

**NORTHERN COMMUNITY RADIO, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 17, 2018

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 71,418	\$ 60,712
Accounts Receivable	22,312	22,970
Grants Receivable	57,560	63,430
Pledges Receivable	44,628	40,613
Prepaid Expenses	44,901	45,144
Total Current Assets	240,819	232,869
<u>Fixed Assets</u>		
Property and Equipment	2,120,969	2,099,604
Leasehold Improvements	119,020	119,020
Land	224,680	224,680
Less: Accumulated Depreciation	(1,383,224)	(1,281,697)
Total Fixed Assets	1,081,445	1,161,607
<u>Other Assets</u>		
Organizational Costs	20,364	20,364
Less: Accumulated Amortization	(10,951)	(9,594)
Total Other Assets	9,413	10,770
TOTAL ASSETS	\$ 1,331,677	\$ 1,405,246
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 8,201	\$ 9,470
Accrued Payroll Taxes	920	5,824
Accrued Payroll	828	1,603
Accrued Vacation Leave	18,826	15,843
Deferred Revenue	7,083	16,888
Total Current Liabilities	35,858	49,628
<u>Net Assets</u>		
Unrestricted	1,292,336	1,350,910
Temporarily Restricted	3,483	4,708
Total Net Assets	1,295,819	1,355,618
TOTAL LIABILITIES AND NET ASSETS	\$ 1,331,677	\$ 1,405,246

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

NORTHERN COMMUNITY RADIO, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
<u>Revenues, Support, and Gains</u>		
Contributions	\$ 255,500	\$ 236,738
Underwriting	208,405	219,176
Endowment	15,750	15,460
Grants	437,684	563,984
Rent	9,820	9,850
Special Events	45,956	42,165
State Services for the Blind	5,400	5,400
AMPERS	7,593	12,172
Interest Income	37	96
Other Income	9,685	6,313
Gain on Disposal	-	800
Total Revenues, Support, and Gains	995,830	1,112,154
<u>Net Assets Released from Restrictions</u>		
Satisfied by Purpose	1,225	-
Total Revenues, Support, Gains, and Net Assets Released from Restrictions	997,055	1,112,154
<u>Expenses</u>		
Program Services		
Programming and Production	715,979	765,511
Engineering and Broadcasting	82,465	86,351
Program Information	7,692	8,151
Total Program Services	806,136	860,013
Support Services		
Management and General	107,004	110,244
Membership and Fundraising	139,674	163,831
Underwriting and Grant Solicitation	2,815	9,674
Total Support Services	249,493	283,749
Total Expenses	1,055,629	1,143,762
CHANGE IN UNRESTRICTED NET ASSETS	(58,574)	(31,608)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	3,050
Net Assets Released from Restrictions	(1,225)	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(1,225)	3,050
CHANGE IN NET ASSETS	(59,799)	(28,558)
NET ASSETS, BEGINNING OF YEAR	1,355,618	1,384,176
NET ASSETS, END OF YEAR	\$ 1,295,819	\$ 1,355,618

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash Flows From Operating Activities</u>		
Change in Net Assets	\$ (59,799)	\$ (28,558)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	101,527	108,759
Amortization	1,358	1,358
(Gain) Loss on Disposal of Fixed Assets	-	(800)
(Increase) Decrease in Current Assets:		
Accounts Receivable	658	4,185
Grants Receivable	5,870	(63,430)
Pledges Receivable	(4,015)	(3,639)
Prepaid Expenses	243	(26,241)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(1,270)	(7,103)
Accrued Payroll Taxes	(4,904)	5,632
Accrued Payroll	(775)	649
Accrued Vacation Leave	2,983	(3,051)
Deferred Revenue	(9,805)	16,888
	32,071	4,649
 <u>Cash Flows From Investing Activities</u>		
Purchase of Fixed Assets	(21,365)	(9,476)
Proceeds from Sale of Fixed Assets	-	800
	(21,365)	(8,676)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,706	(4,207)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	60,712	64,919
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 71,418	\$ 60,712

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

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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, 2017 AND 2016

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 17, 2018, the date which the statements were available to issue.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of amounts pledged by donors at September 30, 2017 and 2016. The organization has provided for an allowance for uncollectible pledges receivable based on estimated collection rates. The allowance for uncollectible accounts was estimated at \$4,414 and \$4,208 as of September 30, 2017 and 2016, respectively. Pledges receivable are collectible during the next year.

NORTHERN COMMUNITY RADIO, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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 \$1,350 and \$2,075 as of September 30, 2017 and 2016, respectively.

