

**NORTHERN COMMUNITY RADIO, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Community Radio, Inc.:

We have audited the accompanying financial statements of Northern Community Radio, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities 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 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 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 Northern Community Radio, Inc. as of September 30, 2016 and 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses beginning on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KBA Peterson Associates, Inc.

KBA Peterson Associates, Inc.

February 8, 2017

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 60,712	\$ 64,919
Accounts Receivable	22,970	27,155
Grants Receivable	63,430	-
Pledges Receivable	40,613	36,974
Prepaid Expenses	45,144	18,723
Total Current Assets	232,869	147,771
<u>Fixed Assets</u>		
Property and Equipment	2,099,604	2,092,486
Leasehold Improvements	119,020	119,020
Land	224,680	224,680
Less: Accumulated Depreciation	(1,281,697)	(1,175,296)
Total Fixed Assets	1,161,607	1,260,890
<u>Other Assets</u>		
Organizational Costs	20,364	20,364
Less: Accumulated Amortization	(9,594)	(8,236)
Total Other Assets	10,770	12,128
TOTAL ASSETS	\$ 1,405,246	\$ 1,420,789
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 9,470	\$ 16,573
Accrued Payroll Taxes	5,824	192
Accrued Payroll	1,603	954
Accrued Vacation Leave	15,843	18,894
Deferred Revenue	16,888	-
Total Current Liabilities	49,628	36,613
<u>Net Assets</u>		
Unrestricted	1,350,910	1,382,519
Temporarily Restricted	4,708	1,657
Total Net Assets	1,355,618	1,384,176
TOTAL LIABILITIES AND NET ASSETS	\$ 1,405,246	\$ 1,420,789

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

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
<u>Revenues, Support, and Gains</u>		
Contributions	\$ 236,738	\$ 224,900
Underwriting	219,176	222,528
Endowment	15,460	14,725
Grants	563,984	435,234
Rent	9,850	9,695
Special Events	42,165	34,185
State Services for the Blind	5,400	5,400
AMPERS	12,172	20,930
Interest Income	96	76
Other Income	6,313	16,318
Gain on Disposal	800	-
Total Revenues, Support, and Gains	1,112,154	983,991
<u>Net Assets Released from Restrictions</u>		
Satisfied by Purpose	-	221
Total Revenues, Support, Gains, and Net Assets Released from Restrictions	1,112,154	984,212
<u>Expenses and Losses</u>		
Program Services		
Programming and Production	765,511	746,272
Engineering and Broadcasting	86,351	82,233
Program Information	8,151	7,041
Total Program Services	860,013	835,546
Support Services		
Management and General	110,244	117,296
Membership and Fundraising	163,831	150,686
Underwriting and Grant Solicitation	9,674	8,293
Total Support Services	283,749	276,275
Loss on Disposal	-	26
Total Expenses and Losses	1,143,762	1,111,847
CHANGE IN UNRESTRICTED NET ASSETS	(31,608)	(127,635)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,050	-
Net Assets Released from Restrictions	-	(221)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	3,050	(221)
CHANGE IN NET ASSETS	(28,558)	(127,856)
NET ASSETS, BEGINNING OF YEAR	1,384,176	1,512,032
NET ASSETS, END OF YEAR	\$ 1,355,618	\$ 1,384,176

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

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities</u>		
Change in Net Assets	\$ (28,558)	\$ (127,856)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	108,759	119,568
Amortization	1,358	1,358
(Gain) Loss on Disposal of Fixed Assets	(800)	26
(Increase) Decrease in Current Assets:		
Accounts Receivable	4,185	(811)
Grants Receivable	(63,430)	29,393
Pledges Receivable	(3,639)	(3,054)
Prepaid Expenses	(26,421)	(2,455)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(7,103)	9,702
Accrued Payroll Taxes	5,632	24
Accrued Payroll	649	294
Accrued Vacation Leave	(3,051)	(2,481)
Deferred Revenue	16,888	(33,933)
	4,469	(10,225)
 <u>Cash Flows From Investing Activities</u>		
Purchase of Fixed Assets	(9,476)	(21,697)
Proceeds from Sale of Fixed Assets	800	-
	(8,676)	(21,697)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,207)	(31,922)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,919	96,841
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 60,712	\$ 64,919

