

RURAL CALIFORNIA  
BROADCASTING  
CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2015

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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 Rural California Broadcasting Corporation (a nonprofit corporation), which comprise the statement of financial position as of September 30, 2015, 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 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 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 auditor 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.



**Goranson and Associates, Inc.**

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

## 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, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the Rural California Broadcasting Corporation's financial statements for the year ended September 30, 2014, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Goranson and Associates, Inc.*

January 20, 2016  
Santa Rosa, California

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2015  
(with summarized comparative totals for September 30, 2014)

	2015	2014
ASSETS		
Current assets:		
Cash	\$ 183,014	\$ 127,561
Accounts receivable, net of \$3,010 allowance for uncollectible accounts	40,705	71,118
Grants receivable	2,835	17,364
Prepaid license agreements	251,333	233,460
Prepaid expenses	48,919	39,339
Total current assets	526,806	488,842
Land	359,542	359,542
Structures and equipment, net	1,531,456	1,671,679
Total Fixed Assets	1,890,998	2,031,221
Other assets:		
Long-term investments	108,589	361,249
Other assets	301,496	33,390
Total assets	\$ 2,827,889	\$ 2,914,702

The accompanying notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2015  
(with summarized comparative totals for September 30, 2014)

	2015	2014
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 695,895	\$ 657,695
Other payables	1,789	3,290
Accrued expenses	128,425	137,281
Deferred revenue	107,688	122,044
Current portion of long-term debt	620,217	11,458
Total current liabilities	1,554,014	931,768
Long-term debt, net of current portion	-	619,050
Total liabilities	1,554,014	1,550,818
Net assets:		
Unrestricted:		
Undesignated	1,093,476	1,163,422
Board designated quasi-endowment	110,570	110,570
Temporarily restricted	69,829	89,892
Total net assets	1,273,875	1,363,884
Total liabilities and net assets	\$ 2,827,889	\$ 2,914,702

The accompanying notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015  
(with summarized comparative totals for the year ended September 30, 2014)

	Unrestricted		Temporarily Restricted	2015 Total	2014 Total
	Television Company	Radio Company			
SUPPORT AND REVENUE:					
Grants:					
Corporation for Public Broadcasting	\$ 442,352	\$ 74,719		\$ 517,071	\$ 552,235
Corporate, foundation, government and other	112,662	18,647	\$ 10,000	141,309	212,348
Underwriting contributions	188,074	66,084		254,158	308,359
Membership contributions	734,324	181,638		915,962	983,984
Annual auction and other fundraising activities	205,904	4,380		210,284	227,760
Services and other revenues	572,351	78,948		651,299	452,871
Investment Income	2,218	-		2,218	9,286
Donated goods and services	120,720	13,006		133,726	83,820
Net assets released from restriction	30,063	-	(30,063)	-	-
Total support and revenue	<u>2,408,668</u>	<u>437,422</u>	<u>(20,063)</u>	<u>2,826,027</u>	<u>2,830,663</u>
EXPENSES:					
Program services:					
Programming/production	499,739	254,073	-	753,812	701,783
Broadcasting/podcasting	630,001	161,517	-	791,518	789,716
Web/podcasting	70,525	41,861	-	112,386	111,475
Program information/promotion	47,903	23,354	-	71,257	114,453
Supporting services:					
Management and general	461,414	90,146	-	551,560	615,344
Auction/membership development	395,191	44,190	-	439,381	439,394
Underwriting/grant development	175,118	21,004	-	196,122	342,366
Total expenses	<u>2,279,891</u>	<u>636,145</u>	<u>-</u>	<u>2,916,036</u>	<u>3,114,531</u>
CHANGE IN NET ASSETS	128,777	(198,723)	(20,063)	(90,009)	(283,868)
NET ASSETS, beginning of year	<u>2,749,973</u>	<u>(1,475,981)</u>	<u>89,892</u>	<u>1,363,884</u>	<u>1,647,752</u>
NET ASSETS, end of year	<u>\$ 2,878,750</u>	<u>\$ (1,674,704)</u>	<u>\$ 69,829</u>	<u>\$ 1,273,875</u>	<u>\$ 1,363,884</u>

