

**NORTHERN CALIFORNIA  
EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED  
JUNE 30, 2016 AND 2015**

## **INDEPENDENT AUDITOR'S REPORT**

**Board of Directors  
Northern California Educational Television Association, Inc.  
Redding, California**

We have audited the accompanying financial statements of the Northern California Educational Television Association, Inc. (Station), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern California Educational Television Association, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis-of-Matter regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Station will continue as a going concern. As discussed in note 13 to the financial statements, the Station has suffered recurring significant reductions in net income and has a net deficiency in unrestricted net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**November 2, 2016**

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 16,670	\$ 108,841
Accounts receivable	11,299	21,280
Other assets	<u>16,384</u>	<u>15,407</u>
Total current assets	44,353	145,528
<b>PROPERTY AND EQUIPMENT, Net</b>	<u>967,508</u>	<u>1,095,040</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,011,861</u>	<u>\$ 1,240,568</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 58,995	\$ 56,042
Accrued expenses and other liabilities	60,479	61,374
Line of credit	<u>193,000</u>	<u>155,989</u>
Total current liabilities	<u>312,474</u>	<u>273,405</u>
<b>NET ASSETS - Unrestricted:</b>		
Deficit	(268,121)	(127,877)
Investment in property and equipment	<u>967,508</u>	<u>1,095,040</u>
Total net assets	<u>699,387</u>	<u>967,163</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,011,861</u>	<u>\$ 1,240,568</u>

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

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES:</b>		
Community service grants	\$ 697,388	\$ 701,373
Membership contributions	344,284	339,826
Contributions	324,190	543,820
Special events	110,816	116,670
Underwriting contributions	85,256	97,467
Contract services	47,035	26,327
Other grants	15,000	21,100
Other revenues	12,657	12,995
Net assets released from restriction	<u>-</u>	<u>20,236</u>
Total revenues	<u>1,636,626</u>	<u>1,879,814</u>
<b>EXPENSES:</b>		
Program services:		
Programming and production	583,461	601,867
Broadcasting and engineering	<u>465,215</u>	<u>484,398</u>
Total program services	1,048,676	1,086,265
Supporting services:		
Fundraising, underwriting and membership	520,552	604,876
Management and general	<u>335,174</u>	<u>351,803</u>
Total expenses	<u>1,904,402</u>	<u>2,042,944</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<u>(267,776)</u>	<u>(163,130)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Net assets released from restriction	<u>-</u>	<u>(20,236)</u>
<b>DECREASE IN NET ASSETS</b>	(267,776)	(183,366)
<b>NET ASSETS, Beginning of Year</b>	<u>967,163</u>	<u>1,150,529</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 699,387</u>	<u>\$ 967,163</u>

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

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Programming and production</u>	<u>Broadcasting and engineering</u>	<u>Fundraising, underwriting and membership</u>	<u>Management and general</u>	
Personnel	\$ 139,415	\$ 169,757	\$ 208,451	\$ 205,540	\$ 723,163
Program acquisition	324,839	93,698	-	-	418,537
Donated services, materials and facilities	-	44,260	181,648	73,750	299,658
Depreciation	70,702	42,421	14,140	14,140	141,403
Utilities	22,541	40,399	4,508	4,508	71,956
Professional fees	1,300	2,949	11,914	24,338	40,501
Premiums	-	-	37,507	-	37,507
Rent and leases	-	30,214	1,682	-	31,896
Insurance	15,116	9,069	3,023	3,023	30,231
Printing and supplies	204	79	16,501	1,029	17,813
Repairs and maintenance	-	13,331	983	-	14,314
Postage and freight	58	1,483	12,039	99	13,679
Bank charges	-	-	12,537	663	13,200
Computer expense	-	10,280	30	2,201	12,511
Interest expense	5,737	3,442	1,147	1,148	11,474
Telephone	2,509	1,505	502	501	5,017
Travel and conferences	20	1,702	1,877	538	4,137
Other expenses	<u>1,020</u>	<u>626</u>	<u>12,063</u>	<u>3,696</u>	<u>17,405</u>
Total	<u>\$ 583,461</u>	<u>\$ 465,215</u>	<u>\$ 520,552</u>	<u>\$ 335,174</u>	<u>\$ 1,904,402</u>

