

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

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

**YEARS ENDED
JUNE 30, 2017 AND 2016**

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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 17, 2017

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

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 70,041	\$ 16,670
Receivables	26,133	11,299
Other assets	23,072	16,384
Total current assets	119,246	44,353
 PROPERTY AND EQUIPMENT, Net	 868,645	 967,508
 LEASEHOLD INTEREST IN PROPERTY	 289,659	 -
 TOTAL ASSETS	 \$ 1,277,550	 \$ 1,011,861
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 43,492	\$ 58,995
Accrued expenses and other liabilities	65,161	60,479
Deferred revenue	5,000	-
Note payable, current	5,133	-
Line of credit	-	193,000
Total current liabilities	118,786	312,474
 NOTE PAYABLE, Net	 244,574	 -
 TOTAL LIABILITIES	 363,360	 312,474
 NET ASSETS:		
Unrestricted:		
Deficit	(286,718)	(268,121)
Investment in property and equipment	868,645	967,508
Total unrestricted	581,927	699,387
Temporarily restricted	332,263	-
Total net assets	914,190	699,387
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,277,550	 \$ 1,011,861

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

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

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
UNRESTRICTED NET ASSETS:		
REVENUES:		
Community service grants	\$ 753,190	\$ 697,388
Contributions	406,833	324,190
Membership contributions	323,735	344,284
Special events	160,359	110,816
Underwriting contributions	120,992	85,256
Contract services	53,195	47,035
Other grants	5,300	15,000
Other revenues	3,551	12,657
Net assets released from restriction for leasehold interest in property	6,465	-
Total revenues	<u>1,833,620</u>	<u>1,636,626</u>
EXPENSES:		
Program services:		
Programming and production	578,931	583,461
Broadcasting and engineering	435,956	465,215
Total program services	<u>1,014,887</u>	<u>1,048,676</u>
Supporting services:		
Fundraising, underwriting and membership	574,640	520,552
Management and general	361,553	335,174
Total expenses	<u>1,951,080</u>	<u>1,904,402</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(117,460)</u>	<u>(267,776)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution of leasehold interest in property	296,124	-
Contributions	42,604	-
Net assets released from restriction for leasehold interest in property	(6,465)	-
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>332,263</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>214,803</u>	<u>(267,776)</u>
NET ASSETS, Beginning of Year	<u>699,387</u>	<u>967,163</u>
NET ASSETS, End of Year	<u>\$ 914,190</u>	<u>\$ 699,387</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, 2017**

	<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	\$ 138,492	\$ 134,285	\$ 204,343	\$ 206,054	\$ 683,174
Program acquisition	332,294	93,698	-	-	425,992
Donated services, materials and facilities	-	39,291	251,395	90,695	381,381
Depreciation	58,573	35,144	11,715	11,713	117,145
Utilities	23,085	46,030	4,617	4,617	78,349
Professional fees	-	5,390	13,329	23,210	41,929
Insurance	16,158	9,695	3,232	3,231	32,316
Premiums	-	-	31,540	-	31,540
Rent and leases	-	30,276	1,130	-	31,406
Bank charges	-	-	12,266	6,256	18,522
Printing and supplies	209	64	14,128	2,056	16,457
Interest expense	6,764	4,058	1,353	1,352	13,527
Repairs and maintenance	-	13,409	-	-	13,409
Postage and freight	-	1,445	10,752	-	12,197
Computer expense	-	9,011	-	2,600	11,611
Travel and conferences	-	2,390	769	5,714	8,873
Telephone	2,630	4,728	526	525	8,409
Amortization of leasehold interest in property	-	6,465	-	-	6,465
Other expenses	726	577	13,545	3,530	18,378
Total	<u>\$ 578,931</u>	<u>\$ 435,956</u>	<u>\$ 574,640</u>	<u>\$ 361,553</u>	<u>\$ 1,951,080</u>

**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
Insurance	15,116	9,069	3,023	3,023	30,231
Premiums	-	-	37,507	-	37,507
Rent and leases	-	30,214	1,682	-	31,896
Bank charges	-	-	12,537	663	13,200
Printing and supplies	204	79	16,501	1,029	17,813
Interest expense	5,737	3,442	1,147	1,148	11,474
Repairs and maintenance	-	13,331	983	-	14,314
Postage and freight	58	1,483	12,039	99	13,679
Computer expense	-	10,280	30	2,201	12,511
Travel and conferences	20	1,702	1,877	538	4,137
Telephone	2,509	1,505	502	501	5,017
Other expenses	1,020	626	12,063	3,696	17,405
Total	<u>\$ 583,461</u>	<u>\$ 465,215</u>	<u>\$ 520,552</u>	<u>\$ 335,174</u>	<u>\$ 1,904,402</u>

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 214,803	\$ (267,776)
Reconciliation to net cash provided (used) by operating activities:		
Contribution of leasehold interest in property	(296,124)	-
Amortization of leasehold interest in property	6,465	-
Depreciation	117,145	141,403
Gain on disposal of property and equipment	(2,400)	-
Receipt of donated property and equipment	(4,917)	(3,532)
Changes in:		
Receivables	(14,834)	9,981
Other assets	(6,688)	(977)
Accounts payable	(15,503)	2,953
Accrued expenses and other liabilities	4,682	(895)
Deferred revenue	5,000	-
Net cash provided (used) by operating activities	7,629	(118,843)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	2,400	-
Purchases of property and equipment	(13,365)	(10,339)
Net cash used by investing activities	(10,965)	(10,339)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on line of credit	57,000	287,010
Payments on line of credit	(250,000)	(249,999)
Proceeds from note payable	250,000	-
Payments on note payable	(293)	-
Net cash provided by financing activities	56,707	37,011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,371	(92,171)
CASH AND CASH EQUIVALENTS, Beginning of Year	16,670	108,841
CASH AND CASH EQUIVALENTS, End of Year	\$ 70,041	\$ 16,670
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	\$ 13,409	\$ 14,314

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

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 restricted net assets at June 30, 2017 and 2016.

