehold improvements | 664,596 | 664,257 |
| Construction in progress | 9,199,548 | - |
| | <u>18,628,626</u> | <u>8,120,281</u> |
| Less accumulated depreciation and amortization | <u>(4,242,366)</u> | <u>(4,059,266)</u> |
| Property and equipment, net | <u>\$ 14,386,260</u> | <u>\$ 4,061,015</u> |

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 7: PROPERTY AND EQUIPMENT (CONTINUED)

As of June 30, 2022 and 2021, property and equipment capitalized to property and equipment under finance lease agreements totaled \$24,950 and \$0, respectively, with accumulated depreciation of \$1,248 and \$0, respectively. As of June 30, 2022 and 2021, property and equipment capitalized to construction in progress under finance lease agreements totaled \$840,655 and \$0, respectively.

NOTE 8: LINE OF CREDIT

At June 30, 2022 and 2021, 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.

At June 30, 2022 and 2021, the Station has available a \$400,000 revolving line of credit with a local bank that is secured by accounts receivable and equipment. During 2022, the Station drew \$475,000 on the line of credit. The line of credit has an interest rate of 5.75% and matures December 2022. At June 30, 2022, \$400,000 was included in line of credit payable.

During 2017, the local bank approved an additional non-revolving line of credit for \$500,000. At June 30, 2021, \$24,844 was included as note payable. The note was paid in full as of June 30, 2022.

NOTE 9: NOTE PAYABLE

During 2021, the Station entered into a financing agreement with CSUS in the original amount of \$8,000,000 for various interior tenant improvements on a leased building in Sacramento, California. This leased building will serve as the headquarters for the Station once the interior tenant improvements are complete. The financing agreement provides for an interest rate of 1.49% per annum with quarterly principal and interest payments of \$301,405 for a period of 7 years, maturing in March of 2028. The note is secured by the Station's equipment. As of June 30, 2022, the Station has drawn a total of \$8,000,000 on the loan, of which \$4,920,525 and \$3,079,475 were drawn during 2022 and 2021, respectively. As of June 30, 2022 and 2021, the outstanding balance on the loan was \$6,631,822 and \$3,079,475, respectively.

NOTE 10: LEASE COMMITMENTS

Finance Leases

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

During 2022, the Station amended a long-term financing lease agreement with First American Commercial Bancorp, Inc. relating to the purchase of equipment. As of June 30, 2022, the Station has drawn \$575,927 on the financing agreement.

During 2022, the Station entered into two long-term financing lease agreements with Providence Capital Funding, Inc. relating to the purchase of the transmitter equipment. The financing lease entered in January 2022 has drawn a total \$228,794 and is scheduled to expire March 2027. The financing lease entered in June 2022 has drawn a total of \$35,935 and is scheduled to expire on June 2027.

The Station leases various office equipment under a financing lease agreement, expiring March 2027.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 10: LEASE COMMITMENTS (CONTINUED)

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

| <u>Year ending June 30:</u> | |
|--|---------------------|
| 2023 | \$ 411,737 |
| 2024 | 411,737 |
| 2025 | 411,737 |
| 2026 | 381,369 |
| 2027 | <u>168,481</u> |
| Total minimum lease payments | 1,785,061 |
| Less amount representing interest | <u>(142,137)</u> |
| Principal balance due on obligations under finance leases as of June 30, 2022 | 1,642,924 |
| Less current portion | <u>(355,981)</u> |
| Total long-term obligations under finance leases | <u>\$ 1,286,943</u> |

Cash payments made on finance lease liabilities totaled \$248,476 for the year ended June 30, 2022. The weighted average remaining lease terms of finance leases is approximately 4 years. The weighted average discount rate used to determine the finance lease liabilities was approximately 4%.

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.

On September 1, 2020, the Station entered into a lease agreement to rent office space and real property to serve as the headquarters of the Station. These obligations extend through 2036. The lease is for a term of 188 months with monthly payments of \$18,933 beginning July 1, 2021 increasing by 2.5% annually.

On March 1, 2021, the Station entered into a lease agreement to rent office space and real property, commencing September 2021. The obligation extends through 2037. The lease is for a term of 191 months with monthly payments of \$68,976 beginning September 2022 increasing by 2.5% annually. The lease term provides for the option to extend for two five-year terms.

On October 1, 2020, the Station entered into a lease agreement to rent office space and real property for the North State Public Radio station. The obligation extends through June 2030. The lease is for a term of 117 months with monthly payments of \$7,247 increasing by 3% annually. The lease term provides for the option to extend for two five-year terms.

