

**RURAL CALIFORNIA BROADCASTING CORPORATION**

**FINANCIAL STATEMENTS**  
**September 30, 2018 and 2017**

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 statements of financial position as of September 30, 2018 and 2017, 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 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, 2018 and 2017, 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.



April 3, 2019  
Roseville, California

RURAL CALIFORNIA BROADCASTING CORPORATION

STATEMENTS OF FINANCIAL POSITION  
September 30, 2018 and 2017

	ASSETS	
	2018	2017
Current assets:		
Cash and cash equivalents	\$ 1,218,864	\$ 70,511,224
Accounts receivable, net	108,421	15,527
Interest receivable	88,609	-
Inventory	102,516	-
Prepaid programming	222,885	269,938
Prepaid expenses	49,847	43,104
Total current assets	1,791,142	70,839,793
Investments	58,148,266	-
Broadcast licenses, net	12,000,000	-
Property and equipment, net	1,421,516	1,286,257
Escrow deposit	-	960,000
Other assets	42,689	27,650
Total assets	<u>\$ 73,403,613</u>	<u>\$ 73,113,700</u>
	LIABILITIES AND NET ASSETS	
Current liabilities:		
Accounts payable	\$ 341,617	\$ 142,748
Other payables	5,712	4,682
Accrued expenses	296,945	150,943
Unearned revenue	34,234	41,861
Note payable, current portion	16,006	15,341
Total current liabilities	694,514	355,575
Note payable, less current portion	571,902	587,908
Total liabilities	1,266,416	943,483
Net assets:		
Unrestricted	72,035,483	71,998,144
Temporarily restricted	101,714	172,073
Total net assets	72,137,197	72,170,217
Total liabilities and net assets	<u>\$ 73,403,613</u>	<u>\$ 73,113,700</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, 2018 and 2017

	Unrestricted		Temporarily Restricted	2018 Total
	Television Company	Radio Company		
Revenue and support:				
Grants:				
Corporation for Public Broadcasting	\$ 449,968	\$ 71,821	\$ -	\$ 521,789
Corporate, foundation, government and other	-	-	68,499	68,499
Underwriting contributions	91,925	45,057	-	136,982
Membership contributions	546,138	136,436	-	682,574
Annual auction and other fundraising activities	244,387	435	-	244,822
Services and other revenues	696,390	92,855	-	789,245
Realized and unrealized gains, net	528,844	-	-	528,844
Investment income	773,362	-	-	773,362
Donated goods and services	86,326	3,626	-	89,952
Net assets released from restriction	18,926	119,932	(138,858)	-
<b>Total revenue and support</b>	<b>3,436,266</b>	<b>470,162</b>	<b>(70,359)</b>	<b>3,836,069</b>
Expenditures:				
Program services:				
Programming and production	657,237	478,181	-	1,135,418
Broadcasting	939,708	143,102	-	1,082,810
Website/digital media	107,196	70,941	-	178,137
Program information and promotion	43,599	27,045	-	70,644
KPJK	95,223	-	-	95,223
Supporting services:				
Management and general	669,641	105,866	-	775,507
Auction and membership development	393,423	65,439	-	458,862
Underwriting and grant development	41,047	31,441	-	72,488
<b>Total expenditures</b>	<b>2,947,074</b>	<b>922,015</b>	<b>-</b>	<b>3,869,089</b>
Change in net assets	489,192	(451,853)	(70,359)	(33,020)
Net assets, beginning of year	74,259,660	(2,261,516)	172,073	72,170,217
Net assets, end of year	<u>\$ 74,748,852</u>	<u>\$ (2,713,369)</u>	<u>\$ 101,714</u>	<u>\$ 72,137,197</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, 2018 and 2017

	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)	-
<b>Total revenue and support</b>	<b>74,147,397</b>	<b>363,092</b>	<b>7,984</b>	<b>74,518,473</b>
Expenditures:				
Program services:				
Programming and production	588,672	327,895	-	916,567
Broadcasting	1,307,873	158,699	-	1,466,572
Website/digital media	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
<b>Total expenditures</b>	<b>2,937,331</b>	<b>734,732</b>	<b>-</b>	<b>3,672,063</b>
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 FUNCTIONAL EXPENSES  
For the Years Ended September 30, 2018 and 2017