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

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Northern Community Radio, Inc. was incorporated February 11, 1971 to operate a rural public radio station. Northern Community Radio, Inc. operates two unique community-based public radio stations, KAXE and KBXE. The organization serves most of north central and northeastern Minnesota with stations located in Grand Rapids and Bemidji, Minnesota. The main sources of revenues are community contributions, underwriting revenue, and grants.

Income Tax Status

The organization qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and therefore, has no provision for income taxes. It is not a private foundation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The organization is required to report information regarding its financial position and activities according to the following classes of net assets:

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 organization 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.

Permanently Restricted Net Assets - Net assets, subject to donor-imposed stipulations, that are to be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. The organization does not have any permanently restricted net assets.

Fixed Assets

Fixed assets are recorded at cost. Donated items are recorded at estimated fair value. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Useful lives range from three to forty years.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statements of financial position and cash flows, the organization considers all demand, savings, and certificates of deposits to be cash equivalents.

Advertising Costs

The cost of advertising is expensed in the period the advertising occurred.

Use of Estimates in the Preparation of Financial Statements

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In-Kind Contributions and Donated Services

The organization receives donated services from individuals who volunteer for program services and as board members. Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased if not provided by donation. The organization received donated services during the year which have not been reflected in the statements since there is no objective measurement basis and they do not meet accounting principles generally accepted in the United States of America's criteria for recognition.

Recognition of Donor Restricted Contributions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 2 – EVALUATION OF SUBSEQUENT EVENTS

The organization has evaluated subsequent events through February 8, 2017, the date which the statements were available to issue.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of amounts pledged by donors at September 30, 2016 and 2015. The organization has provided for an allowance for uncollectible pledges receivable based on estimated collection rates. The allowance for uncollectible accounts was estimated at \$4,208 and \$3,921 as of September 30, 2016 and 2015, respectively. Pledges receivable are collectible during the next year.

NORTHERN COMMUNITY RADIO, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016 AND 2015

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts receivable for underwriting. Accounts receivable are recorded at cost. The organization has provided for an allowance for uncollectible receivables based on estimated collection rates. Accounts are written off when all collection attempts are exhausted. The allowance for uncollectible accounts was \$2,075 as of September 30, 2016. There was no allowance as of September 30, 2015.

NOTE 5 – GRANTS RECEIVABLE

Grants receivable consist of amounts due from the State of Minnesota. Management believes all amounts are collectible within the next year, therefore an allowance for uncollectible accounts has not been established.

NOTE 6 – FIXED ASSETS

Depreciation expense was \$108,759 and \$119,568 for the years ended September 30, 2016 and 2015, respectively. Amortization expense was \$1,358 for each of the years ended September 30, 2016 and 2015.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts received from donors that have restricted their use for particular projects. Temporarily restricted net assets consist of the following for the years ended September 30,

	<u>2016</u>	<u>2015</u>
Phenology	\$ 1,657	\$ 1,657
Equipment	3,051	-
Total	\$ 4,708	\$ 1,657

NOTE 8 – PENSION PLAN

The organization has a Simplified Employee Pension/Individual Retirement Account plan for the benefit of all part-time and full-time employees. The organization contributes 5% of gross wages to each employee's plan. Total retirement expense was \$22,001 and \$20,112 for the years ended September 30, 2016 and 2015, respectively.

NOTE 9 – NON-MONETARY TRANSACTIONS

During the year the organization entered into exchange transactions to provide underwriting and in return received items such as advertising, maintenance, and supplies. Non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$42,514 and \$44,167 for the years ended September 30, 2016 and 2015, respectively.