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

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2015**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Programming and production</u>	<u>Broadcasting and engineering</u>	<u>Fundraising, underwriting and membership</u>	<u>Management and general</u>	
Personnel	\$ 137,292	\$ 160,981	\$ 213,565	\$ 189,115	\$ 700,953
Program acquisition	310,574	91,413	-	-	401,987
Donated services, materials and facilities	-	53,936	232,316	92,581	378,833
Depreciation	98,322	58,993	19,664	19,665	196,644
Utilities	23,249	43,530	4,650	4,650	76,079
Professional fees	3,310	8,713	11,421	23,475	46,919
Premiums	-	-	48,930	-	48,930
Rent and leases	-	18,826	5,480	-	24,306
Insurance	15,124	9,074	3,025	3,325	30,548
Printing and supplies	-	71	24,097	2,022	26,190
Repairs and maintenance	138	19,171	-	-	19,309
Postage and freight	32	1,609	12,428	38	14,107
Bank charges	-	-	14,396	105	14,501
Computer expense	-	7,948	-	6,487	14,435
Interest expense	8,245	4,947	1,649	1,649	16,490
Telephone	3,078	1,847	616	614	6,155
Travel and conferences	151	2,374	1,147	3,061	6,733
Other expenses	<u>2,352</u>	<u>965</u>	<u>11,492</u>	<u>5,016</u>	<u>19,825</u>
Total	<u>\$ 601,867</u>	<u>\$ 484,398</u>	<u>\$ 604,876</u>	<u>\$ 351,803</u>	<u>\$ 2,042,944</u>

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

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in net assets	\$ (267,776)	\$ (183,366)
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	141,403	196,644
Gain on disposal of property and equipment	-	(5,966)
Receipt of donated property and equipment	(3,532)	(4,181)
Changes in:		
Accounts receivable	9,981	585
Other assets	(977)	11,784
Accounts payable	2,953	(3,807)
Accrued expenses and other liabilities	<u>(895)</u>	<u>(536)</u>
Net cash provided (used) by operating activities	<u>(118,843)</u>	<u>11,157</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of property and equipment	-	5,966
Purchases of property and equipment	<u>(10,339)</u>	<u>(9,522)</u>
Net cash used by investing activities	<u>(10,339)</u>	<u>(3,556)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds on line of credit	287,010	240,739
Repayment on line of credit	<u>(249,999)</u>	<u>(255,000)</u>
Net cash provided (used) by financing activities	<u>37,011</u>	<u>(14,261)</u>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 (92,171)	 (6,660)
 <b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	 <u>108,841</u>	 <u>115,501</u>
 <b>CASH AND CASH EQUIVALENTS, End of Year</b>	 <u>\$ 16,670</u>	 <u>\$ 108,841</u>
 <b>OTHER CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 14,314</u>	<u>\$ 19,309</u>



# NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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### 1. ORGANIZATION AND PROGRAMS

Northern California Educational Television Association, Inc., (Station) is a nonprofit corporation which was incorporated in 1964 under the laws of the State of California. Its purpose is to provide educational television programming to the Northern California area. Following is a description of the Station's primary programs:

- **Programming and production** consists of the selection of programs to be aired by the Station and the production of video by the Station to be aired locally, nationally on other Public Broadcasting Service (PBS) stations, and internationally.
- **Broadcasting and engineering** is related to the transmission of the Station's content to viewers through various media, including over-the-air broadcasting, cable, satellite, and the Internet.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting and financial statement presentation** – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Station reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Station had no permanently or temporarily restricted net assets at June 30, 2016 and 2015.

**Revenue recognition** – Membership contributions, contributions, private grants, and underwriting contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Special events revenues are recognized when the related events occur and are shown net of direct benefit to donors of \$2,000 and \$855 in 2016 and 2015, respectively.

Contract services revenues are recognized when the related services occur. Grants from government entities are recognized when qualifying expenses are incurred.

**Donations** of materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

# NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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**Cash and cash equivalents** – For financial statement purposes, the Station considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

**Property and equipment** is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Station capitalizes all expenditures for property and equipment in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to forty years.

Equipment purchased with grant funds from the National Telecommunications and Information Administration may revert to that agency if the Station wishes to dispose of the equipment within ten years from the date of the grant. Such equipment is capitalized and included in property and equipment. Digital equipment was also purchased with funds from the United States Rural Utilities Service grant. The equipment is to revert to that agency if the Station decides to dispose of the equipment within ten years from the date of the grant, which varies for each piece of equipment depending upon when the grant was funded to purchase the equipment.

**Functional allocation of expenses** – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the usage of resources.

**Income taxes** – The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income taxes from activities unrelated to its tax-exempt purpose.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent events** have been reviewed through November 2, 2016, the date the financial statements were available to be issued.

### 3. ACCOUNTS RECEIVABLE

Accounts receivable are due to be received within one year and include the following at June 30:

	<u>2016</u>	<u>2015</u>
Contract services receivable	\$ 6,781	\$ 7,108
Underwriting receivables	4,518	9,172
Grants receivable	_____ -	_____ 5,000
Total	<u>\$ 11,299</u>	<u>\$ 21,280</u>

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 245,000	\$ 245,000
Building	567,936	566,259
Studio and broadcast equipment	3,898,788	3,890,123
Office furniture and equipment	234,460	234,460
Vehicles and related equipment	48,703	45,171
Construction in progress	<u>1,995</u>	<u>1,995</u>
Total	4,996,882	4,983,008
Less accumulated depreciation and amortization	<u>(4,029,374)</u>	<u>(3,887,968)</u>
Total	<u>\$ 967,508</u>	<u>\$ 1,095,040</u>

**5. LINE OF CREDIT**

The Station has a \$250,000 revolving line of credit with a bank, secured by real estate in Shasta County. The line calls for variable interest at the bank's reference rate (prime rate) plus 1%. The bank's reference rate was 4.5% and 6% at June 30, 2016 and 2015, respectively. Interest only payments are due monthly until maturity on May 30, 2017. The balance on this line of credit was \$193,000 at June 30, 2016 and \$155,989 at June 30, 2015.

