

RURAL CALIFORNIA BROADCASTING CORPORATION

FINANCIAL STATEMENTS
September 30, 2017 and 2016

RURAL CALIFORNIA BROADCASTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural California Broadcasting Corporation
Rohnert Park, California

We have audited the accompanying financial statements of Rural California Broadcasting Corporation, a non-profit organization, which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Rural California Broadcasting Corporation as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Financial Statements

The financial statements of Rural California Broadcasting Corporation as of September 30, 2016, were audited by other auditors whose report dated February 15, 2017, expressed an unmodified opinion on those statements.

Proff Britton Senigaglia LLP

February 26, 2018
Roseville, California

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and 2016

	ASSETS	
	2017	2016
Current assets:		
Cash and cash equivalents	\$ 70,511,224	\$ 375,865
Accounts receivable, net	15,527	143,512
Grants receivable	-	112,500
Prepaid programming	269,938	29,290
Prepaid expenses	43,104	55,571
Total current assets	70,839,793	716,738
Property and equipment, net	1,286,257	1,689,653
Escrow deposit	960,000	-
Other assets	27,650	31,826
Total assets	<u>\$ 73,113,700</u>	<u>\$ 2,438,217</u>
	LIABILITIES AND NET ASSETS	
Current liabilities:		
Accounts payable	\$ 142,748	\$ 194,888
Other payables	4,682	9,486
Accrued expenses	150,943	131,289
Unearned revenue	41,861	160,795
Note payable, current portion	15,341	14,812
Total current liabilities	355,575	511,270
Note payable, less current portion	587,908	603,140
Total liabilities	943,483	1,114,410
Net assets:		
Unrestricted	71,998,144	1,159,718
Temporarily restricted	172,073	164,089
Total net assets	72,170,217	1,323,807
Total liabilities and net assets	<u>\$ 73,113,700</u>	<u>\$ 2,438,217</u>

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2017 and 2016

	Unrestricted		Temporarily Restricted	2017 Total
	Television Company	Radio Company		
Revenue and support:				
Grants:				
Corporation for Public Broadcasting	\$ 530,524	\$ 72,313	\$ -	\$ 602,837
Corporate, foundation, government and other	47,154	11,788	38,558	97,500
Underwriting contributions	111,398	63,324	-	174,722
Membership contributions	499,256	123,823	-	623,079
Annual auction and other fundraising activities	151,549	1,084	-	152,633
Services and other revenues	607,841	85,655	-	693,496
Spectrum auction revenue	71,979,802	-	-	71,979,802
Investment income	114,877	-	-	114,877
Donated goods and services	76,085	3,442	-	79,527
Net assets released from restriction	28,911	1,663	(30,574)	-
Total revenue and support	74,147,397	363,092	7,984	74,518,473
Expenditures:				
Program services:				
Programming and production	588,672	327,895	-	916,567
Broadcasting	1,307,873	158,699	-	1,466,572
Web	67,219	46,380	-	113,599
Program information and promotion	40,493	34,020	-	74,513
Supporting services:				
Management and general	510,753	105,171	-	615,924
Auction and membership development	346,103	47,563	-	393,666
Underwriting and grant development	76,218	15,004	-	91,222
Total expenditures	2,937,331	734,732	-	3,672,063
Change in net assets	71,210,066	(371,640)	7,984	70,846,410
Net assets, beginning of year	3,049,594	(1,889,876)	164,089	1,323,807
Net assets, end of year	<u>\$ 74,259,660</u>	<u>\$ (2,261,516)</u>	<u>\$ 172,073</u>	<u>\$ 72,170,217</u>

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF ACTIVITIES (CONTINUED)
For the Years Ended September 30, 2017 and 2016