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 \$1,125,022 and \$425,611 for the years ended June 30, 2022 and 2021, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 10: LEASE COMMITMENTS (CONTINUED)

Operating Leases (Continued)

Future minimum lease payments and a reconciliation of undiscounted cash flows under operating lease liabilities at June 30, 2022, are as follows:

| <u>Year ending June 30:</u> | |
|--|----------------------|
| 2023 | \$ 1,101,041 |
| 2024 | 1,216,374 |
| 2025 | 1,230,967 |
| 2026 | 1,258,127 |
| 2027 | 1,284,049 |
| Thereafter | <u>13,623,275</u> |
| Total undiscounted cash flows | 19,713,833 |
| Less: discount on lease liability | <u>(3,973,614)</u> |
| Total operating lease liability | \$ 15,740,219 |
| Less: operating lease liability, current portion | <u>(635,815)</u> |
| Operating lease liability, less current portion | <u>\$ 15,104,404</u> |

At June 30, 2022, operating lease right-of-use assets were \$14,797,662 and operating lease liabilities were \$15,740,219. Cash payments made on operating lease liabilities totaled \$402,225 for the year ended June 30, 2022. The weighted average remaining lease terms of operating leases is approximately 8.25 years. The weighted average discount rate used to determine the operating lease liabilities was approximately 3%.

Rental income on real properties sub-leased to others totaled \$79,815 and \$71,618, for the years ended June 30, 2022 and 2021, respectively.

Operating Leases - Income

Future minimum rental income on real properties sub-leased to others at June 30, 2022, under agreements classified as operating leases with noncancelable terms, are as follows:

| <u>Year ending June 30:</u> | |
|-----------------------------|-------------------|
| 2023 | \$ 72,274 |
| 2024 | 73,811 |
| 2025 | 75,393 |
| 2026 | 66,491 |
| 2027 | 57,638 |
| Thereafter | <u>163,215</u> |
| Total minimum rental income | <u>\$ 508,822</u> |

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 11: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|---------------------|---------------------|
| James Irvine Foundation | \$ 100,000 | \$ 200,000 |
| ARA Stabilization Grants | - | 967,904 |
| California Arts Council | 1,000,000 | - |
| California Health Care Foundation | 143,125 | 26,338 |
| Northern California Collaboration | - | 197,955 |
| | <u>1,243,125</u> | <u>1,392,197</u> |
| Capital campaign | <u>3,418,871</u> | <u>3,862,544</u> |
| Total | <u>\$ 4,661,996</u> | <u>\$ 5,254,741</u> |

NOTE 12: RELATED PARTY TRANSACTIONS

Included in accounts payable at June 30, 2022 and 2021 was \$215,751 and \$255,315, respectively, due to the Endowment.

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, 2022 and 2021, are \$134,240 and \$288,906, respectively, in pledges from board and committee members, which are related to capital campaign fundraising revenues totaling \$25,000 and \$149,000 that were recognized during the years ended June 30, 2022 and 2021, respectively.

Included in accounts payable at June 30, 2022 and 2021, was \$697,967 and \$3,866, respectively, due to CSUS.

For the years ended June 30, 2022 and 2021, revenue received from CSUS and related auxiliaries for services, space, and programs was \$16,660 and \$14,670, respectively.

During the years ended June 30, 2022 and 2021, the Station incurred expenses of \$1,421,110 and \$687,041, respectively, for office building maintenance and various items other than salaries of CSUS personnel. The Station paid \$240,625 and \$242,250 to the Board of Trustees of CSUS for office building rent during the years ended June 30, 2022 and 2021, respectively.

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 10). During each of the years ended June 30, 2022 and 2021, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$179,150 and \$173,014 in principal payments, and \$35,020 and \$41,156 in interest payments during the years ended June 30, 2022 and 2021, respectively.

