

UNALASKA COMMUNITY BROADCASTING, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 and 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ELGEE REHFELD MERTZ, LLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Unalaska Community Broadcasting, Inc.
Unalaska, AK

Report on the Financial Statements

We have audited the accompanying financial statements of Unalaska Community Broadcasting, Inc., a nonprofit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unalaska Community Broadcasting, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Unalaska Community Broadcasting, Inc. for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on November 18, 2016.

A handwritten signature in black ink, consisting of the letters 'E', 'R', and 'M' in a cursive, stylized font.

September 25, 2017

UNALASKA COMMUNITY BROADCASTING, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 307,292	\$ 300,200
Grants and other receivables	5,011	9,532
Inventory	3,648	7,144
Prepaid expenses	<u>3,370</u>	<u>3,455</u>
Total current assets	319,321	320,331
Property and equipment, net	<u>136,954</u>	<u>169,544</u>
Total assets	<u><u>\$ 456,275</u></u>	<u><u>\$ 489,875</u></u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 6,909	\$ 5,730
Accrued annual leave	16,659	13,424
Deferred revenue	<u>12,337</u>	<u>-</u>
Total liabilities	<u>35,905</u>	<u>19,154</u>
Net assets:		
Unrestricted - invested in property and equipment	136,954	169,544
Unrestricted - undesignated	<u>283,416</u>	<u>301,177</u>
Total net assets	<u>420,370</u>	<u>470,721</u>
Total liabilities and net assets	<u><u>\$ 456,275</u></u>	<u><u>\$ 489,875</u></u>

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

UNALASKA COMMUNITY BROADCASTING, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
SUPPORT:		
In-kind contributions	\$ 34,220	\$ 29,166
Membership and donations	<u>37,168</u>	<u>29,668</u>
Total support	<u>71,388</u>	<u>58,834</u>
REVENUES:		
State and local grants	176,587	202,719
CPB grants	221,222	311,741
Underwriting	39,426	37,680
Other revenue	74,087	133,985
Interest income	<u>368</u>	<u>405</u>
Total revenues	<u>511,690</u>	<u>686,530</u>
Total revenues and support	<u>583,078</u>	<u>745,364</u>
EXPENSES:		
PROGRAM SERVICES:		
Technical and broadcasting	49,930	8,657
Programming and production	<u>313,562</u>	<u>327,849</u>
Total program services	<u>363,492</u>	<u>336,506</u>
SUPPORTING SERVICES:		
Management and general	160,598	161,134
Occupancy	48,266	69,543
Depreciation	32,589	40,721
Development	<u>28,484</u>	<u>36,576</u>
Total supporting services	<u>269,937</u>	<u>307,974</u>
Total expenses	<u>633,429</u>	<u>644,480</u>
Change in unrestricted net assets	(50,351)	100,884
NET ASSETS, Beginning of Year	<u>470,721</u>	<u>369,837</u>
NET ASSETS, End of Year	<u><u>\$ 420,370</u></u>	<u><u>\$ 470,721</u></u>

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

UNALASKA COMMUNITY BROADCASTING, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (50,351)	\$ 100,884
Adjustment to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	32,589	40,721
Decrease (increase) in:		
Grants and other receivables	4,521	5,136
Inventory	3,496	(3,441)
Prepaid expenses	86	(3,455)
Increase (decrease) in:		
Accrued annual leave	3,235	6,175
Accounts payable	1,179	2,194
Deferred revenue	12,337	(126,165)
Net cash provided by operating activities	<u>7,092</u>	<u>22,049</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	<u>-</u>	<u>(21,741)</u>
Net cash used for investing activities	<u>-</u>	<u>(21,741)</u>
Net increase in cash and cash equivalents	7,092	308
Cash and cash equivalents - beginning of year	<u>300,200</u>	<u>299,892</u>
Cash and cash equivalents - end of year	<u><u>\$ 307,292</u></u>	<u><u>\$ 300,200</u></u>

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

UNALASKA COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Unalaska Community Broadcasting, Inc. (the Organization) is a nonprofit entity established in 1984 for the purpose of maintaining a non-profit educational broadcasting facility for the coordination, production, and distribution of programming designed to serve the entertainment, informational, cultural, and safety needs of the people of Unalaska and adjacent islands.

