

**CAPITAL PUBLIC RADIO, INC.**

**FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

CAPITAL PUBLIC RADIO, INC.

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 18
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 <i>GOVERNMENT AUDITING STANDARDS</i>	19 - 20

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Capital Public Radio, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

9261 Sierra College Boulevard  
Roseville, California 95661

916.751.2900  
916.751.2979 FAX

pccllp.com

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Public Radio, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of Capital Public Radio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital Public Radio, Inc.'s internal control over financial reporting and compliance.

*Propp Christenson Caniglia LLP*

September 23, 2015  
Roseville, California

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FINANCIAL POSITION  
June 30, 2015 and 2014

	ASSETS	
	2015	2014
Current assets:		
Cash and cash equivalents	\$ 317,018	\$ 764,302
Investments	151,052	227,984
Contributions receivable, net	657,601	633,889
Accounts receivable, net	518,239	397,270
Other receivables	211,116	231,007
Prepaid expenses	191,537	76,050
Total current assets	2,046,563	2,330,502
Donated artwork	35,025	35,025
Broadcast license	4,933,842	4,933,842
Deposits	56,281	111,100
Property and equipment, net	1,786,063	1,578,552
Total assets	<u>\$ 8,857,774</u>	<u>\$ 8,989,021</u>
	LIABILITIES AND NET ASSETS	
Current liabilities:		
Accounts payable	\$ 322,785	\$ 202,838
Accrued vacation	237,899	219,482
Retirement plan payable	12,862	11,203
FSA / HRA / HSA payable	2,573	8,593
Unearned revenue	111,450	58,970
Note payable, current portion	104,836	101,287
Capital lease obligation, current portion	145,349	140,371
Total current liabilities	937,754	742,744
Note payable, less current portion	397,234	502,070
Capital lease obligation, less current portion	1,875,082	2,020,431
Total liabilities	<u>3,210,070</u>	<u>3,265,245</u>
Net assets:		
Unrestricted:		
General operating	3,626,598	3,697,192
Designated:		
Investment in property and equipment	1,786,063	1,578,552
Donated artwork	35,025	35,025
Temporarily restricted:		
Grant	200,018	413,007
Total net assets	<u>5,647,704</u>	<u>5,723,776</u>
Total liabilities and net assets	<u>\$ 8,857,774</u>	<u>\$ 8,989,021</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, 2015 and 2014

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

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, 2015 and 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Revenue and support:				
Listener contributions	\$ 4,564,818	\$ -	\$ -	\$ 4,564,818
Grant funding	570,661	496,976	-	1,067,637
Advertising and underwriting	2,682,577	-	-	2,682,577
Fundraising	637,153	-	-	637,153
Rental income	129,525	-	-	129,525
Bequest contributions	2,611	-	-	2,611
Other revenue	15,283	-	-	15,283
Interest and dividends	7,696	-	-	7,696
Net realized and unrealized gain on investments	1,136	-	-	1,136
Non-cash:				
CSUS administrative support	1,570,674	-	-	1,570,674
In-kind donations	619,560	-	-	619,560
<b>Total revenue and support</b>	<b>10,801,694</b>	<b>496,976</b>	<b>-</b>	<b>11,298,670</b>
Net assets released from restriction:				
Grant expenditures	209,101	(209,101)	-	-
<b>Total revenue and support and net assets released from restrictions</b>	<b>11,010,795</b>	<b>287,875</b>	<b>-</b>	<b>11,298,670</b>
Expenditures:				
Programs:				
Programming and production	5,129,499	-	-	5,129,499
Broadcasting	2,000,958	-	-	2,000,958
Marketing and promotion	945,621	-	-	945,621
Support:				
Membership development	1,576,865	-	-	1,576,865
Management and general	1,262,809	-	-	1,262,809
<b>Total expenditures</b>	<b>10,915,752</b>	<b>-</b>	<b>-</b>	<b>10,915,752</b>
Change in net assets	95,043	287,875	-	382,918
Net assets, beginning of year, as restated	5,215,726	125,132	-	5,340,858
Net assets, end of year, as restated	<u>\$ 5,310,769</u>	<u>\$ 413,007</u>	<u>\$ -</u>	<u>\$ 5,723,776</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, 2015 and 2014