In 2021, the Station entered into a financing agreement with CSUS for various interior tenant improvements on a leased building in Sacramento, California (Note 9). The agreement provides for repayment of \$8,000,000 over a seven-year period. As of June 30, 2022, the Station has drawn a total of \$8,000,000 on the loan, of which \$4,920,525 and \$3,079,475 were drawn during 2022 and 2021, respectively. As of June 30, 2022 and 2021, the outstanding balance on the loan was \$6,631,822 and \$3,079,475, respectively. During the year ended June 30, 2022, the Station paid \$1,507,023 to CSUS in debt service relating to the agreement. This included \$1,368,178 in principal payments, and \$138,845 in interest payments during the year ended June 30, 2022. There were no debt service payments during the year ended June 30, 2021 related to the agreement.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 13: GRANTS

The following is a list of the grants received during the years ended June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|---------------------|---------------------|
| Corporation for Public Broadcasting: | | |
| Community service grant | \$ 1,187,591 | \$ 1,010,175 |
| State and local government grants | 365,112 | 402,414 |
| Corporate and foundation grants | 1,441,441 | 375,565 |
| Federal government grants | - | 2,253,904 |
| Other grants | <u>230,507</u> | <u>62,500</u> |
| Total | <u>\$ 3,224,651</u> | <u>\$ 4,104,558</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.

In February 2021, the Station was granted a loan from Five Star Bank in the amount of \$1,286,000 under the Paycheck Protection Program ("PPP") as part of the CARES Act. The note and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. As of June 30, 2021, the Station has substantially met the conditions of the loan and has received full loan forgiveness. For the year ended June 30, 2021, the Station recognized the full \$1,286,000 as a conditional grant on the statement of activities.

NOTE 14: CONTRIBUTED NONFINANCIAL ASSETS AND EXPENDITURES

Administrative Support

During the years ended June 30, 2022 and 2021, 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, 2022 and 2021, donated services in the amount of \$3,767,339 and \$2,992,940, respectively, are reported as revenue and expense without donor restrictions in the accompanying statement of activities.

In-kind Donations

During the years ended June 30, 2022 and 2021, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$466,315 and \$226,628, respectively. The in-kind donations are reported as revenue and expense without donor restrictions 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, 2022 and 2021, the Station received approximately 177 and 320 volunteer hours, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 14: CONTRIBUTED NONFINANCIAL ASSETS AND EXPENDITURES (CONTINUED)

Vehicle Donations

It is the Station's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition. During the years ended June 30, 2022 and 2021, the value of cash proceeds received on vehicle donations were \$757,142 and \$1,182,031, 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 contribution for the years ended June 30, 2022 and 2021, was \$254,205 and \$289,710, respectively.

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, 2022 and 2021, 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. During the years ended June 30, 2022 and 2021, the Station recognized capital campaign pledges totaling \$747,569 and \$607,535, respectively. As of June 30, 2022, \$868,351 was included in capital campaign receivable, less a present value discount and bad debt allowance of \$24,815 and \$130,253, respectively, resulting in a net receivable of \$713,283. As of June 30, 2021, \$1,611,024 was included in capital campaign receivable, less a present value discount and bad debt allowance of \$72,460 and \$241,436, respectively, resulting in a net receivable of \$1,297,128.

NOTE 18: RISKS AND UNCERTAINTIES

The COVID-19 coronavirus outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. However, the related financial impact and duration cannot be reasonably estimated at this time.

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, 2022, 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 30, 2022.

Report on 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) as a basis for designing 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. We consider finding 2022-001, as noted in the accompanying schedule of findings and questioned costs, to be a significant deficiency.

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.

Report on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2022-001.

9261 Sierra College Boulevard
Roseville, California 95661

916.751.2900
916.751.2979 FAX

pccllp.com

Capital Public Radio, Inc.'s Response to Findings

Capital Public Radio, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Capital Public Radio, Inc.'s response was not subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

September 30, 2022
Roseville, California

CAPITAL PUBLIC RADIO, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

For the year ended June 30, 2022:

Finding No. 2022-001

Type of Finding: Internal control over financial reporting - Bank Reconciliations

Finding Resolution Status: Open

Questioned Costs: None

Criteria

Internal controls should be designed and implemented to ensure bank reconciliations are performed timely for the Capitol City Escrow accounts.

Condition

During our audit, it was discovered that management does not have a process to reconcile the Capitol City Escrow accounts on a timely basis.

Effect of Condition

Without a process to reconcile the Capitol City Escrow accounts on a timely basis, the Station would be unable to prevent or detect and correct misstatements in a timely manner.

Cause

Due to the lack of a specific policy to address the accounts, management did not implement a process to reconcile the Capitol City Escrow accounts on a timely basis.

Recommendation

We recommend management implement proper internal control policies and procedures to ensure bank reconciliations are performed on a timely basis over the Capitol City Escrow accounts.

Management's Response

Management agrees with the recommendation and will implement a system to ensure the Capitol City Escrow accounts are reconciled on a timely basis.