

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

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

**YEARS ENDED
JUNE 30, 2018 AND 2017**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Northern California Educational Television Association, Inc. (Station), which comprise the statements of financial position as of June 30, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern California Educational Television Association, Inc. as of June 30, 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.

Emphasis-of-Matter regarding Going Concern

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 31, 2018

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

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 46,305	\$ 70,041
Receivables	38,777	26,133
Other assets	3,125	9,544
Total current assets	88,207	105,718
PROPERTY AND EQUIPMENT, Net	826,096	868,645
OTHER ASSETS	16,600	13,528
LEASEHOLD INTEREST IN PROPERTIES	284,482	289,659
TOTAL ASSETS	\$ 1,215,385	\$ 1,277,550
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 28,024	\$ 43,492
Accrued expenses and other liabilities	54,548	65,161
Deferred revenue	19,220	5,000
Note payable, current	5,399	5,133
Total current liabilities	107,191	118,786
NOTE PAYABLE, Net	239,161	244,574
TOTAL LIABILITIES	346,352	363,360
NET ASSETS:		
Unrestricted:		
Deficit	(242,784)	(286,718)
Investment in property and equipment	826,096	868,645
Total unrestricted	583,312	581,927
Temporarily restricted	285,721	332,263
Total net assets	869,033	914,190
TOTAL LIABILITIES AND NET ASSETS	\$ 1,215,385	\$ 1,277,550

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

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

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED NET ASSETS:		
REVENUES:		
Community service grants	\$ 728,570	\$ 753,190
Contributions	533,104	406,833
Membership contributions	315,955	323,735
Underwriting contributions	132,418	120,992
Special events	124,474	160,359
Contract services	43,687	53,195
Other grants	5,150	5,300
Other revenues	1,376	3,551
Net assets released from restriction	71,257	6,465
Total revenues	1,955,991	1,833,620
EXPENSES:		
Program services:		
Programming and production	557,037	578,931
Broadcasting and engineering	451,827	435,956
Total program services	1,008,864	1,014,887
Supporting services:		
Fundraising, underwriting and membership	616,795	574,640
Management and general	328,947	361,553
Total expenses	1,954,606	1,951,080
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,385	(117,460)
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution of leasehold interest in property	22,215	296,124
Contributions	2,500	42,604
Net assets released from restriction	(71,257)	(6,465)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(46,542)	332,263
INCREASE (DECREASE) IN NET ASSETS	(45,157)	214,803
NET ASSETS, Beginning of Year	914,190	699,387
NET ASSETS, End of Year	\$ 869,033	\$ 914,190

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

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Programming and production</u>	<u>Broadcasting and engineering</u>	<u>Fundraising, underwriting and membership</u>	<u>Management and general</u>	
Personnel	\$ 148,764	\$ 147,375	\$ 224,838	\$ 212,768	\$ 733,745
Program acquisition	304,590	93,698	-	-	398,288
Donated services, materials and facilities	-	14,039	267,859	57,822	339,720
Depreciation	44,996	26,997	8,999	8,997	89,989
Utilities	22,919	49,318	4,584	4,584	81,405
Premiums	-	-	42,755	-	42,755
Professional fees	300	4,844	11,296	25,724	42,164
Rent and leases	-	32,639	-	-	32,639
Insurance	13,942	8,365	2,788	2,788	27,883
Amortization of leasehold interest in properties	-	27,392	-	-	27,392
Printing and supplies	1,813	110	13,577	1,875	17,375
Computer expense	-	13,147	-	3,160	16,307
Interest expense	8,041	4,825	1,608	1,608	16,082
Postage and freight	-	2,363	13,132	18	15,513
Travel and conferences	2,336	8,972	955	2,393	14,656
Bank charges	-	-	12,162	1,579	13,741
Repairs and maintenance	-	12,233	-	-	12,233
Telephone	2,909	4,243	582	582	8,316
Other expenses	6,427	1,267	11,660	5,049	24,403
Total	<u>\$ 557,037</u>	<u>\$ 451,827</u>	<u>\$ 616,795</u>	<u>\$ 328,947</u>	<u>\$ 1,954,606</u>

