

CAPITAL PUBLIC RADIO, INC.

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 - 20
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>	21 - 22

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, 2020 and 2019, 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.

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, 2020 and 2019, 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, 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 17, 2020
Roseville, California

CAPITAL PUBLIC RADIO, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 3,393,489	\$ 57,002
Contributions receivable, net	19,652	18,211
Accounts receivable, net	334,436	458,288
Capital campaign receivable, net	383,910	2,394,404
Other receivables	644,935	489,552
Prepaid expenses	14,575	42,925
Total current assets	<u>4,790,997</u>	<u>3,460,382</u>
Capital campaign receivable, net of current portion and allowance	886,272	331,615
Donated artwork	35,025	35,025
Broadcast license	4,933,842	4,933,842
Deposits	43,514	50,036
Property and equipment, net	<u>2,848,802</u>	<u>2,328,193</u>
Total assets	<u>\$ 13,538,452</u>	<u>\$ 11,139,093</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 436,417	\$ 663,765
Accrued vacation	494,059	394,333
Retirement plan payable	19,495	16,873
Unearned revenue	87,053	100,228
Line of credit	-	115,000
Note payable, current portion	96,582	224,361
Capital lease obligation, current portion	<u>173,014</u>	<u>167,089</u>
Total current liabilities	1,306,620	1,681,649
Capital lease obligation, less current portion	<u>1,025,796</u>	<u>1,240,284</u>
Total liabilities	<u>2,332,416</u>	<u>2,921,933</u>
Net assets:		
Without donor restrictions:		
General operating	3,835,821	2,835,300
Designated:		
Investment in property and equipment	2,848,802	2,328,193
Donated artwork	<u>35,025</u>	<u>35,025</u>
Net assets without donor restrictions	<u>6,719,648</u>	<u>5,198,518</u>
With donor restrictions:		
Grants	643,438	362,150
Capital campaign	<u>3,842,950</u>	<u>2,656,492</u>
Net assets with donor restrictions	<u>4,486,388</u>	<u>3,018,642</u>
Total net assets	<u>11,206,036</u>	<u>8,217,160</u>
Total liabilities and net assets	<u>\$ 13,538,452</u>	<u>\$ 11,139,093</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, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>
Revenue and support:			
Listener contributions	\$ 6,877,089	\$ -	\$ 6,877,089
Grant funding	678,019	2,203,066	2,881,085
Underwriting	2,592,770	-	2,592,770
Fundraising	808,529	1,760,060	2,568,589
Rental income	66,175	-	66,175
Other revenue	71,213	-	71,213
Net return on investments	891	-	891
Non-cash:			
CSUS administrative support	2,610,235	-	2,610,235
In-kind donations	386,210	-	386,210
Total revenue and support	<u>14,091,131</u>	<u>3,963,126</u>	<u>18,054,257</u>
Net assets released from restriction:			
Capital campaign expenditures	573,602	(573,602)	-
Grant expenditures	1,921,778	(1,921,778)	-
Total net assets released from restrictions	<u>2,495,380</u>	<u>(2,495,380)</u>	<u>-</u>
Total revenue and support and net assets released from restrictions	<u>16,586,511</u>	<u>1,467,746</u>	<u>18,054,257</u>
Expenditures:			
Programs:			
Programming and production	7,820,261	-	7,820,261
Broadcasting	1,494,763	-	1,494,763
Marketing and promotion	1,729,507	-	1,729,507
Support:			
Membership development	2,174,704	-	2,174,704
Management and general	1,846,146	-	1,846,146
Total expenditures	<u>15,065,381</u>	<u>-</u>	<u>15,065,381</u>
Change in net assets	1,521,130	1,467,746	2,988,876
Net assets, beginning of year	<u>5,198,518</u>	<u>3,018,642</u>	<u>8,217,160</u>
Net assets, end of year	<u>\$ 6,719,648</u>	<u>\$ 4,486,388</u>	<u>\$ 11,206,036</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, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
Revenue and support:			
Listener contributions	\$ 6,124,690	\$ -	\$ 6,124,690
Grant funding	709,007	848,089	1,557,096
Underwriting	3,097,973	-	3,097,973
Fundraising	800,147	2,721,622	3,521,769
Rental income	67,271	-	67,271
Other revenue	52,033	-	52,033
Net return on investments	4,506	-	4,506
Non-cash:			
CSUS administrative support	2,004,902	-	2,004,902
In-kind donations	432,152	-	432,152
	<u>13,292,681</u>	<u>3,569,711</u>	<u>16,862,392</u>
Total revenue and support			
Net assets released from restriction:			
Capital campaign expenditures	1,032,741	(1,032,741)	-
Grant expenditures	897,285	(897,285)	-
	<u>1,930,026</u>	<u>(1,930,026)</u>	<u>-</u>
Total net assets released from restrictions			
	<u>15,222,707</u>	<u>1,639,685</u>	<u>16,862,392</u>
Total revenue and support and net assets released from restrictions			
Expenditures:			
Programs:			
Programming and production	6,761,366	-	6,761,366
Broadcasting	2,229,367	-	2,229,367
Marketing and promotion	1,394,629	-	1,394,629
Support:			
Membership development	2,092,448	-	2,092,448
Management and general	1,623,734	-	1,623,734
	<u>14,101,544</u>	<u>-</u>	<u>14,101,544</u>
Total expenditures			
Change in net assets	1,121,163	1,639,685	2,760,848
Net assets, beginning of year	4,077,355	1,378,957	5,456,312
Net assets, end of year	<u>\$ 5,198,518</u>	<u>\$ 3,018,642</u>	<u>\$ 8,217,160</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, 2020 and 2019