	Unrestricted		Temporarily Restricted	2016 Total
	Television Company	Radio Company		
Revenue and support:				
Grants:				
Corporation for Public Broadcasting	\$ 529,245	\$ 72,160	\$ -	\$ 601,405
Corporate, foundation, government and other	52,503	11,935	177,500	241,938
Underwriting contributions	181,893	61,857	-	243,750
Membership contributions	585,222	145,805	-	731,027
Annual auction and other fundraising activities	227,087	6,211	-	233,298
Services and other revenues	667,027	101,200	-	768,227
Investment income	470	-	-	470
Donated goods and services	78,764	2,142	-	80,906
Net assets released from restriction	57,673	25,567	(83,240)	-
Total revenue and support	2,379,884	426,877	94,260	2,901,021
Expenditures:				
Program services:				
Programming and production	463,404	269,653	-	733,057
Broadcasting	666,421	152,269	-	818,690
Web	72,878	43,070	-	115,948
Program information and promotion	55,609	27,825	-	83,434
Supporting services:				
Management and general	437,786	88,159	-	525,945
Auction and membership development	402,428	47,534	-	449,962
Underwriting and grant development	110,514	13,539	-	124,053
Total expenditures	2,209,040	642,049	-	2,851,089
Change in net assets	170,844	(215,172)	94,260	49,932
Net assets, beginning of year	2,878,750	(1,674,704)	69,829	1,273,875
Net assets, end of year	<u>\$ 3,049,594</u>	<u>\$ (1,889,876)</u>	<u>\$ 164,089</u>	<u>\$ 1,323,807</u>

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended September 30, 2017 and 2016

	Programming and Production	Broadcasting	Web	Program Information and Promotion	Management and General	Auction and Membership Development	Underwriting and Grant Development	2017 Total
Personnel costs	\$ 480,706	\$ 359,919	\$ 82,776	\$ 21,058	\$ 265,697	\$ 200,810	\$ 61,794	\$ 1,472,760
Depreciation and amortization	2,132	180,700	-	648	8,746	2,809	648	195,683
Dues, fees and subscriptions	1,099	-	2,638	1,425	35,282	45,737	454	86,635
Fundraising and promotion	175	-	-	45,908	3,236	75,185	-	124,504
Insurance	-	-	-	-	32,760	-	-	32,760
Interest	-	-	-	-	33,548	-	-	33,548
Equipment rental and maintenance	25	31,707	53	-	21,473	330	-	53,588
Travel, education and training	10,818	273	19	39	6,056	541	135	17,881
Postage and freight	421	772	-	1,139	744	24,773	4	27,853
Printing and supplies	-	39	-	278	133	21,580	74	22,104
Production costs	3,102	-	-	-	-	-	-	3,102
Professional services	3,177	617,837	24,946	4,018	35,177	7,090	16,069	708,314
Program acquisition	370,203	-	-	-	-	-	-	370,203
Rent	-	71,248	-	-	-	-	-	71,248
Telephone	2,751	52,919	-	-	18,518	14,798	-	88,986
Utilities	-	60,743	-	-	61,172	-	-	121,915
Bad debt	-	-	-	-	-	-	3,780	3,780
Loss on disposal	40,770	89,976	-	-	85,370	-	-	216,116
Miscellaneous	1,188	439	3,167	-	8,012	13	8,264	21,083
Total functional expenses	\$ 916,567	\$ 1,466,572	\$ 113,599	\$ 74,513	\$ 615,924	\$ 393,666	\$ 91,222	\$ 3,672,063

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the Years Ended September 30, 2017 and 2016

	Programming and Production	Broadcasting	Web	Program Information and Promotion	Management and General	Auction and Membership Development	Underwriting and Grant Development	2016 Total
Personnel costs	\$ 415,582	\$ 328,189	\$ 100,906	\$ 25,216	\$ 279,897	\$ 193,479	\$ 58,603	\$ 1,401,872
Depreciation and amortization	4,464	206,262	-	1,063	12,698	4,607	1,063	230,157
Dues, fees and subscriptions	418	-	2,555	844	15,269	74,548	285	93,919
Fundraising and promotion	-	-	-	54,267	1,384	105,679	-	161,330
Insurance	-	-	-	-	33,793	-	-	33,793
Interest	(32)	-	-	-	35,774	-	-	35,742
Equipment rental and maintenance	4	48,315	-	-	18,616	130	-	67,065
Travel, education and training	2,099	3,742	-	313	1,398	342	-	7,894
Postage and freight	319	1,464	-	719	1,861	25,985	31	30,379
Printing and supplies	53	-	-	531	-	20,540	-	21,124
Production costs	878	-	-	-	-	-	-	878
Professional services	3,723	67,831	9,235	151	35,302	6,699	53,489	176,430
Program acquisition	301,906	-	-	-	-	-	-	301,906
Rent	-	71,238	-	-	-	-	-	71,238
Telephone	2,276	47,770	-	-	25,875	17,953	-	93,874
Utilities	-	40,549	-	-	56,507	-	-	97,056
Bad debt	-	-	-	-	-	-	5,312	5,312
Miscellaneous	1,367	3,330	3,252	330	7,571	-	5,270	21,120
Total functional expenses	\$ 733,057	\$ 818,690	\$ 115,948	\$ 83,434	\$ 525,945	\$ 449,962	\$ 124,053	\$ 2,851,089