	Programming and Production	Broadcasting	Website/ Digital Media	Program Information and Promotion	Management and General	Auction and Membership Development	Underwriting and Grant Development	KPKJ	2018 Total
Personnel costs	\$ 616,831	\$ 509,829	\$ 134,034	\$ 24,799	\$ 452,484	\$ 243,114	\$ 45,053	\$ -	\$ 2,026,144
Depreciation and amortization	3,026	184,122	-	804	8,767	3,482	804	-	201,005
Dues, fees and subscriptions	2,731	686	3,194	1,394	53,143	51,517	625	180	113,470
Fundraising and promotion	-	-	-	37,802	2,234	93,680	257	-	133,973
Insurance	-	-	-	-	37,725	-	-	-	37,725
Interest	-	-	-	-	25,992	-	-	-	25,992
Equipment rental and maintenance	235	49,698	-	-	29,413	-	-	9,393	88,739
Travel, education and training	11,407	4,276	68	258	5,567	225	134	-	21,935
Postage and freight	142	568	-	637	1,072	24,687	6	-	27,112
Printing and supplies	653	-	-	1,198	667	20,371	-	-	22,889
Production costs	9,161	-	-	-	-	-	-	-	9,161
Professional services	97,597	123,941	30,366	3,752	59,462	7,015	9,325	20,201	351,659
Program acquisition	380,175	-	-	-	-	-	-	669	380,844
Rent	-	71,282	-	-	-	-	-	42,834	114,116
Telephone	3,472	85,248	-	-	19,255	14,645	-	-	122,620
Utilities	-	51,252	-	-	68,272	-	-	21,946	141,470
Miscellaneous	9,988	1,908	10,475	-	11,454	126	16,284	-	50,235
<b>Total functional expenses</b>	<b>\$ 1,135,418</b>	<b>\$ 1,082,810</b>	<b>\$ 178,137</b>	<b>\$ 70,644</b>	<b>\$ 775,507</b>	<b>\$ 458,862</b>	<b>\$ 72,488</b>	<b>\$ 95,223</b>	<b>\$ 3,869,089</b>

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, 2018 and 2017

	Programming and Production	Broadcasting	Website/ Digital Media	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
<b>Total functional expenses</b>	<b>\$ 916,567</b>	<b>\$ 1,466,572</b>	<b>\$ 113,599</b>	<b>\$ 74,513</b>	<b>\$ 615,924</b>	<b>\$ 393,666</b>	<b>\$ 91,222</b>	<b>\$ 3,672,063</b>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from members, grants and other support	\$ 1,314,647	\$ 1,597,600
Cash received from other exchange transactions	926,227	868,218
Cash paid to vendors and employees	(3,180,968)	(3,408,484)
Investment income received	684,753	114,877
Interest paid	<u>(25,992)</u>	<u>(33,548)</u>
Net cash used in operating activities	<u>(281,333)</u>	<u>(861,337)</u>
Cash flows from investing activities:		
Cash received from spectrum auction	-	71,979,802
Purchase of investments	(127,066,422)	-
Proceeds from sale of investments	69,447,000	-
Purchase of fixed assets	(336,264)	(8,403)
Purchase of KPJK	(12,000,000)	-
Escrow deposit for purchase of KPJK	<u>960,000</u>	<u>(960,000)</u>
Net cash provided by (used in) investing activities	<u>(68,995,686)</u>	<u>71,011,399</u>
Cash flows from financing activities:		
Principal payments on note payable	<u>(15,341)</u>	<u>(14,703)</u>
Net change in cash and cash equivalents	(69,292,360)	70,135,359
Cash and cash equivalents, beginning of year	<u>70,511,224</u>	<u>375,865</u>
Cash and cash equivalents, end of year	<u>\$ 1,218,864</u>	<u>\$ 70,511,224</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of change in net assets to <u>net cash used in operating activities:</u>		
Change in net assets	\$ (33,020)	\$ 70,846,410
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	201,005	195,683
Unrealized gain on investments	(528,844)	-
Contributed auction inventory	(102,516)	-
Loss on disposal of property and equipment	-	216,116
Provision for bad debts	-	3,780
Change in operating assets and liabilities:		
Accounts receivable	(92,894)	124,205
Grants receivable	-	112,500
Interest receivable	(88,609)	-
Prepaid programming	47,053	(240,648)
Prepaid expenses	(6,743)	12,467
Other assets	(15,039)	4,176
Accounts payable	199,899	(56,944)
Accrued expenses	146,002	19,654
Unearned revenue	(7,627)	(118,934)
	<u>\$ (281,333)</u>	<u>\$ (861,337)</u>
Net cash used in operating activities	<u>\$ (281,333)</u>	<u>\$ (861,337)</u>

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

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 1: NATURE OF ORGANIZATION

Rural California Broadcasting Corporation (the Station or Northern California Public Media) (the "Station"), 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 subsequent years, the Station expanded into the bay area and all surrounding cities. 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. In 2018, the Station obtained a license to operate an additional non-commercial television 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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted revenues have been recorded as unrestricted revenues when the funds are received and expended within the same fiscal year.