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

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, 2015 and 2014

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2014 Total
Personnel	\$ 1,953,924	\$ 922,129	\$ 358,792	\$ 440,855	\$ 620,833	\$ 4,296,533
Professional fees	97,744	18,273	4,060	19,377	53,767	193,221
Commissions	-	33,395	-	-	33,395	66,790
In-kind	1,095,117	438,047	219,023	219,023	219,023	2,190,233
Printing and supplies	977	-	21,044	62,595	44,800	129,416
Program guides	-	-	9,000	-	-	9,000
Telephone	14,568	78,878	-	28,429	9,622	131,497
Telemarketing	-	-	-	42,682	-	42,682
Postage and freight	-	-	20,533	14,991	13,623	49,147
Travel and training	79,862	18,546	16,937	57,948	62,988	236,281
Recruiting	-	-	-	-	3,265	3,265
Advertising	-	-	145,627	-	-	145,627
Utilities	17,010	158,190	5,103	3,402	3,402	187,107
Repairs and maintenance	54,431	57,833	18,711	10,206	11,907	153,088
Program acquisition	1,381,265	-	-	-	-	1,381,265
Dues and subscriptions	15,923	-	10,428	8,292	11,823	46,466
Bank charges	-	-	-	77,138	1,284	78,422
Bad debt	-	-	-	152,526	24,825	177,351
Outside services	-	-	63,128	282,515	31,544	377,187
Computer	143,985	14,738	-	41,108	8,435	208,266
Premiums	-	-	-	65,307	-	65,307
Rent	166,213	139,437	23,964	24,014	30,979	384,607
Depreciation	78,700	31,480	15,740	15,740	15,739	157,399
Insurance	22,396	8,959	4,479	4,479	4,479	44,792
Interest	-	78,606	-	-	23,274	101,880
Miscellaneous	7,384	2,447	9,052	6,238	33,802	58,923
Total functional expenses	<u>\$ 5,129,499</u>	<u>\$ 2,000,958</u>	<u>\$ 945,621</u>	<u>\$ 1,576,865</u>	<u>\$ 1,262,809</u>	<u>\$ 10,915,752</u>

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

CAPITAL PUBLIC RADIO, INC.

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

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (76,072)	\$ 382,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	192,317	157,399
Net realized and unrealized (gains) losses	5,702	(1,136)
Donated securities	(1,615)	(14,358)
Provision for bad debt	125,263	177,351
Changes in operating assets and liabilities:		
Contributions receivable	(23,712)	(102,985)
Accounts receivable	(246,232)	(175,675)
Other receivables	19,891	(65,891)
Prepaid expenses	(115,487)	(27,364)
Deposits	54,819	(21,626)
Accounts payable	119,947	67,530
Accrued vacation	18,417	18,749
Other employee benefits payable	(4,361)	6,171
Unearned revenue	52,480	(35,556)
	<u>121,357</u>	<u>365,527</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	-	(226,078)
Net proceeds from sale of investments	72,845	13,588
Cash paid for purchase and construction of property and equipment	(399,828)	(335,742)
	<u>(326,983)</u>	<u>(548,232)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments on note payable	(101,287)	(97,818)
Principal payments on capital lease obligation	(140,371)	(135,564)
	<u>(241,658)</u>	<u>(233,382)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	(447,284)	(416,087)
Cash and cash equivalents, beginning of year	764,302	1,180,389
Cash and cash equivalents, end of year	<u>\$ 317,018</u>	<u>\$ 764,302</u>
<u>Supplementary disclosure of cash flow information:</u>		
Interest paid	<u>\$ 93,604</u>	<u>\$ 101,880</u>

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 1: NATURE OF ORGANIZATION

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Station presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Station is required to report information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In addition, the Station is required to present a statement of cash flows. Accordingly, net assets of the Station and changes therein are classified and reported as follows:

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

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

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

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

Revenue Recognition

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

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

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

Property and Equipment

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

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

Donated Assets

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

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

Donated Services

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

Cash and Cash Equivalents

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

Investments

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

Broadcast Rights

Programming broadcast rights are expensed annually as purchased.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

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

The Station maintains its cash and cash equivalents in bank deposit accounts. These accounts are insurable by the Federal Deposit Insurance Corporation up to \$250,000 per bank for each category of legal ownership. On June 30, 2015 and 2014, the Station's uninsured cash balances totaled \$117,948 and \$338,398, respectively. The Station has not experienced any losses on these accounts, and management believes the Station is not exposed to any significant risk on cash accounts.

For those investments held by a broker who is a member of the Securities Investor Protection Corporation, the cash and securities are insured up to \$500,000 in the event the brokerage firm goes out of business.