The accompanying notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015  
(with summarized comparative totals for the year ended September 30, 2014)

	Programming and Production	Broadcasting	Web	Program Information and Promotion	Management and General	Auction and Membership Development	Underwriting and Grant Development	2015 Total	2014 Total
Personnel costs	\$ 372,544	\$ 348,932	\$ 97,875	\$ 24,238	\$ 281,978	\$ 200,145	\$ 62,619	\$ 1,388,331	\$ 1,448,447
Depreciation and amortization	6,860	200,098	-	1,492	16,332	6,464	1,492	232,738	264,855
Dues, fees and subscriptions	201	4,000	2,500	830	19,019	45,008	417	71,975	67,747
Fundraising and promotion	41	-	-	43,796	1,655	111,210	2,342	159,044	191,935
Insurance	-	-	-	-	33,433	384	-	33,817	35,132
Interest	-	-	-	-	52,157	-	-	52,157	51,223
Equipment rental and maintenance	-	38,553	-	-	20,443	486	-	59,482	63,826
Travel, education, training	4,099	2,422	-	-	2,823	426	44	9,814	11,652
Postage and shipping	313	691	-	618	1,403	27,420	4	30,449	29,474
Printing and supplies	-	-	-	112	33	16,709	26	16,880	20,806
Production costs	151	64	-	-	-	-	-	215	1,181
Professional services	4,248	32,999	7,819	66	36,341	6,670	123,226	211,369	204,894
Program acquisition	362,948	-	-	-	-	-	-	362,948	435,221
Rent	-	71,219	-	-	-	-	-	71,219	71,186
Telephone	1,655	47,514	-	-	21,664	24,051	-	94,884	86,838
Utilities	-	41,531	-	-	56,241	-	-	97,772	89,802
Bad debt expense	85	-	-	-	-	-	145	230	-
Miscellaneous	666	3,495	4,192	105	8,039	408	5,807	22,712	40,312
Total expenses	<u>\$ 753,811</u>	<u>\$ 791,518</u>	<u>\$ 112,386</u>	<u>\$ 71,257</u>	<u>\$ 551,561</u>	<u>\$ 439,381</u>	<u>\$ 196,122</u>	<u>\$ 2,916,036</u>	<u>\$ 3,114,531</u>

The accompanying notes are an integral part of these financial statements



RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015  
(with summarized comparative totals for the year ended September 30, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members, grants and other support	\$ 2,260,663	\$ 2,118,909
Cash received from other exchange transactions	464,442	359,046
Cash paid to vendors and employees	(2,765,131)	(2,575,796)
Investment income received	(2,218)	193
Other cash received (paid)	(2,005)	17
Interest paid	(52,157)	(51,223)
Net cash (used) provided by operations	<u>(96,406)</u>	<u>(148,854)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	254,665	(29,251)
Purchase/ donation of structures and equipment	(92,515)	(60,017)
Proceeds from sale of investments	-	152,384
Proceeds from sale of property and equipment	-	6,744
Net cash used by investing activities	<u>162,150</u>	<u>69,860</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(10,291)	(10,214)
Total cash used by financing activities	<u>(10,291)</u>	<u>(10,214)</u>
NET CHANGE IN CASH	55,453	(89,208)
CASH, beginning of year	<u>127,561</u>	<u>216,769</u>
CASH, end of year	<u>\$ 183,014</u>	<u>\$ 127,561</u>

The accompanying notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015  
(with summarized comparative totals for the year ended September 30, 2014)

	<u>2015</u>	<u>2014</u>
Reconciliation of Change in Net Assets to Net		
Cash Provided by Operating Activities:		
Change in net assets	\$ (90,009)	\$ (283,868)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	232,738	264,855
(Gain) loss on sales of assets	(23)	(603)
Donation of stock	-	(252,051)
Donation of plant, property and equipment	279,652	-
Other noncash items	(1,982)	(8,490)
(Increase) decrease in:		
Accounts receivable	30,413	87,882
Grants receivable	14,529	210
Program license agreements	(17,873)	(210,207)
Prepaid expense	(9,580)	42,442
Other assets	(547,758)	4,463
Increase (decrease) in:		
Accounts and other payables	36,699	311,169
Accrued expenses	(8,856)	(9,848)
Deferred revenue	(14,356)	(94,808)
	<u>                    </u>	<u>                    </u>
Net cash provided by operations	<u>\$ (96,406)</u>	<u>\$ (148,854)</u>