NORTHERN COMMUNITY RADIO, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016 AND 2015

NOTE 10 – OPERATING LEASE

The organization incurred rental expenses of \$21,415 and \$38,109 for the years ended September 30, 2016 and 2015, respectively. The various operating leases in effect during the years ended September 30, 2016 and 2015 were as follows:

Land – Itasca County, Minnesota - The organization entered into a lease agreement with Itasca County for 80 acres of land. The lease amount is \$100 per year. The lease agreement is renewed annually.

Rooftop/Support Space – Bemidji, Minnesota - The organization entered into a lease agreement with General Services Administration beginning December 1, 2011 for a term of ten years. Monthly rent for the ten-year term increases annually with an initial monthly amount of \$142 and a final monthly amount of \$173.

Tower Space – Crow Wing County, Minnesota - The organization entered into a lease agreement with KSAX-TV, Inc. Monthly rent is \$325 per month.

Studio – Bemidji, Minnesota - The organization entered into a lease with Harmony Cooperative Grocery, Inc. beginning February 1, 2011 for a term of twenty years. Per the terms of the agreement monthly rent is \$2,495. Beginning February 1, 2016 rent equals 50% of the total annual real property taxes and assessments, apportioned monthly. As a result, annual rental commitments beginning in 2017 have been estimated.

Tower Space – Ely, Minnesota - The organization entered into a lease with Range Paging beginning February 2013. Monthly rent is \$215 per month.

The future minimum annual rental commitments are as follows:

For the fiscal years ending September 30,	
2017	\$ 4,474
2018	4,512
2019	4,550
2020	4,589
2021	<u>4,629</u>
Totals	<u>\$ 22,754</u>

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 11 – CONTRIBUTIONS

Contributions consist of the following for the years ended September 30,

	<u>2016</u>	<u>2015</u>
KAXE – Grand Rapids	\$ 191,319	\$ 171,001
KBXE – Bemidji	48,469	53,899
Total	<u>\$ 239,788</u>	<u>\$ 224,900</u>

NOTE 12 – UNDERWRITING

Underwriting consists of the following for the years ended September 30,

	<u>2016</u>	<u>2015</u>
KAXE – Grand Rapids	\$ 174,366	\$ 172,151
KBXE – Bemidji	44,810	50,377
Total	<u>\$ 219,176</u>	<u>\$ 222,528</u>

NOTE 13 – GRANTS

Grant revenue consists of the following for the years ended September 30,

	<u>2016</u>	<u>2015</u>
Corporation for Public Broadcasting State of Minnesota	\$ 147,047	\$ 148,479
Operating	74,000	26,133
Equipment	13,987	7,800
Legacy	263,950	145,392
IRRB	-	9,430
Blandin Foundation	50,000	82,000
Neilsen Foundation	15,000	15,000
First National Bank Bemidji	-	1,000
Total	<u>\$ 563,984</u>	<u>\$ 435,234</u>