Functional Expenses

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

Income Taxes

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

Use of Estimates

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

Fair Value Measurements

The Station has implemented the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, Subtopic 10, *Fair Value Measurements and Disclosures* (FASB ASC 820-10), which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Station determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10. The standard describes three levels of inputs that may be used to measure fair value, (Level 1, Level 2, and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Station has the ability to access at the measurement date.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Station's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Station's own data.

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

Reclassifications

Certain amounts in the 2014 financial statements have been adjusted as further described in Note 16.

Subsequent Events

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

NOTE 3: LINE OF CREDIT

At June 30, 2015 and 2014, the Station had a letter of credit in the amount of \$50,000 available at a local bank in the event that tower equipment on the Walnut Grove site were removed.

The Station has available a \$600,000 line of credit with a local bank that is secured by accounts receivable and equipment. There were no amounts drawn on the line of credit at June 30, 2015 and 2014.

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Contributions receivable	\$ 998,176	\$ 800,493
Less allowance for contributions receivable	<u>(340,575)</u>	<u>(166,604)</u>
Contributions receivable, net	<u>\$ 657,601</u>	<u>\$ 633,889</u>
Accounts receivable	\$ 539,794	\$ 412,985
Less allowance for accounts receivable	<u>(21,555)</u>	<u>(15,715)</u>
Accounts receivable, net	<u>\$ 518,239</u>	<u>\$ 397,270</u>
Accounts receivable - other	\$ 11,098	\$ 5,239
Accounts receivable - grants	<u>200,018</u>	<u>225,768</u>
Other accounts receivable	<u>\$ 211,116</u>	<u>\$ 231,007</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

	Fair Values as of June 30, 2014			Total
	Level 1	Level 2	Level 3	
Exchange-traded and closed-end funds	<u>\$ 227,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,984</u>

NOTE 6: BROADCAST LICENSE PURCHASE

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

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

NOTE 7: PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Tower	\$ 1,307,826	\$ 1,299,692
Engineering and production	1,568,821	1,541,431
Office equipment	282,822	273,158
Computer equipment	612,657	608,350
Expansion projects	615,713	496,715
Leasehold improvements	<u>427,283</u>	<u>195,948</u>
	4,815,122	4,415,294
Less accumulated depreciation and amortization	<u>(3,029,059)</u>	<u>(2,836,742)</u>
Total property and equipment	<u>\$ 1,786,063</u>	<u>\$ 1,578,552</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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, 2014, construction had not yet begun.

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

<u>Year Ending June 30:</u>	
2016	\$ 104,836
2017	108,597
2018	112,448
2019	116,435
2020	<u>59,754</u>
Total	<u>\$ 502,070</u>

NOTE 9: LEASE COMMITMENTS

Capital Lease

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

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

<u>Year Ending June 30:</u>	
2016	\$ 214,170
2017	214,170
2018	214,170
2019	214,170
2020	214,170
Thereafter	<u>1,392,105</u>
Total minimum lease payments	2,462,955
Less amount representing interest	<u>(442,524)</u>
Principal balance due on obligations under capital leases as of June 30, 2015	2,020,431
Less current portion	<u>(145,349)</u>
Total long-term obligations under capital lease	<u>\$ 1,875,082</u>



CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 9: LEASE COMMITMENTS (CONTINUED)

Operating Leases

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

Certain real property leases contain renewal options up to five years. Several of the real property leases contain an escalation clause which requires additional rent on each anniversary date of the lease. Rent expense totaled \$395,359 and \$384,607, respectively, for the years ended June 30, 2015 and 2014.

Future minimum lease payments at June 30, 2015, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year Ending June 30:</u>	
2016	\$ 399,126
2017	363,266
2018	302,900
2019	295,117
2020	294,175
Thereafter	<u>3,362,900</u>
Total minimum lease payments	<u>\$ 5,017,484</u>

Rental income on real properties sub-leased to others totaled \$108,606 and \$129,525, respectively, for the years ended June 30, 2015 and 2014.

Future minimum rental income on real properties sub-leased to others at June 30, 2015, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year Ending June 30:</u>	
2016	\$ 104,836
2017	108,597
2018	112,448
2019	116,435
2020	<u>59,754</u>
Total	<u>\$ 502,070</u>

NOTE 10: RELATED PARTY TRANSACTIONS

Included in accounts receivable at June 30, 2015 and 2014, is \$3,200 and \$2,100, respectively, due from CSUS and related auxiliaries for program underwriting. For the years ended June 30, 2015 and 2014, revenue received from CSUS and related auxiliaries for services, space, and programs was \$47,800 and \$40,364, respectively.