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2020 Total
Personnel	\$ 3,656,445	\$ 258,811	\$ 1,023,231	\$ 857,572	\$ 766,860	\$ 6,562,919
Professional fees	346,809	41,802	153,984	52,799	105,194	700,588
Research and development	128,209	-	1,050	-	-	129,259
In-kind	1,474,995	589,998	294,999	294,999	341,453	2,996,444
Printing and supplies	1,842	22,073	5,075	68,798	29,507	127,295
Underwriting support	12,138	-	12,138	-	-	24,276
Telephone	24,066	124,285	549	2,506	13,669	165,075
Telemarketing	-	-	-	74,918	-	74,918
Postage and freight	-	-	26,076	28,407	1,134	55,617
Travel and training	73,280	2,908	3,654	9,119	57,221	146,182
Recruiting	-	-	-	-	9,182	9,182
Advertising	-	-	83,510	2,306	-	85,816
Utilities	63,252	193,146	12,650	12,650	47,075	328,773
Repairs and maintenance	111,312	44,525	22,262	22,262	22,262	222,623
Program acquisition	1,512,212	-	-	-	-	1,512,212
Dues and subscriptions	17,885	120	299	1,476	39,613	59,393
Bank charges	-	-	-	107,533	763	108,296
Bad debts	-	-	-	-	168,186	168,186
Outside services	-	-	21,538	495,922	25,340	542,800
Web maintenance and hosting	28,005	-	-	-	-	28,005
Management fees	-	-	-	-	17,285	17,285
Premiums	-	-	-	73,692	-	73,692
Rent	184,210	154,534	26,559	26,614	34,333	426,250
Depreciation	96,226	38,491	19,245	19,245	19,245	192,452
Insurance	39,640	15,856	7,928	7,928	7,928	79,280
Interest	-	-	-	-	92,749	92,749
Miscellaneous	49,735	8,214	14,760	15,958	47,147	135,814
Total functional expenses	<u>\$ 7,820,261</u>	<u>\$ 1,494,763</u>	<u>\$ 1,729,507</u>	<u>\$ 2,174,704</u>	<u>\$ 1,846,146</u>	<u>\$ 15,065,381</u>