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 \$2,500 and \$2,000 in 2017 and 2016, 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.

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.

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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.

Leasehold interest in property - The Station receives contributed use of property as part of a multi-year agreement with California Broadcasting, Inc. This contribution is considered an unconditional promise to give and is reported as a temporarily restricted contribution and as leasehold interest in property at the fair value of the contributed use of the property in the period it is contributed. The leasehold interest is amortized and the restrictions are considered satisfied evenly over the term of the agreement.

Subsequent events have been reviewed through October 17, 2017, the date the financial statements were available to be issued.

3. RECEIVABLES

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

	<u>2017</u>	<u>2016</u>
Underwriting receivables	\$ 6,408	\$ 4,518
Contract services receivable	10,000	6,781
Grants receivable	<u>9,725</u>	<u>-</u>
Total	<u>\$ 26,133</u>	<u>\$ 11,299</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 245,000	\$ 245,000
Building	567,936	567,936
Studio and broadcast equipment	3,621,831	3,898,788
Office furniture and equipment	235,097	234,460
Vehicles and related equipment	42,943	48,703
Construction in progress	<u>1,995</u>	<u>1,995</u>
Total	4,714,802	4,996,882
Less accumulated depreciation and amortization	<u>(3,846,157)</u>	<u>(4,029,374)</u>
Total	<u>\$ 868,645</u>	<u>\$ 967,508</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 are restricted as follows:

	<u>2017</u>	<u>2016</u>
Leasehold interest in property	\$ 289,659	\$ -
SRCF McConnell grant	32,879	-
Vietnam War grant	6,600	-
SRCF Redding Rancheria grant	<u>3,125</u>	<u>-</u>
Total	<u>\$ 332,263</u>	<u>\$ -</u>

Effective April 1, 2017, the Station entered into an agreement with California Broadcasting, Inc. which provides for contributed use of facilities for the Station's operations on Shasta Bally Mountain. The leasehold interest in property represents the fair value of the future use of contributed property by the Station. The agreement with California Broadcasting, Inc. expires March 31, 2027.

6. NOTE PAYABLE AND LINE OF CREDIT

The Station had a \$250,000 revolving line of credit with a bank, secured by real estate in Shasta County. The line called for variable interest at the bank's reference rate (prime rate) plus 1%. The bank's reference rate was 4.5% as of June 30, 2016. The balance on this line of credit was \$193,000 at June 30, 2016. Interest only payments were due monthly until maturity on May 30, 2017. In May 2017, the Station closed this account and transferred the outstanding balance of this revolving line of credit into a note payable, secured by real estate in Shasta County, with a new financial institution.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

The Station also received a \$100,000 line of credit through the new financial institution. The line calls for an interest rate of 5% and a term through May 15, 2018. There was no balance on this line of credit as of June 30, 2017.

The Station's note payable is secured by real property and is payable in monthly installments of \$1,474, maturing in May 2042. The first 60 months of the term bear an interest rate of 5% and the remaining months of the term are subject to an interest rate based on the Weekly Average Yield on United States Treasury Securities plus 3%. Future principal payments are as follows:

Year ending June 30:

2018	\$	5,133
2019		5,399
2020		5,679
2021		5,974
2022		6,284
Thereafter		<u>221,238</u>
Total	\$	<u>249,707</u>

7. OPERATING LEASES

The Station leases equipment and use of property under various non-cancelable agreements expiring through 2020. Rental expense under lease agreements totaled \$31,406 and \$31,896 in 2017 and 2016, respectively.

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

Year ending June 30:

2018	\$	5,131
2019		2,700
2020		<u>900</u>
Total	\$	<u>8,731</u>

8. DONATED SERVICES, MATERIALS, AND FACILITIES

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

	<u>2017</u>	<u>2016</u>
Equipment and supplies	\$ 274,716	\$ 203,483
Professional services	90,595	73,750
Tower facilities	<u>15,970</u>	<u>19,425</u>
Total	<u>\$ 381,381</u>	<u>\$ 299,658</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

9. 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 \$12,087 and \$11,065 in 2017 and 2016, respectively. Minimum future lease payments to be received under this agreement are as follows:

Year ending June 30:

2018	\$ 10,854
2019	9,326
2020	9,606
2021	9,894
2022	10,191
Thereafter	<u>232,661</u>
Total	<u>\$ 282,532</u>

10. 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.

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, 2017 and 2016, the CSGs represent 35% and 43%, respectively, of the Station's revenues.

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

11. 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.

12. 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, 2017 and 2016, 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, 2017, the available net operating loss carryovers are as follows:

Originating Tax Year:	Expiration	Net Operating Loss
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	199
Total		<u>\$ 57,308</u>

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, 2018.

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: filled a full-time position, hired a part-time Special Events position, utilizing internal staff hours to support position to increase fundraising events. Additionally, the Station has strategically restructured their development department by repositioning staff directive under existing management team, allowing the Director of Development to increase focus on marketing outreach, educational outreach, educational contract service, grants, and major giving. The

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Station also transitioned to a new financial institution and restructured their outstanding line of credit balance to a note payable which will allow them to repay the debt over a longer period of time and improve cash flow.

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 2018.

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.