*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.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

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 grants and underwriting 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.

Inventory

In accordance with the provisions of FASB ASC 958-605-25-20, contributed items that are used for fundraising are held in inventory and are valued at fair value of the item received at the date of contribution. These contributed items are held in inventory until they are sold in the auction. Once sold, the Station recognizes the difference between the fair value and the amount received for those items as adjustments to the original contribution when the items are transferred to the recipient.

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.

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.

Broadcast Licenses

The television and radio broadcast licenses are individually evaluated and their estimated useful lives are determined. Broadcast licenses that are determined to have an indefinite life will be evaluated for impairment at least annually.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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. On September 30, 2018 and 2017, the Station's uninsured cash and cash equivalent balances totaled \$503,551 and \$69,773,481, respectively. For 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. 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, 2018 and 2017, was \$25,580 and \$35,331, respectively.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Station has implemented the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, Subtopic 10, *Fair Value Measurements and Disclosures* (FASB ASC 820-10), which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Station determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10. The standard describes three levels of inputs that may be used to measure fair value, (Level 1, Level 2, and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Station has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Station's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Station's own data.

The fair values of investments are based on unadjusted quoted market prices within active markets and are therefore valued at Level 1 of the fair value hierarchy.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified, with no effect to change in net assets, to conform to the 2018 financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through April 3, 2019, the date that the financial statements were available to be issued.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 2018 and 2017:

	2018	2017
Accounts receivable - underwriting	\$ 95,341	\$ 8,479
Accounts receivable - service	16,090	355
Accounts receivable - other	-	9,703
Less allowance for doubtful accounts	(3,010)	(3,010)
Accounts receivable, net	\$ 108,421	\$ 15,527

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 4: FAIR VALUE MEASUREMENTS

The following table set forth by level, within the fair value hierarchy, the Station's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2018:

	Fair Values as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Equity funds	\$ 14,647,211	\$ -	\$ -	\$ 14,647,211
Fixed income	35,160,645	-	-	35,160,645
Exchange-traded and closed-end funds	8,340,410	-	-	8,340,410
	<u>\$ 58,148,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,148,266</u>

NOTE 5: BROADCAST LICENSES

The KRCB television and radio broadcast licenses were recorded at cost when obtained from the Federal Communications Commission (FCC) and amortized over their renewal period. These licenses were fully amortized as of September 30, 2018 and 2017.

During the year ended September 30, 2018, the Station purchased a broadcast license for KCSM-TV, now KPJK, from San Mateo County Community College District for \$12 million dollars. This license is determined to have an indefinite life and will be evaluated for impairment in subsequent years. These licenses may not be transferred or sold without the express written permission of the Federal Communications Commission (FCC).

	2018	2017
KPJK television broadcast license	\$ 12,000,000	\$ -
KRCB television broadcast license	60,987	60,987
KRCB radio broadcast license	7,470	7,470
	<u>12,068,457</u>	<u>68,457</u>
Less accumulated amortization	<u>(68,457)</u>	<u>(68,457)</u>
Total broadcast licenses	<u>\$ 12,000,000</u>	<u>\$ -</u>

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 6: PROPERTY AND EQUIPMENT

At September 30, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Land	\$ 359,542	\$ 359,542
Building and improvements	915,799	875,896
Broadcasting equipment	4,190,815	4,135,729
Satellite dishes and equipment	782,331	774,286
Furniture and equipment	419,046	398,243
Software	290,432	285,364
Construction in progress	207,359	-
	7,165,324	6,829,060
Less accumulated depreciation	(5,743,808)	(5,542,803)
Total property and equipment, net	\$ 1,421,516	\$ 1,286,257

Depreciation expense totaled \$201,005 and \$195,683 for the years ended September 30, 2018 and 2017, 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 7: ACCRUED VACATION AND SICK BENEFITS

Accrued vacation totaled \$77,239 and \$66,236 as of September 30, 2018 and 2017, 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.



RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 8: 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.

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

<u>Year ending September 30:</u>	
2019	\$ 16,006
2020	16,700
2021	17,424
2022	18,179
2023	18,967
Thereafter	<u>500,632</u>
Total	<u>\$ 587,908</u>

NOTE 9: 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 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.

During the 2018 fiscal year, the Station acquired a lease for space on a tower in San Francisco for the transmission equipment for \$21,517 per month. The lease term will expire in 2020, and the Station can extend the term of the lease for two five-year renewal options.

The Station's television transmission equipment is located on Sonoma Mountain. The site is leased from the County of Sonoma and rent costs are considered to be an in-kind donation. 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.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 9: LEASE COMMITMENTS (CONTINUED)

Rent expense totaled \$114,116 and \$71,248, respectively, for the years ended September 30, 2018 and 2017. Future minimum lease payments at September 30, 2018, under agreements classified as operating leases with noncancelable terms, are as follows:

<u>Year ending September 30:</u>	
2019	\$ 327,054
2020	175,435
2021	68,360
2022	2,370
2023	2,380
Thereafter	<u>3,583</u>
Total minimum lease payments	<u>\$ 579,182</u>

NOTE 10: 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 its 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 \$425,054 and \$411,197, respectively, for the years ended September 30, 2018 and 2017.

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

<u>Year ending September 30:</u>	
2019	\$ 421,492
2020	412,599
2021	413,316
2022	522,063
2023	567,837
Thereafter	<u>10,188,894</u>
Total minimum rental income	<u>\$ 12,526,201</u>

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 11: GRANTS

The following is a summary of the grant revenues recognized during the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Corporation for Public Broadcasting:		
Community service grant	\$ 521,789	\$ 602,837
Other grants	<u>68,499</u>	<u>97,500</u>
Total	<u>\$ 590,288</u>	<u>\$ 700,337</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.

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 12: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Broadcast grants	<u>\$ 101,714</u>	<u>\$ 172,073</u>

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

NOTE 13: NON-CASH SUPPORT AND EXPENDITURES

*In-kind Donations*

During the years ended September 30, 2018 and 2017, the value of contributed materials, facilities, and services meeting the requirements for recognition in the financial statements amounted to \$89,952 and \$79,527, 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 14: 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 mandatory matching contributing equal to 5% of employee deferrals up to a maximum amount of \$1,225 per year.

NOTE 15: 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 16: 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, 2018 and 2017, 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 17: SPECTRUM AUCTION

As part of the FCC spectrum auction conducted during the 2017 fiscal year, the Station sold its ultra-high frequency (UHF) spectrum position and received payment of \$71,979,802 and a new very-high frequency (VHF) spectrum position. 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 UHF position to the new very-high frequency VHF position in May 2020.

NOTE 18: PURCHASE OF KCSM-TV

In September 2017, the Station executed an agreement for the purchase of the license 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 was applied to the purchase price upon closing of the transaction, which occurred in July 2018. The Station purchased all transferable FCC licenses and permits and now operates as KPJK.

RURAL CALIFORNIA BROADCASTING CORPORATION

NOTES TO FINANCIAL STATEMENTS  
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NOTE 19: FCC SPECTRUM REPACK

As required by the Federal Communications Commission (FCC) as part of the Spectrum Auction Repack, the Station is currently in the process of moving to a new channel assignment for KPJK. The Spectrum Act requires that the FCC reimburse costs reasonably incurred by licensees that are reassigned to new channels. At September 30, 2018, the Station's budget for the FCC Spectrum Repack, as presented by the Tower Manager, was \$1,913,411. KPJK is in Phase 8, out of 10, for the FCC Spectrum Repack and the scheduled completion date of Phase 8 is March 13, 2020.

NOTE 20: QUASI-ENDOWMENT

During the year ended September 30, 2018, the Station's Board of Directors established a quasi-endowment to be funded with a portion of the Station's FCC spectrum auction proceeds. The Station has appointed an investment advisory committee and has adopted an investment policy statement for the oversight of the funds.

NOTE 21: LITIGATION

From time to time the Station is involved in various legal proceedings arising from the normal course of business activities. Although the results of litigation and claims cannot be predicted with certainty, the Station does not expect resolution of any current matters to have a material adverse impact on its statements of activities, cash flows or financial position. However, an unfavorable resolution of a matter could, depending on the amount and timing, materially affect the results of operations, cash flows, or financial position in a future period.