Basis of Presentation and Revenue and Expense Recognition

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements* and 958-210-45-1 *Other Presentation Matters*. Under FASB ASC 958-210-45-1, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the organization or by passage of time. There were no permanently or temporarily restricted net assets as of June 30, 2017 and 2016.

The Organization follows the guidance of FASB ASC 958-605 *Revenue Recognition* to determine whether its federal, state or other grant programs are contributions or exchange transactions for purposes of presentation in the accompanying financial statements. Grant funds are deemed to be earned and reported as revenues when the Organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred revenue.

Revenue from program underwriting is recorded on a pro rata basis for the period covered and for production underwriting on an estimated percentage-of-completion basis. Unearned underwriting revenues are reported as deferred revenue in the statement of financial position. Management evaluates underwriting receivables for collectability on a periodic basis. No allowance for uncollectible accounts has been recorded in the financial statements.

Donated Services and Equipment

Donated services are recognized as contributions in accordance with FASB ASC 958-605-25-2 through 25-5 *Contributions Received*, and FASB ASC 958-605-25-16 through 25-17 *Contributed Services*, if the services (a) create or enhance non-financial assets or (b) require special skills, are performed by people possessing those skills, and would otherwise be purchased by the Organization.

Individuals volunteer their time and assist the Organization with professional services. Donated professional services, meeting the definition of FASB ASC 958-605-25-16 through 25-17 as described above, are recorded as revenue and expense in the accompanying statement of activities as donated services at estimated fair values based upon standard valuation rates and job classifications. Donated time not meeting the criteria is not reflected in the financial statements.

Contributed equipment is recorded as contributions at estimated fair value on the date of donation and is reported as an increase in the unrestricted net assets unless the donor has restricted the donated asset to a

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NOTES TO THE FINANCIAL STATEMENTS

specific purpose. Assets donated with explicit restrictions regarding their use, if any, are reported as restricted contributions.

Unalaska Community Broadcasting, Inc. recognized in-kind rent received from the City of Unalaska based on the fair market value of property. Accordingly, \$22,620 and \$24,740 was recognized as in-kind revenue and expenses during the years ended June 30, 2017 and 2016.

Donated goods and services of \$11,600 and \$4,426 were recognized as in-kind contributions during the fiscal years ended June 30, 2017 and 2016, respectively.

Contributions Receivable

The Organization engages in an annual fundraising campaign manifested by offering special radio programs accompanied by on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Organization for enhancement of program offerings and other operating expenses. Contributions receivable, less an appropriate allowance for uncollectible pledges, are recorded at their estimated fair market value at the time the associated pledge was made. The Organization had contributions receivable of \$570 and \$-0 at June 30, 2017 and 2016, respectively.

Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Organization. This usage is consistent with appeals for contributions and pledges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of the date of the balance sheet, and revenue and expenses for the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents consist primarily of bank deposits and money market accounts.

Financial Instruments

The Organization's financial instruments consist primarily of cash, temporary investments, grant, and other receivables, none of which are held for trading purposes. The Organization estimates the fair value of all financial instruments does not differ materially from the carrying value reported in the accompanying statement of financial position.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at estimated fair value. Purchases of assets with an expected useful life in excess of two years and in an amount in excess of \$5,000 are generally capitalized and depreciated. Purchases not meeting this policy are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, which range from 5 to 20 years.

UNALASKA COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

Functional Expenses

Expenses are charged to program and supporting services on the basis of periodic time and expense studies and direct identification of expenditures incurred. Expenses not directly chargeable are allocated based on direct labor costs and estimates of actual usage.