Included in accounts payable at June 30, 2015 and 2014, is \$35,906 and \$20,898, respectively, due to CSUS. During the years ended June 30, 2015 and 2014, the Station incurred expenses of \$185,506 and \$207,452 for office building maintenance and various items other than salaries of CSUS personnel, respectively. The Station paid \$242,368 and \$239,636 to the Board of Trustees of CSUS for office building rent during the years ended June 30, 2015 and 2014, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 10: RELATED PARTY TRANSACTIONS (CONTINUED)

The Station entered the KUOP Facilities Agreement (the "Agreement") with CSUS on August 14, 2008. The Agreement provides for the financing of certain costs related to the Asset Purchase Agreement between CSUS and the University of the Pacific to secure the purchase of the broadcast license of the FM broadcasting station KUOP (Note 6). The terms of the Agreement, which were amended in 2013, provide for a long-term capital lease financing arrangement between the Station and CSUS, which requires the repayment of \$3,000,000 at 3.5% interest in annual installments over a period of 18 years (Note 9). During the year ended June 30, 2015, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$140,371 in principal payments and \$73,799 in interest. During the year ended June 30, 2014, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$135,564 in principal payments and \$78,606 in interest.

The Station entered into a financing agreement for the construction of the new KXPR tower (Note 8). The agreement provides for repayment of \$750,000 over a seven year period at 3.5% interest. During the year ended June 30, 2015, the Station paid \$90,819 to CSUS in debt service relating to this financing agreement. This included \$75,619 in principal payments and \$15,200 in interest payments. During the year ended June 30, 2014, the Station paid \$121,092 to CSUS in debt service relating to this financing agreement. This included \$97,818 in principal payments and \$23,274 in interest payments.

NOTE 11: GRANTS

The following is a list of the grants received during the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Corporation for Public Broadcasting:		
Community service grant	\$ 692,755	\$ 628,697
Cable grant	18,233	17,875
Environmental reporting grants	6,500	25,927
Healthcare reporting grants	242,518	292,018
Food reporting grants	290,500	80,000
Other grants	<u>66,972</u>	<u>23,120</u>
Total	<u>\$ 1,317,478</u>	<u>\$ 1,067,637</u>

The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants ("CSGs") to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby enhance the quality of programming and expand the scope of public broadcasting services.

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 12: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support

During the fiscal years ending June 30, 2015 and 2014, 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, 2015 and 2014, donated services in the amounts of \$1,672,315 and \$1,570,674, respectively, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations

During the years ended June 30, 2015 and 2014, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$425,769 and \$619,560, respectively. The in-kind donations are reported as revenue and expense in the accompanying statement of activities.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Station in meeting its program objectives. During the years ended June 30, 2015 and 2014, the Station received approximately 1,102 and 1,228 in volunteer hours, respectively.

NOTE 13: FUND-RAISING EXPENSES

Total fund-raising expenses for the years ending June 30, 2015 and 2014, were \$1,498,198 and \$1,576,865, respectively.

NOTE 14: RETIREMENT PLAN

Effective October 1, 2010, the Station adopted a new 401(k) plan. All employees are eligible on the date of hire to participate in salary deferrals to the plan; however, employees must have 1,000 hours of service to be eligible for matching and profit sharing contributions. For all eligible employees, the Station will match 100% of employees' respective salary contributions up to 5% of their compensation. The total retirement plan contributions for the years ending June 30, 2015 and 2014, were \$143,546 and \$135,860, respectively.

NOTE 15: 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, 2015 and 2014, 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.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014

NOTE 16 PRIOR PERIOD ADJUSTMENT

During 2015, management identified a receivable adjustment relating to the prior periods. Certain amounts previously recorded as receivable balances were determined to be incorrectly recorded. This adjustment resulted in a decrease in net assets as of June 30, 2014 and 2013, and a decrease to change in net assets for the years ending June 30, 2014 and 2013. The effects of this adjustment are summarized as follows:

Net assets:

June 30, 2013 balance, as originally stated	\$ 5,341,830
Underwriting receivable adjustment	<u>(972)</u>
June 30, 2013 balance, as restated	<u>\$ 5,340,858</u>

June 30, 2014 balance, as originally stated	\$ 5,792,234
Underwriting receivable adjustment	<u>(68,458)</u>
June 30, 2014 balance, as restated	<u>\$ 5,723,776</u>

Change in net assets:

2014 balance, as originally stated	\$ 450,404
Underwriting receivable adjustment	<u>(67,486)</u>
2014 balance, as restated	<u>\$ 382,918</u>

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, 2015, 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 23, 2015.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Propp Christenson Caniglia LLP*

September 23, 2015  
Roseville, California