REDWOOD COMMUNITY RADIO, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2013 and 2012

REDWOOD COMMUNITY RADIO, INC.

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December 31, 2013

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AYCOCK AND EDGMON
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Redwood Community Radio, Inc.

We have audited the accompanying financial statements of Redwood Community Radio, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012, 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 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 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 Redwood Community Radio, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 15 and 16 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 taken as a whole.

A

Aycock and Edgmon
July 15, 2014

Philip R. Aycock, CPA
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AN ACCOUNTANCY CORPORATION

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FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 142,734	$ 105,608
Accounts receivable - Net	81,161	51,260
Prepaid expenses	5,359	10,308
Inventory	5,340	1,800
Total Current Assets	234,594	168,976
Property and Equipment		
Land	49,037	49,037
Buildings	268,199	268,199
Equipment	628,141	628,141
Accumulated depreciation	(424,202)	(374,995)
Total Property and Equipment	521,175	570,382
Other Assets		
Investment	-	7,000
Total Other Assets	-	7,000
TOTAL ASSETS	$ 755,769	$ 746,358
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 8,506	$ 2,781
Sales tax payable	661	833
Payroll taxes and related benefits payable	1,646	7,165
Note payable	-	20,000
Interest payable	-	253
Deferred revenue	11,616	15,251
Accrued liabilities:		
Compensated absences	5,124	15,714
Total Current Liabilities	27,553	61,997
TOTAL LIABILITIES	27,553	61,997
Net Assets		
Unrestricted net assets	587,031	530,071
Temporarily restricted net assets	141,185	154,290
Total Net Assets	728,216	684,361
TOTAL LIABILITIES AND NET ASSETS	$ 755,769	$ 746,358

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND GAINS				
Support				
Contributions	$ 236,899	$ 52,922	$ -	$ 289,821
Membership contributions	211,542	-	-	211,542
Underwriting	134,903	-	-	134,903
In-kind and trade-out support	20,851	-	-	20,851
Total Support	604,195	52,922	-	657,117
Revenue and Gains				
Fund-raising	92,545	-	-	92,545
Direct event costs	(72,730)	-	-	(72,730)
Advertising	-	-	-	-
Other income	3,515	-	-	3,515
Novelty sales	8,195	-	-	8,195
Interest income	138	-	-	138
Total Revenue and Gains	31,663	-	-	31,663
Net Assets Released from Restriction	29,852	(29,852)	-	-
TOTAL SUPPORT, REVENUE, AND GAINS	665,710	23,070	-	688,780
EXPENSES				
Program Services				
Program expenses	310,194	-	-	310,194
Total Program Services	310,194	-	-	310,194
Support Services				
General and administrative	212,830	-	-	212,830
Fund-raising and membership	121,901	-	-	121,901
Total Support Services	334,731	-	-	334,731
TOTAL EXPENSES	644,925	-	-	644,925
CHANGE IN NET ASSETS	20,785	23,070	-	43,855
DEPRECIATION ON GRANT FUNDED EQUIPMENT	36,175	(36,175)	-	-
NET ASSETS, JANUARY 1	530,071	154,290	-	684,361
NET ASSETS, DECEMBER 31	$ 587,031	$ 141,185	$ -	$ 728,216

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND GAINS				
Support				
Contributions	$ 154,428	$ 173,279	$ -	$ 327,707
Membership contributions	192,525	-	-	192,525
Underwriting	105,186	-	-	105,186
In-kind and trade-out support	51,789	-	-	51,789
Total Support	503,928	173,279	-	677,207
Revenue and Gains				
Fund-raising	40,779	-	-	40,779
Direct event costs	(26,766)	-	-	(26,766)
Advertising	6,305	-	-	6,305
Other income	62	-	-	62
Novelty sales	4,128	-	-	4,128
Interest income	7,780	-	-	7,780
Total Revenue and Gains	32,288	-	-	32,288
Net Assets Released from Restriction	25,969	(25,969)	-	-
TOTAL SUPPORT, REVENUE, AND GAINS	562,185	147,310	-	709,495
EXPENSES				
Program Services				
Program expenses	281,294	-	-	281,294
Total Program Services	281,294	-	-	281,294
Support Services				
General and administrative	219,084	-	-	219,084
Fund-raising and membership	69,086	-	-	69,086
Total Support Services	288,170	-	-	288,170
TOTAL EXPENSES	569,464	-	-	569,464
CHANGE IN NET ASSETS	(7,279)	147,310	-	140,031
NET ASSETS, JANUARY 1	537,350	6,980	-	544,330
NET ASSETS, DECEMBER 31	$ 530,071	$ 154,290	$ -	$ 684,361