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from members, grants and other support	\$ 1,597,600	\$ 1,550,128
Cash received from other exchange transactions	868,218	1,011,977
Cash paid to vendors and employees	(3,408,484)	(2,789,323)
Investment income received	114,877	470
Interest paid	<u>(33,548)</u>	<u>(35,740)</u>
Net cash used in operating activities	<u>(861,337)</u>	<u>(262,488)</u>
Cash flows from investing activities:		
Cash received from spectrum auction	71,979,802	-
Proceeds from sale of investments	-	108,589
Proceeds from sale of property and equipment	-	377,827
Purchase of fixed assets	(8,403)	(28,812)
Escrow deposit for purchase of KCSM-TV	<u>(960,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>71,011,399</u>	<u>457,604</u>
Cash flows from financing activities:		
Principal payments on note payable	<u>(14,703)</u>	<u>(2,265)</u>
Net change in cash and cash equivalents	70,135,359	192,851
Cash and cash equivalents, beginning of year	<u>375,865</u>	<u>183,014</u>
Cash and cash equivalents, end of year	<u>\$ 70,511,224</u>	<u>\$ 375,865</u>

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

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to <u>net cash used in operating activities:</u>		
Change in net assets	\$ 70,846,410	\$ 49,932
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Cash received from spectrum auction	(71,979,802)	-
Depreciation and amortization	195,683	230,157
Loss on disposal of property and equipment	216,116	-
Gain on sale of property and equipment	-	(98,175)
Provision for bad debts	3,780	5,312
Change in operating assets and liabilities:		
Accounts receivable	124,205	(108,119)
Grants receivable	112,500	(109,665)
Prepaid programming	(240,648)	19,629
Prepaid expenses	12,467	195,762
Other assets	4,176	(9,982)
Accounts payable	(56,944)	(493,310)
Accrued expenses	19,654	2,864
Unearned revenue	(118,934)	53,107
	<u>\$ (861,337)</u>	<u>\$ (262,488)</u>
Net cash used in operating activities		

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

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 1: NATURE OF ORGANIZATION

Rural California Broadcasting Corporation (the Station or KRCB), a California public benefit corporation, was organized in January 1981 for the purpose of operating non-commercial educational telecommunications services for all or part of Sonoma, Marin, Napa, Solano, and Mendocino Counties. In 1985, the Station obtained four Instructional Television Fixed Site (ITFS), now designated as EBS licenses. The Station began ITFS operations in 1996. In 1991, the Station obtained a license to operate a non-commercial radio station. Support and revenues are primarily from public, private and government grants, and contracts.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

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

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

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

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

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

Revenue Recognition

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

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

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

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

The guidance in FASB ASC 958-605-25 states that unconditional promises to give (pledges) are recognized as revenues in the period the pledge was received. Conditional promises to give are not recognized until the events that satisfy the conditions have occurred. Likewise, indicated donations that clearly and explicitly permit the donor to rescind the donation prior to fulfillment are considered intentions to give, not promises, and are not recognized until fulfillment by the donor.

Revenue from unearned contracts is deferred and recognized over the periods to which the revenue relates.

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.

Cash and Cash Equivalents

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

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 3 to 39 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the useful lives of assets are capitalized.

Donated Assets

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

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

Donated Services

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

Broadcast Licenses

The television and radio broadcast licenses were recorded at cost and amortized over their estimated useful lives. These licenses were fully amortized as of September 30, 2017 and 2016. These licenses may not be transferred or sold without the express written permission of the Federal Communications Commission (FCC).

Purchased Programming

The costs of programming purchased from the Public Broadcasting Service and other sources is expensed over the term of the agreements because the estimated number of future airings is not determinable.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. For those investments held by a broker who is a member of the Securities Investor Protection Corporation, the cash equivalents and securities are insured up to \$500,000 in the event the brokerage firm goes out of business. On September 30, 2017 and 2016, the Station's uninsured cash and cash equivalent balances totaled \$69,568,565 and \$128,292, respectively. The Station has not experienced any losses on these accounts, and management believes the Station is not exposed to any significant risk on cash accounts.