**6. OPERATING LEASES**

The Station leases equipment under various non-cancelable agreements expiring through 2020. Rental expense under lease agreements totaled \$31,896 and \$24,306 in 2016 and 2015, respectively.

Minimum future lease payments under non-cancelable agreements are as follows:

**Year ending June 30:**

2017	\$ 6,231
2018	5,131
2019	2,700
2020	<u>900</u>
Total	<u>\$ 14,962</u>

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**7. DONATED SERVICES, MATERIALS, AND FACILITIES**

The Station received the following donated services, materials, and facilities:

	<u>2016</u>	<u>2015</u>
Equipment and supplies	\$ 203,483	\$ 263,764
Professional services	73,750	92,581
Tower facilities	<u>25,957</u>	<u>26,668</u>
 Total	 <u>\$ 303,190</u>	 <u>\$ 383,013</u>

**8. RENTAL INCOME**

The Station has a non-cancelable agreement with a communications company to provide capacity on certain channels expiring in 2040. Rental income totaled \$11,065 and \$10,430 in 2016 and 2015, respectively. Minimum future lease payments to be received under this agreement are as follows:

**Year ending June 30:**

2017	\$ 8,791
2018	9,054
2019	9,326
2020	9,606
2021	10,191
Thereafter	<u>232,661</u>
 Total	 <u>\$ 279,629</u>

**9. COMMUNITY SERVICE GRANT**

The Corporation for Public Broadcasting (CPB) is a private, nonprofit and grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations in order to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

# NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The grants are reported on the accompanying financial statements as unrestricted operating revenue; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

For the years ended June 30, 2016 and 2015, the CSGs represent 43% and 37%, respectively, of the Station's revenues.

### 10. RETIREMENT PLAN

The Station has a defined contribution plan. All employees who desire to participate are eligible to contribute. The Station employees can contribute up to the maximum amount allowed under Internal Revenue Code Section 403(b). The Station does not offer matching to employee contributions.

### 11. 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.

For the years ended June 30, 2016 and 2015, net income as calculated for income tax purposes was not sufficient to yield any income tax expense. A carryover net operating loss from prior years is available for application against federal taxable income which might be incurred in the future.

At June 30, 2016, the available net operating loss carryovers are as follows:

<b>Originating Tax Year:</b>	<b><u>Expiration</u></b>	<b>Net Operating Loss</b>
1999 (for year ending 6/30/00)	6/30/20	\$ 2,309
2000 (for year ending 6/30/01)	6/30/21	16,171
2001 (for year ending 6/30/02)	6/30/22	20,579
2002 (for year ending 6/30/03)	6/30/23	16,878
2009 (for year ending 6/30/10)	6/30/30	673
2010 (for year ending 6/30/11)	6/30/31	499
2013 (for year ending 6/30/14)	6/30/34	<u>199</u>
Total		<u>\$ 57,308</u>

**NORTHERN CALIFORNIA EDUCATIONAL TELEVISION  
ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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**12. SUBSEQUENT EVENT**

In August 2016, the Station signed a promissory note with an organization totaling \$90,000. The note bears interest of 0% without default and 18% upon default. Payment is due in full upon maturity on April 1, 2017. If the Station receives a grant from this organization in 2017, payments of \$45,000 will be deducted from the first and second grant payments.

**13. GOING CONCERN**

The Station has sustained certain financial challenges resulting in a decrease in net assets generating concern about the Station's ability to continue operations through June 30, 2017.

Management believes that the Station's fiscal condition stems primarily from personnel turnover during the current year. In particular, turnover within the Development Department affected the Station's fundraising capabilities. The Station has taken the following steps to address these issues: eliminated a full-time position, delayed hiring another full-time position, combined job duties where possible, and increased fundraising events. In addition, during fiscal year 2017 the Station obtained a promissory note from an organization (see note 12) to improve its cash flow position.

Management and the Board believe the outcome from these actions will strengthen the Station's financial operations, and believe that these measures will enable the Station to remain a going concern through fiscal year 2017.

The ability of the Station to continue as a going concern is dependent upon the success of these actions. There can be no assurance that the Station will be successful in accomplishing its objectives. The financial statements do not include any adjustments that might result in the event that sufficient cash flow from operations does not allow the entity to continue as a going concern.