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, 2020 and 2019

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2019 Total
Personnel	\$ 2,843,415	\$ 1,064,330	\$ 488,373	\$ 782,498	\$ 719,289	\$ 5,897,905
Professional fees	274,308	51,879	360,976	58,118	134,306	879,587
Research and development	123,969	-	2,819	-	-	126,788
In-kind	1,218,528	487,411	243,705	243,705	243,705	2,437,054
Printing and supplies	984	18,985	615	69,949	41,303	131,836
Underwriting support	34,573	-	34,573	-	-	69,146
Telephone	35,624	140,258	-	2,018	12,069	189,969
Telemarketing	-	-	-	42,323	-	42,323
Postage and freight	-	-	23,312	25,396	2,404	51,112
Travel and training	144,322	13,970	11,248	43,802	75,139	288,481
Recruiting	-	-	-	-	39,412	39,412
Advertising	-	-	87,326	4,576	-	91,902
Utilities	68,123	191,209	13,620	13,620	42,093	328,665
Repairs and maintenance	98,586	39,434	19,717	19,717	19,717	197,171
Program acquisition	1,458,269	-	-	-	-	1,458,269
Dues and subscriptions	10,943	390	573	9,502	29,215	50,623
Bank charges	-	-	-	98,046	788	98,834
Outside services	-	-	38,201	546,671	23,406	608,278
Web maintenance and hosting	48,458	-	-	-	-	48,458
Management fees	-	-	-	-	23,075	23,075
Premiums	-	-	-	59,195	-	59,195
Rent	190,211	159,569	27,424	27,481	35,452	440,137
Depreciation	85,154	34,061	17,030	17,030	17,030	170,305
Insurance	56,463	22,585	11,293	11,293	11,293	112,927
Interest	-	-	-	-	97,606	97,606
Miscellaneous	69,436	5,286	13,824	17,508	56,432	162,486
Total functional expenses	\$ 6,761,366	\$ 2,229,367	\$ 1,394,629	\$ 2,092,448	\$ 1,623,734	\$ 14,101,544

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,988,876	\$ 2,760,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	192,453	170,305
Contributions restricted for capital campaign	(1,821,350)	(2,706,336)
Discount on pledges	61,290	(15,286)
Provision for bad debts	168,186	-
Changes in operating assets and liabilities:		
Contributions receivable	(86,569)	1,541
Accounts receivable	123,852	(4,080)
Other receivables	(155,383)	(172,421)
Prepaid expenses	28,350	(30,927)
Deposits	6,522	2,994
Accounts payable	(227,348)	224,575
Accrued vacation	99,726	48,239
Retirement plan payable	2,622	1,399
Unearned revenue	(13,175)	33,462
	<u>1,368,052</u>	<u>314,313</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Net proceeds from sale of investments	-	54,753
Cash paid for purchase and construction of property and equipment	(713,062)	(657,973)
	<u>(713,062)</u>	<u>(603,220)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Contributions received restricted for capital campaign	3,132,839	515,270
Principal payments on note payable	(127,779)	(451,829)
Principal payments on line of credit	(115,000)	(160,000)
Principal payments on capital lease obligation	(208,563)	(161,366)
	<u>2,681,497</u>	<u>(257,925)</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	3,336,487	(546,832)
Cash and cash equivalents, beginning of year	57,002	603,834
Cash and cash equivalents, end of year	<u>\$ 3,393,489</u>	<u>\$ 57,002</u>
<u>Supplementary disclosure of cash flow information:</u>		
Interest paid	<u>\$ 92,749</u>	<u>\$ 97,606</u>

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14 Not-for-Profit Entities Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the presentation of net assets classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The Station has retrospectively adopted the provision as of June 30, 2019.

The Station presents its financial statements in accordance with 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 and net assets with donor restrictions.