The accompanying notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 1           NATURE OF OPERATIONS

The Rural California Broadcasting Corporation (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, KRCB obtained four Instructional Television Fixed Site (ITFS) licenses. KRCB began ITFS operations in 1996. In 1991, KRCB 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 Presentation** – KRCB reports information regarding its financial position and activities on an accrual basis according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of KRCB to meet the stipulations or that become unrestricted at the date specified by the donor.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by KRCB to use all or part of the investment return on these net assets for specified or unspecified purposes.

**Net assets released from restriction** – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

**Other Basis of Presentation Policies** – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, KRCB reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

KRCB reports gifts of land, structures, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KRCB reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments received through gifts are recorded at estimated fair value at the date of donation.

**Fundraising Campaigns** - KRCB engages in fundraising campaigns for operations and capital improvements manifested by offering special television or radio programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to KRCB. Financial contributions are frequently evidenced by pledges received from responding viewers and listeners. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the statement of financial position. Contributions and collected pledges are components of unrestricted revenue to the extent their usage is not limited to specific activities of KRCB. This usage is consistent with the appeals for contributions and pledges. Contributions to capital campaign funds are temporarily restricted until expended for their designated use.

**Contributed services** – KRCB records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated. KRCB receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects.

**Cash and Cash Equivalents** – KRCB considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Accounts and Grants Receivable** - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Accounts receivable consist of underwriting due KRCB, but not yet collected. Grants receivable consist of grants and contracts awarded, but not yet received.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Fair Value Measures** – KRCB reports its fair value measures by using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

The three level of the fair value hierarchy under GAAP are:

*Level 1* - Unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities.

*Level 2* - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3* - Prices for valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (inputs are supported by little or no market activity).

**Investments** - Investments are made up of pooled investment funds and are reported at their fair values in the statement of financial position. The fair value of pooled investment funds are based upon quoted prices for similar securities in active markets (Level 2 measurements). Realized and unrealized gains and losses are included in the change in net assets and are included in the statement of activities as net realized and unrealized gains on investments.

**Fixed Assets** - Structures and equipment are stated at cost or, if donated, at fair market value at the date of receipt. Depreciation is computed using the straight-line method over the useful life of the assets. Structures are being depreciated over thirty years. Broadcasting, production, and satellite equipment are depreciated over periods of five to fifteen years and furniture and equipment are depreciated over periods of three to seven years.

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

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Broadcast Licenses** - The television and radio broadcast licenses are stated at cost and are being amortized over the remaining period of the leases. These licenses may not be transferred or sold without the express written permission of the Federal Communications Commission (see Note 5).

**Purchased Programming** - The costs of purchased programming are expensed over the period of purchase agreement because the estimated number of future airings is not determinable.

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

**Advertising** - KRCB uses advertising to promote its programming and fundraising events and the costs of the advertising are expensed as incurred.

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

**Estimates** - The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Concentrations of Risk – Financial Instruments** – Financial instruments, which potentially subject KRCB to a concentration of credit risk, principally consist of cash and cash equivalents, promises to give, and investments. KRCB invests temporary cash in money market securities in banks which, from time to time, may exceed federally insured limits. KRCB has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 2           SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Income Taxes** - KRCB is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined KRCB is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Management of KRCB considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to KRCB's status as a not-for-profit entity. Management believes KRCB met the requirements to maintain its tax-exempt status and has not income subject to unrelated business income tax; therefore no provision for income taxes has been provided in these financial statements. KRCB's tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

**Summarized Comparative Financial Information** – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly such information should be read in conjunction with KRCB's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

NOTE 3           FAIR VALUE MEASUREMENTS AND INVESTMENTS

The following table presents the assets and liabilities recognized in the accompanying statements of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at September 30, 2015:

	Total	Level 2
Pooled investment funds	\$    108,589	\$    108,589

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 3 FAIR VALUE MEASUREMENTS AND INVESTMENTS, continued

Investment earnings are as follows for the year ended September 30, 2015:

Interest income	\$	2,241
Realized gain (loss)		(23)
Total	\$	<u>2,218</u>

NOTE 4 STRUCTURES AND EQUIPMENT

Structures and equipment as of September 30, 2015 are summarized as follows:

Land	\$	359,542
Building and improvements		907,185
Broadcasting equipment		4,242,574
Satellite dishes and equipment		786,244
Furniture and equipment		399,014
Software		<u>287,312</u>
Total structures and equipment		6,981,871
Less accumulated depreciation		<u>(5,090,873)</u>
Net book value, less licenses	\$	<u>1,890,998</u>

Depreciation expense totaled \$232,738 for the year ended September 30, 2015.

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 twenty 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.



RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 5      BROADCAST LICENSES

Broadcast licenses as of September 30, 2015 are summarized as follows:

Television broadcast license	\$	60,987
Radio broadcast license		7,470
		68,457
Total licenses		68,457
Less accumulated amortization		(68,457)
		-
Net book value	\$	-

Broadcast licenses are fully amortized for the year ended September 30, 2015.

In light of the new Fair Value Measurement hierarchy, about four years ago, KRCB obtained an independent valuation of the television and radio broadcast licenses. Based on recent sales in comparable markets an estimated value of \$5,650,000 and \$585,000 for the television and radio licenses, respectively, was determined. The independent valuation based on quoted prices for similar assets in active markets would place this asset as a Level 2 asset.

NOTE 6      UNEMPLOYMENT FUND

KRCB is self-insured through the 501(c) 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 7      ACCRUED VACATION AND SICK BENEFITS

Accumulated unpaid employee vacation benefits are recognized as liabilities of KRCB. Accumulated vacation at September 30, 2015 is \$65,981.

Sick leave benefits are accumulated for each eligible employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of KRCB since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period sick leaves are taken.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 8      LONG TERM DEBT

KRCB has an obligation to Exchange Bank bearing interest at five and three quarter percent. The loan is payable in monthly installments of \$3,902, including interest, secured by land and building and the balance is due in April 2016 in the form of a balloon payment.

Principal maturities for each of the next five years at September 30 are as follows:

2016	\$ 620,217
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Subsequent to the year ended September 30, 2015, KRCB is in the process of refinancing the loan.

NOTE 9      TEMPORARILY RESTRICTED ASSETS

Amounts classified as temporarily restricted assets include grant monies received for future programs.

NOTE 10      BOARD DESIGNATED ENDOWMENT

In March 2010, the Board of Directors made a resolution to establish the KRCB Public Media Fund (the Fund) for the purpose of supporting KRCB Television 22, KRCB Radio 91FM, public media and community engagement. The Fund is established as a quasi-endowed fund with Community Foundation Sonoma County.

**Interpretation of Relevant Law**

The Board of Directors has interpreted California's enacted version of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring the preservation of the fair market value of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 10 BOARD DESIGNATED ENDOWMENT, continued

In accordance with UPMIFA, KRCB considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of KRCB and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of KRCB
- (7) The investment policies of the KRCB

Endowment net asset composition as of September 30, 2015:

	<u>Unrestricted</u>
Board-designated endowment fund	\$ <u>108,589</u>

Changes in endowment net assets for the year ended September 30, 2015:

Fair Value, September 30, 2014	\$ <u>110,569</u>
Gifts	-
Fees & grants/withdrawals	-
Investment return:	
Investment income	705
Realized gains	-
Unrealized gains	-
Management fees	<u>(2,685)</u>
Total investment return	<u>119,811</u>
Endowment net assets, end of year	\$ <u>108,589</u>

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

NOTE 11      LEASE COMMITMENTS

Operating Leases - Land

KRCB 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 provided for annual rent of \$1,800 payable in two equal installments in December and June and expired in June 2003. During the year ended September 30, 2003, the lease was renewed for an additional ten-year term expiring December 2014, and established rent at \$2,150 per year for the initial four years, \$2,210 for years five through seven and \$2,225 for years eight through ten. The lease was renewed for an additional term of ten years expiring December 31, 2024 with an annual rent of \$2,310.