Income Taxes

The Organization was incorporated under the laws of the State of Alaska as a nonprofit corporation and is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. There was no required provision for income taxes for the fiscal years ended June 30, 2017 or 2016, and management believes that it has appropriate support for any tax positions taken. The Organization's federal income tax returns (Form 990) are subject to possible examination by the Internal Revenue Service until the expiration of the related statutes of limitations on those tax returns, which, in general, have a three-year statute of limitations.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

ASU 2016-14

In August 2016, the Financial Accounting Standard Board (FASB) issued ASU No. 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.*" This ASU makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The amendment is required to be applied retrospectively and early adoption is permitted. The Organization plans to adopt ASU 2016-14 in its fiscal year ended June 30, 2019. Other than changes in presentation, the Organization does not expect any other impact as a result of adoption.

ASU 2016-02

In February 2016, the Financial Accounting Standard Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842).*" The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees to recognize right-of-use assets and liabilities on their balance sheet for all leases with terms longer than twelve months. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Organization plans to adopt ASU 2016-02 in its fiscal year ended June 30, 2020 and does not anticipate a significant impact as a result of adoption.

ASU 2015-14

In August 2015, the Financial Accounting Standard Board (FASB) issued ASU No. 2015-14, "*Deferral of the Effective Date*" which modified ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" which was issued by the FASB in May 2014. These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for not-for-profits entities annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period. The

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amendment is required to be applied retrospectively and all entities can adopt the standard as early as the original effective date annual periods beginning after 15 December 2016. The Organization plans to adopt ASU 2015-14 in its fiscal year ended June 30, 2019 and does not anticipate a significant impact as a result of adoption.

ASU 2016-18

In November 2016, the Financial Accounting Standard Board (FASB) issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This ASU provides specific guidance on the cash flow classification and presentation of changes in restricted cash and cash equivalents. The amendments require that a statement of cash flows explain the change during the period in the total of cash and cash equivalents and restricted cash and cash equivalents. ASU 2016-18 is effective for not-for-profit entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after 2019. The amendment is required to be applied retrospectively and early adoption is permitted. The Organization plans to adopt ASU 2016-18 in its fiscal year ended June 30, 2019 and does not anticipate a significant impact as a result of adoption.

Subsequent Events

The Organization has evaluated subsequent events through the date of the Independent Auditor's Report, which is commensurate with the date the financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Broadcasting equipment	\$ 366,805	\$ 616,336
Total property and equipment	366,805	616,336
Less: Accumulated depreciation	<u>(229,851)</u>	<u>(446,792)</u>
Total property and equipment, net	<u>\$ 136,954</u>	<u>\$ 169,544</u>

Depreciation expense for the fiscal years ending June 30, 2017 and 2016 was \$32,589 and \$40,721, respectively.

NOTE 3 – RETIREMENT PLAN

The Organization participates in a simple IRA through American Funds Service Company. Eligibility is determined by individual employee income. Employees who have earned at least \$5,000 in the preceding calendar year, or that Unalaska Community Broadcasting, Inc. expects to compensate \$5,000 to or more in the coming year are eligible to participate. The Organization contributes 2% of each employee's gross salary pay per period. The total contribution expense for the year ended June 30, 2017 was \$6,034.

UNALASKA COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CONCENTRATIONS AND CONTINGENCIES

Public Funding

Unalaska Community Broadcasting, Inc. received 68% and 69% of its revenue from the City of Unalaska, the Alaska Public Broadcasting Commission and the Corporation for Public Broadcasting during the years ended June 30, 2017 and 2016, respectively. A significant decline in funding from these sources could have a material impact on the Organization's operations.

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Certain grant amounts may not have been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are adjusted by such agencies. Management believes the material provisions of the grant awards have been accommodated and that no significant liability will result from the foregoing matters. Accordingly, no liabilities for amounts which may be payable have been recorded in the accompanying financial statements.

Excess Cash Balances

The Organization has concentrated its credit risk for cash by maintaining deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.