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. The Internal Revenue Service has determined the Station is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Station's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. Management evaluated the Station's tax position and concluded that the Station had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. 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 September 30, 2017 and 2016, was \$35,331 and \$38,262, respectively.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified, with no effect to change in net assets, to conform to the 2017 financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through February 26, 2018, the date that the financial statements were available to be issued.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accounts receivable - underwriting	\$ 8,479	\$ 133,988
Accounts receivable - service	355	2,700
Accounts receivable - other	9,703	9,834
Less allowance for doubtful accounts	<u>(3,010)</u>	<u>(3,010)</u>
Accounts receivable, net	<u>\$ 15,527</u>	<u>\$ 143,512</u>

NOTE 4: PROPERTY AND EQUIPMENT

At September 30, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 359,542	\$ 359,542
Building and improvements	875,896	907,185
Broadcasting equipment	4,135,729	4,242,574
Satellite dishes and equipment	842,743	883,513
Furniture and equipment	398,243	399,014
Software	<u>285,364</u>	<u>287,312</u>
	6,897,517	7,079,140
Less accumulated depreciation and amortization	<u>(5,611,260)</u>	<u>(5,389,487)</u>
Total property and equipment, net	<u>\$ 1,286,257</u>	<u>\$ 1,689,653</u>

Depreciation expense totaled \$195,683 and \$230,157 for the years ended September 30, 2017 and 2016, respectively.

The satellite dishes and certain other equipment were acquired through grants from the National Telecommunications and Information Administration, the Public Broadcasting Service, and in-kind donations. Equipment with a cost of approximately \$1,200,000 has been purchased during the past thirty years with proceeds of the grants and matching funds and is subject to priority liens for a period of ten years from the date of purchase.

NOTE 5: ACCRUED VACATION AND SICK BENEFITS

Accrued vacation totaled \$66,236 and \$64,992 as of September 30, 2017 and 2016, respectively.

Sick leave benefits are accumulated for each eligible employee. Employees do not gain a vested right to accumulated sick leave, therefore accumulated employee sick leave benefits are not recognized as liabilities of the Station because payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that the sick leave is taken.

NOTE 6: NOTE PAYABLE

The Station had a note payable to Exchange Bank bearing interest at 5.75%. The loan was payable in monthly installments of \$3,902, including interest, secured by land and building, and the balance was due in April 2016 in the form of a balloon payment. The Station refinanced the loan through Exchange Bank in February 2016. The new loan is payable in monthly installments of \$3,390, bearing interest at 4.25%, and is scheduled to mature in March 2026.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 6: NOTE PAYABLE (CONTINUED)

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

<u>Year ending September 30:</u>	
2018	\$ 15,341
2019	16,006
2020	16,700
2021	17,424
2022	18,179
Thereafter	<u>519,599</u>
Total	<u>\$ 603,249</u>

NOTE 7: LEASE COMMITMENTS

The Station leases land in Geyserville from a private party on which it has constructed a small building to house a radio transmitter and associated equipment. The original lease agreement, which expired in June 2003, provided for annual rent of \$1,800 payable in two equal installments in December and June. During 2003, the lease was renewed for an additional 10-year term expiring December 2014, with rent of \$2,150 per year for the initial four years, \$2,210 for years five through seven, and \$2,225 for years eight through ten. During 2014, the lease was renewed for an additional term of 10 years expiring December 31, 2024, with an annual rent of \$2,310.

The Station also leases space on a tower in Santa Rosa for the transmission of 90.9 for \$200 per month with annual CPI adjustments (current rent is \$244 per month). The original lease term expired in April 2004, and the Station has since exercised the second of two five-year renewal options, which is scheduled to expire in April 2019. The Station continues to pay for this space on a month-to-month basis at the same rate.

The Station's television transmission equipment is located on Sonoma Mountain. The site is leased from the County of Sonoma and requires no rent. The original lease term expired in September 2004, and was extended for an additional 10 year term to September 2014. The lease was renewed in January 2016 and the term was extended through January 2021. The value attributed to the monthly in-kind rent is \$5,500. Rent expense totaled \$71,248 and \$71,238, respectively, for the years ended September 30, 2017 and 2016.

Future minimum lease payments at September 30, 2017, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year ending September 30:</u>	
2018	\$ 5,261
2019	4,050
2020	2,350
2021	2,360
2022	2,370
Thereafter	<u>5,963</u>
Total minimum lease payments	<u>\$ 22,354</u>

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 8: SPECTRUM AND TOWER LEASE INCOME

FCC regulations provide the Station opportunities to lease certain of its bandwidth rights to commercial service providers interested in deploying wireless broadband services. In December 2006, the Station signed a 30-year lease with scheduled payments which commenced in that year.