SUPPLEMENTAL INFORMATION

NORTHERN COMMUNITY RADIO, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Services			Support Services					Total
	Programming and Production	Engineering and Broadcasting	Program Information	Total Program Services	Management and General	Membership and Fundraising	Underwriting and Grant Solicitation	Total Support Services	
Salaries	\$ 253,868	\$ 45,196	\$ 4,000	\$ 303,064	\$ 68,832	\$ 81,338	\$ 5,187	\$ 155,357	\$ 458,421
Payroll Taxes	20,786	3,656	326	24,768	6,299	6,626	415	13,340	38,108
Employee Benefits	42,548	8,694	340	51,582	9,807	15,204	339	25,350	76,932
Advertising and Promotion	32,719	-	-	32,719	-	7,294	194	7,488	40,207
Professional Fees	1,168	-	-	1,168	4,070	88	-	4,158	5,326
Contracted Services	610	-	-	610	-	-	-	-	610
Bank Fees	1,007	-	-	1,007	35	5,716	-	5,751	6,758
Bad Debts	-	-	-	-	-	1,054	2,075	3,129	3,129
Program Acquisition	96,980	-	-	96,980	-	-	-	-	96,980
National Public Radio Expense	42,469	-	-	42,469	-	-	-	-	42,469
Repairs and Maintenance	17,684	7,829	-	25,513	64	212	-	276	25,789
Depreciation	55,467	10,876	3,263	69,606	17,401	20,664	1,088	39,153	108,759
Amortization	692	136	41	869	217	258	14	489	1,358
Dues and Subscriptions	14,422	30	-	14,452	519	168	240	927	15,379
Special Events Expense	50,307	-	-	50,307	-	12,299	-	12,299	62,606
Staff Development	703	-	-	703	50	1,448	-	1,498	2,201
Insurance	23,907	-	-	23,907	1,440	-	-	1,440	25,347
Miscellaneous	2,974	-	-	2,974	25	2,220	-	2,245	5,219
Postage	38	785	-	823	-	5,670	-	5,670	6,493
Rent	18,710	2,705	-	21,415	-	-	-	-	21,415
Supplies	11,473	3,006	181	14,660	196	1,192	27	1,415	16,075
Travel	7,291	2,253	-	9,544	657	1,757	95	2,509	12,053
Utilities	69,688	1,185	-	70,873	632	623	-	1,255	72,128
Total Expenses	\$ 765,511	\$ 86,351	\$ 8,151	\$ 860,013	\$ 110,244	\$ 163,831	\$ 9,674	\$ 283,749	\$1,143,762

See Independent Auditor's Report.

NORTHERN COMMUNITY RADIO, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services			Support Services					Total
	Programming and Production	Engineering and Broadcasting	Program Information	Total Program Services	Management and General	Membership and Fundraising	Underwriting and Grant Solicitation	Total Support Services	
Salaries	\$ 205,821	\$ 41,674	\$ 2,833	\$ 250,328	\$ 74,221	\$ 72,770	\$ 5,412	\$ 152,403	\$ 402,731
Payroll Taxes	16,288	3,242	222	19,752	5,774	5,694	420	11,888	31,640
Employee Benefits	29,056	8,527	113	37,696	10,967	13,170	109	24,246	61,942
Advertising and Promotion	32,806	-	-	32,806	-	8,682	200	8,882	41,688
Professional Fees	612	-	-	612	768	3,800	-	4,568	5,180
Contracted Services	4,471	-	46	4,517	-	-	-	-	4,517
Bank Fees	52	-	-	52	109	5,402	-	5,511	5,563
Bad Debts	-	-	-	-	-	433	676	1,109	1,109
Program Acquisition	77,255	-	-	77,255	-	-	-	-	77,255
National Public Radio Expense	40,689	-	-	40,689	-	-	-	-	40,689
Repairs and Maintenance	17,038	4,836	199	22,073	142	1,999	-	2,141	24,214
Depreciation	60,979	11,957	3,587	76,523	19,131	22,718	1,196	43,045	119,568
Amortization	692	136	41	869	217	258	14	489	1,358
Dues and Subscriptions	8,929	30	-	8,959	450	900	260	1,610	10,569
Special Events Expense	98,842	-	-	98,842	42	2,936	-	2,978	101,820
Staff Development	4,232	375	-	4,607	353	1,379	-	1,732	6,339
Insurance	18,928	-	-	18,928	1,440	-	-	1,440	20,368
Miscellaneous	2,269	-	-	2,269	846	-	-	846	3,115
Postage	-	172	-	172	17	3,029	-	3,046	3,218
Rent	34,209	3,900	-	38,109	-	-	-	-	38,109
Supplies	18,309	3,997	-	22,306	823	2,635	6	3,464	25,770
Travel	5,544	2,617	-	8,161	1,247	4,001	-	5,248	13,409
Utilities	69,251	770	-	70,021	749	880	-	1,629	71,650
Total Expenses	\$ 746,272	\$ 82,233	\$ 7,041	\$ 835,546	\$ 117,296	\$ 150,686	\$ 8,293	\$ 276,275	\$1,111,821

See Independent Auditor's Report.