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 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.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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.

In June 2018, the FASB issued ASU No. 2018-08 "Not-for-Profit Entities (Topic 958)". The ASU provides an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Station has retrospectively adopted the provision as of June 30, 2020 with no effect to previously reported net asset balances.

Property and Equipment

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

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

Donated Assets

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

Donations of property and equipment (and other assets with explicit restrictions regarding their use) and contributions of cash that must be used to acquire such assets are reported as restricted contributions. The Station reports gifts of artwork as 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.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020, the Station's uninsured cash balances totaled \$2,843,039. As of June 30, 2019, there were no uninsured cash balances. The Station has not experienced any losses on these accounts, and management believes the Station is not exposed to any significant risk on cash accounts.

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

Functional Expenses

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

Income Taxes

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

Use of Estimates

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

Advertising

Advertising expense for the years ended June 30, 2020 and 2019 totaled \$85,816 and \$57,102, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)". The ASU provides guidance over the core principle of recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will supersede the revenue recognition requirements in FASB ASC 605, "Revenue Recognition", and most industry-specific guidance throughout the Industry Topics of the FASB ASC. The purpose of the new standard is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). For non-public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, and interim periods withing annual periods beginning after December 15, 2018. Early adoption is permitted. In May 2020, the FASB voted to defer the effective date of ASU No. 2014-09 "Revenue from Contracts with Customers" for all entities by one year. Management is evaluating the impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard will supersede much of the existing authoritative literature for leases. Under ASU 2016-02, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The amendments in the update are effective for annual reporting periods beginning after December 15, 2020. Early application is permitted. Management is evaluating the impact on the financial statements.

Reclassifications

Certain items in the 2019 financial statements have been reclassified, with no effect to change in net assets to conform to the 2020 financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through September 17, 2020, the date that the financial statements were available to be issued. The COVID-19 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 its duration. The Station expects this matter to negatively impact its operating environment; however, the related financial impact and duration cannot be reasonably estimated at this time.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,393,489	\$ 57,002
Contributions receivable, net	19,652	18,211
Accounts receivable, net	334,436	458,288
Capital campaign receivable, net	383,910	2,394,404
Other receivables	<u>644,935</u>	<u>478,552</u>
Financial assets	4,776,422	3,406,457
Less those unavailable for general expenditure within one year, due to purpose and time restrictions stipulated by donors	<u>(3,600,116)</u>	<u>(2,687,027)</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 1,176,306</u>	<u>\$ 719,430</u>

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Contributions receivable	\$ 33,146	\$ 33,750
Less allowance for doubtful accounts	<u>(13,494)</u>	<u>(15,539)</u>
Contributions receivable, net	<u>\$ 19,652</u>	<u>\$ 18,211</u>
Accounts receivable	\$ 355,991	\$ 479,843
Less allowance for doubtful accounts	<u>(21,555)</u>	<u>(21,555)</u>
Accounts receivable, net	<u>\$ 334,436</u>	<u>\$ 458,288</u>
Capital campaign receivable	\$ 1,609,572	\$ 2,868,921
Less discount to present value	(97,954)	(36,664)
Less allowance for doubtful accounts	<u>(241,436)</u>	<u>(106,238)</u>
Capital campaign receivable, net	<u>\$ 1,270,182</u>	<u>\$ 2,726,019</u>
Accounts receivable - other	\$ 1,497	\$ 2,845
Accounts receivable - grants	<u>643,438</u>	<u>486,707</u>
Other accounts receivable	<u>\$ 644,935</u>	<u>\$ 489,552</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE (CONTINUED)

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, 2020 and 2019:

	2020	2019
Receivable in less than one year	\$ 457,184	\$ 2,487,071
Less allowance for doubtful accounts	<u>(73,274)</u>	<u>(92,667)</u>
Current capital campaign receivable, net	<u>\$ 383,910</u>	<u>\$ 2,394,404</u>
Receivable in one to five years	\$ 1,152,388	\$ 381,850
Less discount to present value at 3.5%	(97,954)	(36,664)
Less allowance for doubtful accounts	<u>(168,162)</u>	<u>(13,571)</u>
Noncurrent capital campaign receivable, net	<u>\$ 886,272</u>	<u>\$ 331,615</u>

NOTE 5: 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 6: PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Tower	\$ 1,310,678	\$ 1,304,830
Engineering and production	1,773,214	1,659,826
Office equipment	318,626	314,069
Computer equipment	696,753	681,087
Expansion projects	1,974,173	1,400,571
Leasehold improvements	<u>664,257</u>	<u>664,257</u>
	6,737,701	6,024,640
Less accumulated depreciation and amortization	<u>(3,888,899)</u>	<u>(3,696,447)</u>
Property and equipment, net	<u>\$ 2,848,802</u>	<u>\$ 2,328,193</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 7: LINE OF CREDIT

At June 30, 2020 and 2019, 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 \$1,000,000 non-revolving line of credit with a local bank that is secured by commercial real estate.

The Station has available a \$400,000 revolving line of credit with a local bank that is secured by accounts receivable and equipment. The note was paid in full as of June 30, 2020. At June 30, 2019, \$115,000 was payable.

During 2017, the local bank approved an additional non-revolving line of credit for \$500,000. At June 30, 2020 and 2019, \$96,582 and \$164,607, respectively, was included as note payable.

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. The note was paid in full as of June 30, 2020.

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>	
	2021	\$ 214,170
	2022	214,170
	2023	214,170
	2024	214,170
	2025	214,170
	Thereafter	<u>295,060</u>
Total minimum lease payments		1,365,910
Less amount representing interest		<u>(167,100)</u>
Principal balance due on obligations under capital leases as of June 30, 2020		1,198,810
Less current portion		<u>(173,014)</u>
Total long-term obligations under capital lease		<u>\$ 1,025,796</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 \$426,251 and \$440,136 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments at June 30, 2020, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year ending June 30:</u>	
2021	\$ 408,992
2022	380,826
2023	287,962
2024	278,617
2025	273,473
Thereafter	<u>2,427,863</u>
Total minimum lease payments	<u>\$4,057,733</u>

Rental income on real properties sub-leased to others totaled \$66,175 and \$67,271, for the years ended June 30, 2020 and 2019, respectively.

Future minimum rental income on real properties sub-leased to others at June 30, 2020, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year ending June 30:</u>	
2021	\$ 51,488
2022	49,416
2023	50,899
2024	52,426
2025	53,999
Thereafter	<u>265,494</u>
Total minimum rental income	<u>\$ 523,722</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of June 30, 2020 and 2019:

	2020	2019
Healthcare reporting grants	\$ -	\$ 162,150
California dream project	-	200,000
Sacramento Metro Cable TV	16,218	-
California Health Care Foundation	110,120	-
Northern California Collaboration	517,100	-
	<u>643,438</u>	<u>362,150</u>
Capital campaign	<u>3,842,950</u>	<u>2,656,492</u>
Total	<u>\$ 4,486,388</u>	<u>\$ 3,018,642</u>

NOTE 11: RELATED PARTY TRANSACTIONS

Included in accounts payable at June 30, 2020 and 2019 was \$143,134 and \$25,425, 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, 2020 and 2019, are \$243,907 and \$292,838, respectively, in pledges from board and committee members, which are related to capital campaign fundraising revenues totaling \$200 and \$65,100 that were recognized during the years ended June 30, 2020 and 2019, respectively.

Included in accounts payable at June 30, 2020 and 2019, was \$15,842 and \$43,427, respectively, due to CSUS.

For the years ended June 30, 2020 and 2019, revenue received from CSUS and related auxiliaries for services, space, and programs was \$19,110 and \$29,385, respectively.