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

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

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

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

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (45,157)	\$ 214,803
Reconciliation to net cash provided by operating activities:		
Contribution of leasehold interest in property	(22,215)	(296,124)
Amortization of leasehold interest in properties	27,392	6,465
Depreciation	89,989	117,145
Gain on disposal of property and equipment	-	(2,400)
Receipt of donated property and equipment	(11,500)	(4,917)
Changes in:		
Receivables	(12,644)	(14,834)
Other assets	3,347	(6,688)
Accounts payable	(15,468)	(15,503)
Accrued expenses and other liabilities	(10,613)	4,682
Deferred revenue	14,220	5,000
Net cash provided by operating activities	17,351	7,629
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	-	2,400
Purchases of property and equipment	(35,940)	(13,365)
Net cash used by investing activities	(35,940)	(10,965)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	-	57,000
Payments on line of credit	-	(250,000)
Proceeds from note payable	-	250,000
Payments on note payable	(5,147)	(293)
Net cash provided (used) by financing activities	(5,147)	56,707
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,736)	53,371
CASH AND CASH EQUIVALENTS, Beginning of Year	70,041	16,670
CASH AND CASH EQUIVALENTS, End of Year	\$ 46,305	\$ 70,041
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	\$ 12,233	\$ 13,409

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

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. ORGANIZATION AND PROGRAMS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Station reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Station had no permanently restricted net assets at June 30, 2018 and 2017.

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

Special events revenues are recognized when the related events occur and are shown net of direct benefit to donors of \$1,500 and \$2,500 in 2018 and 2017, respectively.

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

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

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

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

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

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

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

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

Leasehold interest in properties - The Station receives contributed use of property as part of two multi-year agreements. These contributions are considered an unconditional promise to give and are reported as temporarily restricted contributions and as leasehold interest in properties at the fair value of the contributed use of the properties in the period it is contributed. The leasehold interest is amortized and the restrictions are considered satisfied evenly over the term of the agreements.

Subsequent events have been reviewed through October 31, 2018, the date the financial statements were available to be issued.

Reclassification - Certain 2017 amounts have been reclassified to conform to the 2018 financial statement presentation.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

3. RECEIVABLES

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

	<u>2018</u>	<u>2017</u>
Underwriting receivables	\$ 8,477	\$ 6,408
Contract services receivable	1,300	10,000
Planned giving receivable	26,500	-
Grants receivable	<u>2,500</u>	<u>9,725</u>
Total	<u>\$ 38,777</u>	<u>\$ 26,133</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 245,000	\$ 245,000
Building	611,376	567,936
Studio and broadcast equipment	3,627,826	3,621,831
Office furniture and equipment	235,097	235,097
Vehicles and related equipment	42,943	42,943
Construction in progress	<u>-</u>	<u>1,995</u>
Total	4,762,242	4,714,802
Less accumulated depreciation and amortization	<u>(3,936,146)</u>	<u>(3,846,157)</u>
Total	<u>\$ 826,096</u>	<u>\$ 868,645</u>

5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Leasehold interest in properties	\$ 284,482	\$ 289,659
The Great American Read	1,239	-
SRCF McConnell grant	-	32,879
Vietnam War grant	-	6,600
SRCF Redding Rancheria grant	<u>-</u>	<u>3,125</u>
Total	<u>\$ 285,721</u>	<u>\$ 332,263</u>

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Effective April 1, 2017, the Station entered into an agreement with California Broadcasting, Inc. which provides for contributed use of facilities for the Station's operations on Shasta Bally Mountain. The agreement with California Broadcasting, Inc. expires March 31, 2027. Effective March 1, 2018, the Station entered into an agreement with two individuals which provides for contributed use of facilities for the Station's operations on Tulelake Mountain. The agreement expires February 28, 2023. The leasehold interest in properties represents the fair value of the future use of contributed properties by the Station.