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 \$101,529 and \$108,759 for the years ended September 30, 2017 and 2016, respectively. Amortization expense was \$1,358 for each of the years ended September 30, 2017 and 2016.

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>2017</u>	<u>2016</u>
Phenology	\$ 1,657	\$ 1,657
Equipment	1,826	3,051
Total	<u>\$ 3,483</u>	<u>\$ 4,708</u>

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 \$21,714 and \$22,001 for the years ended September 30, 2017 and 2016, 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 \$43,156 and \$42,514 for the years ended September 30, 2017 and 2016, respectively.

NORTHERN COMMUNITY RADIO, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

NOTE 10 – OPERATING LEASE

The organization incurred rental expenses of \$10,795 and \$21,415 for the years ended September 30, 2017 and 2016, respectively. The various operating leases in effect during the years ended September 30, 2017 and 2016 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. 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 2018 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,	
2018	\$ 3,973
2019	4,011
2020	4,050
2021	4,090
2022	<u>4,131</u>
Totals	<u>\$ 20,255</u>

NORTHERN COMMUNITY RADIO, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

NOTE 11 – CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>
KAXE – Grand Rapids	\$ 191,625	\$ 188,269
KBXE – Bemidji	63,875	48,469
Total	<u>\$ 255,500</u>	<u>\$ 236,738</u>

NOTE 12 – UNDERWRITING

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

	<u>2017</u>	<u>2016</u>
KAXE – Grand Rapids	\$ 177,145	\$ 174,366
KBXE – Bemidji	31,260	44,810
Total	<u>\$ 208,405</u>	<u>\$ 219,176</u>

NOTE 13 – GRANTS

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

	<u>2017</u>	<u>2016</u>
Corporation for Public Broadcasting State of Minnesota	\$ 148,623	\$ 147,047
Operating	49,000	74,000
Equipment	21,513	13,987
Legacy	156,648	263,950
Blandin Foundation	55,000	50,000
Neilsen Foundation	-	15,000
University of Minnesota	6,900	-
Total	<u>\$ 437,684</u>	<u>\$ 563,984</u>

SUPPLEMENTAL INFORMATION

NORTHERN COMMUNITY RADIO, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	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	\$ 230,187	\$ 47,825	\$ 4,681	\$ 282,693	\$ 74,932	\$ 73,680	\$ 967	\$ 149,579	\$ 432,272
Payroll Taxes	19,198	3,966	393	23,557	6,198	6,223	74	12,495	36,052
Employee Benefits	56,921	5,697	1,032	63,650	5,615	7,392	1,031	14,038	77,688
Advertising and Promotion	30,859	-	-	30,859	-	10,007	-	10,007	40,866
Professional Fees	2,925	1,800	-	4,725	5,060	-	-	5,060	9,785
Contracted Services	1,000	-	-	1,000	-	-	-	-	1,000
Bank Fees	24	-	-	24	53	6,990	-	7,043	7,067
Bad Debts	-	-	-	-	-	857	595	1,452	1,452
Program Acquisition	79,781	280	-	80,061	-	-	-	-	80,061
National Public Radio Expense	44,630	-	-	44,630	-	-	-	-	44,630
Repairs and Maintenance	16,953	5,776	-	22,729	125	340	-	465	23,194
Depreciation	69,039	8,122	965	78,126	10,153	13,199	51	23,403	101,529
Amortization	923	109	13	1,045	136	176	1	313	1,358
Dues and Subscriptions	13,748	46	-	13,794	-	384	-	384	14,178
Special Events Expense	28,393	-	-	28,393	-	9,477	-	9,477	37,870
Staff Development	3,882	380	-	4,262	-	-	-	-	4,262
Insurance	21,763	-	-	21,763	-	-	-	-	21,763
Miscellaneous	4,712	162	-	4,874	2,796	1,820	-	4,616	9,490
Postage	-	135	-	135	225	6,928	-	7,153	7,288
Rent	9,632	1,163	-	10,795	-	-	-	-	10,795
Supplies	8,922	3,010	520	12,452	445	1,024	35	1,504	13,956
Travel	5,200	2,336	88	7,624	527	352	61	940	8,564
Utilities	67,287	1,658	-	68,945	739	825	-	1,564	70,509
Total Expenses	\$ 715,979	\$ 82,465	\$ 7,692	\$ 806,136	\$ 107,004	\$ 139,674	\$ 2,815	\$ 249,493	\$1,055,629

See Independent Auditor's Report.

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.