During the years ended June 30, 2020 and 2019, the Station incurred expenses of \$205,269 and \$169,695, respectively, for office building maintenance and various items other than salaries of CSUS personnel. The Station paid \$238,500 and \$239,013 to the Board of Trustees of CSUS for office building rent during the years ended June 30, 2020 and 2019, 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 9). During each of the years ended June 30, 2020 and 2019, the Station paid \$214,170 to CSUS in debt service relating to the Agreement. This included \$167,089 and \$161,367 in principal payments, and \$47,081 and \$52,803 in interest payments during the years ended June 30, 2020 and 2019, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 11: RELATED PARTY TRANSACTIONS (CONTINUED)

The Station entered into a financing agreement for the construction of the new KXPR tower (Note 9). The agreement provides for repayment of \$750,000 over a seven-year period at 3.5% interest. During the years ended June 30, 2020 and 2019, the Station paid \$60,546 and \$121,092, respectively, to CSUS in debt service relating to this financing agreement. This included \$59,754 and \$116,435 in principal payments, and \$792 and \$4,657 in interest payments during the years ended June 30, 2020 and 2019, respectively.

NOTE 12: GRANTS

The following is a list of the grants received during the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Corporation for Public Broadcasting:		
Community service grant	\$ 1,427,956	\$ 717,927
State and local government grants	48,652	58,207
Corporate and foundation grants	341,477	780,962
Federal government grant	<u>1,063,000</u>	<u>-</u>
 Total	 <u>\$ 2,881,085</u>	 <u>\$ 1,557,096</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 April 2020, the Station was granted a loan from Five Star Bank in the amount of \$1,063,000 under the Paycheck Protection Program ("PPP") as part of the CARES Act. The note and accrued interest are forgivable after eight 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, 2020, the Station has substantially met the conditions of the loan and has applied for loan forgiveness. For the year ended June 30, 2020, the Station recognized the full \$1,063,000 as a conditional grant on the statement of activities.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 13: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support

During the years ended June 30, 2020 and 2019, 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, 2020 and 2019, donated services in the amount of \$2,610,235 and \$2,004,902, respectively, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations

During the years ended June 30, 2020 and 2019, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$386,210 and \$432,152, 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, 2020 and 2019, the Station received approximately 340 and 655 volunteer hours, respectively.

NOTE 14: 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 ending June 30, 2020 and 2019, was \$217,781 and \$195,309, 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, 2020 and 2019, 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 16: CAPITAL CAMPAIGN

In 2016, the Station began a capital campaign designed to raise funds for building expansion. During the years ended June 30, 2020 and 2019, the Station recognized capital campaign pledges totaling \$1,760,060 and \$2,721,622, respectively. As of June 30, 2020, \$1,609,572 was included in capital campaign receivable, less a present value discount and bad debt allowance of \$97,954 and \$241,436, respectively, resulting in a net receivable of \$1,270,182. As of June 30, 2019, \$2,868,921 was included in capital campaign receivable, less a present value discount and bad debt allowance of \$36,664 and \$106,238, respectively, resulting in a net receivable of \$2,726,019.

CAPITAL PUBLIC RADIO, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 17: SUBSEQUENT EVENT

The Station is exploring a long-term operational relationship with the public radio stations licensed to Humboldt State (KHSU) and Chico State (NSPR). The stations have engaged Public Media Co. to lead the due diligence and financial modeling process. The Station has also been approved for a Collaborative Operations Grant with CPB to finance the collaboration.

The preferred outcome is to have all stations operated by the Station under a public service operating agreement with their respective licensees. This mirrors the Station's existing relationship with its licensee, CSUS.

A Public Service Operating Agreement (PSOA) with NSPR was fully executed September 1, 2020. The Station is still negotiating PSOA terms with KHSU.

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, 2020, 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 17, 2020.

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.

Proff Christensen Caniglia LLP

September 17, 2020
Roseville, California