6. NOTE PAYABLE AND LINE OF CREDIT

The Station has a \$100,000 line of credit through a financial institution. The line calls for an interest rate of 5% and a term through May 15, 2019. There was no balance on this line of credit as of June 30, 2018 and 2017.

The Station's note payable is secured by real property and is payable in monthly installments of \$1,474, maturing in May 2042. The first 60 months of the term bear an interest rate of 5% and the remaining months of the term are subject to an interest rate based on the Weekly Average Yield on United States Treasury Securities plus 3%. The Company's debt arrangement with Cornerstone Bank contains financial covenants, including the maintenance of a debt service coverage ratio and other various financial ratios. The Company was in compliance with these covenants at June 30, 2018.

Future principal payments are as follows:

Year ending June 30:

2019	\$ 5,399
2020	5,679
2021	5,974
2022	6,284
2023	6,610
Thereafter	<u>214,614</u>
Total	<u>\$ 244,560</u>

7. OPERATING LEASES

The Station leases equipment and use of property under various non-cancelable agreements expiring through 2023. Rental expense under lease agreements totaled \$32,639 and \$31,406 in 2018 and 2017, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Year ending June 30:

2019	\$ 25,844
2020	24,740
2021	200
2022	200
2023	<u>133</u>
Total	<u>\$ 51,117</u>

8. DONATED SERVICES, MATERIALS, AND FACILITIES

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

	<u>2018</u>	<u>2017</u>
Equipment and supplies	\$ 283,601	\$ 274,716
Professional services	65,322	90,695
Tower facilities	<u>2,296</u>	<u>20,887</u>
Total	<u>\$ 351,219</u>	<u>\$ 386,298</u>

9. RENTAL INCOME

The Station has a non-cancelable agreement with a communications company to provide capacity on certain channels expiring in 2040. Rental income totaled \$12,087 in 2018 and 2017. Minimum future lease payments to be received under this agreement are as follows:

Year ending June 30:

2019	\$ 9,326
2020	9,606
2021	9,894
2022	10,191
2023	10,496
Thereafter	<u>222,165</u>
Total	<u>\$ 271,678</u>

NORTHERN CALIFORNIA EDUCATIONAL TELEVISION ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

10. COMMUNITY SERVICE GRANT

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

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

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

For the years ended June 30, 2018 and 2017, the CSGs represent 38% and 35%, respectively, of the Station's revenues.

11. RETIREMENT PLAN

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

12. INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by unrelated business activities is taxable as unrelated business income.

For the years ended June 30, 2018 and 2017, net income as calculated for income tax purposes was not sufficient to yield any income tax expense. A carryover net operating loss from prior years is available for application against federal taxable income which might be incurred in the future.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

At June 30, 2018, the available net operating loss carryovers are as follows:

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

13. GOING CONCERN

The Station has sustained certain financial challenges resulting in a decrease in net assets generating concern about the Station's ability to continue operations through June 30, 2018.

Management believes that the Station's fiscal condition stems primarily from personnel turnover during recent years. In particular, turnover within the Development department affected the Station's fundraising capabilities. The Station has addressed these issues by hiring a full-time Volunteer/Outreach Special Events position and the Station has strategically restructured to allow this new position to focus on fundraising events. The Station has also focused on community outreach and development with the release of their new website, which promotes the Station's fundraising, membership, and programming; the use of a grant writer to focus on grant revenue growth; and new membership focuses. The Station has also benefited from active Board members that are supportive of the Station's focus on obtaining fiscal stability.

Management and the Board believe the outcome from these actions will strengthen the Station's financial operations, and believe that these measures will enable the Station to remain a going concern through fiscal year 2019.

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