KRCB also leased space on a tower in Santa Rosa for translator 90.9 for \$200 per month with annual CPI adjustments (current rent is \$244 per month). The original term expired in April 2004. KRCB has exercised the second of two five-year options with current expiration of April 2014. KRCB continues to pay for this space on a month to month basis at the same rate.

KRCB's television transmitting 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 additional ten years to September 2014. The lease is currently in negotiations.

Annual minimum lease payment required under operating leases of land for the next five years and thereafter as follows:

Year ending September 30:	
2016	\$ 2,310
2017	2,310
2018	2,310
2019	2,310
2020	2,310
Thereafter	9,240

Rental expenses, net of in-kind rent, for the period ending September 30, 2015 is \$5,238.

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NOTE 12      SPECTRUM AND TOWER LEASE INCOME

FCC regulations provide KRCB opportunities to lease certain of their bandwidth rights to commercial service providers interested in deploying wireless broadband services. In December 2006, KRCB signed a 30 year lease with scheduled payments which commenced in that year. KRCB received approximately \$288,000 in lease income for the year ended September 30, 2015.

KRCB also sub-leases a portion of land for telecommunications use. Under the agreement, the third party will pay KRCB rent of \$723,420 per month with the annual increases based on the Consumer Price Index (CPI) for a period of five years from the date of commencement of necessary facilities by the third party. The agreement provides for four additional five-year renewal options to be held by the lessor. KRCB received approximately \$6,000 in lease income for the year ended September 30, 2015.

KRCB sub-leases part of their land to a third party under an agreement which expires in July 2016 and provides for two additional five-year renewal option. KRCB received approximately \$77,677 in lease income during the year ended September 30, 2015.

KRCB entered into a lease for retransmission beginning November 19, 2014 terminating November 18, 2017 for \$250,000 per year. The lease is renewable for an additional three years.

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

Year ending September 30:

2016	\$ 644,804
2017	383,667
2018	342,000
2019	342,000
Thereafter	4,608,000

NOTE 13      COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, non-profit and grant-making organization responsible for funding more than 1,000 public television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying 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 of 1934 U.S.C. 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

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NOTE 13      COMMUNITY SERVICE GRANT, continued

According to the Communications Act the television's CSG and a portion of the radio's CSG may be used at the discretion of the recipients. KRCB uses these funds for purposes relating primarily to the production and acquisition of programming.

These funds are reported on 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 Federal Communication Commission. 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 the unrestricted net assets.

NOTE 14      DONATED SERVICES

During the year ended September 30, 2015, the value of contributed services meeting the requirements for recognition in the financial statements amounted to \$133,727. The donations are recognized in the accompanying statements of activities.

In addition, many individuals volunteer their time and perform a variety of tasks that assist KRCB in meeting its program objectives, but do not meet the requirements for recognition in the financial statements. During the years ended September 30, 2015, KRCB received more than 20,000 volunteer hours.

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NOTE 15      BENEFICIAL INTEREST IN ENDOWMENT

An endowment fund of \$125,000 has been established at the Community Foundation Sonoma County whereby KRCB is the beneficiary of the income earned by the endowment. In accordance with the agreement, the annual net earnings from the fund are gifted to KRCB by the Community Foundation Sonoma County, according to a formula set by the Foundation. The net assets of this fund are fully available to KRCB upon application to the Foundation. At September 30, 2015, the value of the assets held at the Foundation for KRCB totaled \$108,589.

NOTE 16      TAX DEFERRED ANNUITY PLAN

KRCB provides a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code (IRS). Employees may make contributions to the plan up to the maximum amount allowed by the IRS if they wish. KRCB does not make any contributions to the plan.

NOTE 17      SUBSEQUENT EVENTS

KRCB has evaluated subsequent events through January 20, 2016, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to September 30, 2015 that would have a material impact on the KRCB's results of operations or financial position except as stated in Notes 11 and 12.