The Station also sub-leases a portion of land for telecommunications use. The current lease commenced April 2014 and terminates April 2019. The agreement provides for four additional five-year renewal options to be held by the lessor.

The Station sub-leases part of its land to a third-party under an agreement which most recently expired in July 2016 that was subsequently renewed from August 2016 until July 2021.

Rental income on such leases totaled \$411,197 and \$379,149, respectively, for the years ended September 30, 2017 and 2016.

Annual lease payments expected for the next five years and thereafter are as follows:

<u>Year ending September 30:</u>	
2018	\$ 421,145
2019	419,983
2020	411,087
2021	411,804
2022	520,551
Thereafter	<u>10,741,989</u>
Total minimum rental income	<u>\$ 12,926,559</u>

NOTE 9: GRANTS

The following is a summary of the grant revenues recognized during the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Corporation for Public Broadcasting:		
Community service grant	\$ 602,837	\$ 601,405
Other grants	<u>97,500</u>	<u>241,938</u>
Total	<u>\$ 700,337</u>	<u>\$ 843,343</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.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 9: GRANTS (CONTINUED)

The CSG funds are reported in the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. Their guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with FCC. The remaining portion of the radio CSG must be used as specified in Section 369(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 need of a national audience. This portion of the grant is presented as an increase in temporarily restricted net assets and will be reclassified to unrestricted net assets when the "purpose" restriction is satisfied. If the restriction is satisfied in the reporting period in which the grant is recognized, it is presented as an increase in unrestricted net assets.

NOTE 10: NON-CASH SUPPORT AND EXPENDITURES

In-kind Donations

During the years ended September 30, 2017 and 2016, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$79,527 and \$80,906, respectively. The in-kind donations are reported as revenue and expense in the accompanying statements of activities.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Station in meeting its program objectives. Annually, the Station receives approximately 20,000 volunteer hours.

NOTE 11: RETIREMENT PLAN

The Station provides a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Service. The Station has not historically made any contributions to the plan, however beginning January 1, 2018, the Station initiated a matching contributing equal to 5% of employee deferrals up to a maximum amount of \$1,225 per year.

NOTE 12: UNEMPLOYMENT FUND

The Station is self-insured through 501(c) Agencies Trust for unemployment claims made to the State of California. The fund earns interest and claims are paid directly by the fund, as administered by the trustee.

NOTE 13: 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.

For the years ended September 30, 2017 and 2016, 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.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE 14: SPECTRUM AUCTION

As part of the FCC spectrum auction conducted during the 2017 fiscal year, the Station received a one-time non-recurring cash infusion of \$71,979,802. Participation in the auction allowed the Station to repurpose underutilized broadcast spectrum, which is much in demand by wireless service providers. The Station will move from its former ultra-high frequency (UHF) position to a new very-high frequency (VHF) position in May 2020.

NOTE 15: ESCROW DEPOSIT

In September 2017, the Station executed an agreement for the purchase of a noncommercial educational television station, KCSM-TV, for a purchase price of \$12,000,000. The Station made the required escrow deposit of \$960,000 in September 2017, which will be applied to the purchase price upon closing of the transaction, which is expected to occur in fiscal 2018.

NOTE 16: LITIGATION

The Station is, from time to time, involved in various legal matters arising in the ordinary course of its business that will not, in the opinion of the Station's management, have a material affect on the results of the Station's operations.

NOTE 17: SUBSEQUENT EVENTS

On December 5, 2017, the Executive Committee, on behalf of the Board, approved the engagement of Charles Schwab, on the recommendation of the Investment Advisory Committee, to handle the quasi-endowment. On January 17, 2018, the Board confirmed the approval of the creation of a permanent quasi-endowment to be funded with a portion of the station's FCC spectrum auction proceeds. On the recommendation of the Investment Advisory Committee, the Board adopted an investment policy statement and confirmed the approval of investment advisor and co-fiduciary, Schwab Private Client.

The quasi-endowment fund is to be invested with the objective of preserving long-term real purchasing power of assets while providing a relatively predictable and growing stream of financial distributions in support of the institution in perpetuity. The quasi-endowment is to optimize total return through a diversified investment strategy to achieve a long-term, annualized rate of return that at a minimum supports KRCB's drawdown (or spending rate), averaged over a rolling 3-year period.