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 43,855	$ 140,031
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,207	35,481
Realized loss on sale of assets	2,311	2,701
(Increases) decreases in operating assets:		
Accounts receivable	7,233	2,926
Grant receivable	(37,134)	-
Prepaid expenses	4,949	(377)
Inventory	(3,540)	821
Increases (decreases) in operating liabilities:		
Accounts payable	5,725	(68,054)
Sales tax payable	(172)	563
Accrued liabilities	(16,362)	1,395
Deferred revenue	(3,635)	3,496
Total Adjustments	8,582	(21,048)
Net Cash Provided by Operating Activities	52,437	118,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of assets	4,689	-
Principal payments received on note receivable	-	155,276
Purchase of equipment	-	(217,873)
Net Cash Used by Investing Activities	4,689	(62,597)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new borrowing	-	60,000
Principal payments paid to reduce debt	(20,000)	(90,000)
Net Cash Provided (Used) by Financing Activities	(20,000)	(30,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,126	26,386
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	105,608	79,222
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 142,734	$ 105,608

The accompanying notes to financial statements are an integral part of this statement.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Redwood Community Radio, Inc. (RCR) is a nonprofit public benefit corporation charted on April 21, 1983. It is governed by a board of directors that represents the community it serves. The primary purpose of RCR is to own and operate a community-supported broadcast system that provides news, educational programs, public information, music, and entertainment.

RCR operates three transmitters serving Humboldt, northern Mendocino, and Trinity counties in northern California. RCR is membership-based and receives a significant portion of its financial support through pledges from members of the community. The daily operations of RCR is performed by volunteer programmers and paid full-time staff.

Basis of Accounting

The financial statements of RCR have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Promises to Give

Contributions are recognized when the donor makes a promise to give to RCR that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

RCR uses the allowance method to determine uncollectible unconditional promises received. The allowance is based on the prior years' uncollected spring and fall balances.

Financial Statement Presentation

RCR presents information about its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. During the fiscal years ended December 31, 2013 and 2012, RCR had no permanently restricted net assets.

Unrestricted net assets are those whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects, such as by contract, loan agreement, or board designation.

Temporarily restricted net assets are those whose use is subject to a donor-imposed restriction of time or purpose. When a purpose or time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Property and Equipment

Property and equipment are valued at historical cost for purchased items and at estimated fair value for donated items. Depreciation is computed on all depreciable property using the straight line method based on estimated useful lives. The estimated lives of such assets range between five and forty years. RCR has not established an explicit capitalization policy.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted and Unrestricted Support
Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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.

Contributed Services
Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) required specialized skills, are performed by people with those skills, and would otherwise be purchased by RCR.

Cash and Cash Equivalents
For the purpose of the Statement of Cash Flows, RCR considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Income Taxes
RCR is exempt from federal and state income taxes under Internal Revenue Code Section (IRC) 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Additionally, the Internal Revenue Service has determined that RCR is not a private foundation within the meaning of IRC Section 509(a).

Compensated Absences
Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, “Accounting for Compensated Absences,” no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Functional Expenses
RCR allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

Advertising
RCR uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. The advertising costs totaled $7,620 and $8,379 for the years ended December 31, 2013 and 2012, respectively.

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 and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

At December 31, 2013 and 2012, cash and cash equivalents were composed of the following:

	2013	2012
Petty cash	$ 150	$ 150
Checking and savings	142,584	105,458
	$ 142,734	$ 105,608

NOTE C - RECEIVABLES

Receivables were composed of the following at December 31, 2013 and 2012:

	2013	2012
Underwriting receivables	$ 13,013	$ 11,339
Allowance for doubtful accounts	(4,262)	(2,984)
	8,751	8,355
Grant receivable	37,134	-
Spring and Fall Pledge receivables	30,315	30,231
Trade receivable	4,961	1,575
Other	-	11,099
	$ 81,161	$ 51,260

NOTE D - PROPERTY AND EQUIPMENT

The following is a summary of the changes in property and equipment:

	Balance Jan 1, 2013	Additions	Disposals	Balance Dec 31, 2013
Land and land improvements	$ 49,037	$ -	$ -	$ 49,037
Building and improvements	268,199			268,199
Studio equipment	105,197	-	-	105,197
Broadcast equipment	481,310	-	-	481,310
Office equipment	41,634	-	-	41,634
	945,377	-	-	945,377
Accumulated depreciation	(374,995)	(49,207)	-	(424,202)
	$ 570,382	$ (49,207)	$ -	$ 521,175

	Balance Jan 1, 2012	Additions	Disposals	Balance Dec 31, 2012
Land and land improvements	$ 49,037	$ -	$ -	$ 49,037
Building and improvements	268,199			268,199
Studio equipment	105,197	-	-	105,197
Broadcast equipment	263,437	217,873	-	481,310
Office equipment	41,634	-	-	41,634
	727,504	217,873	-	945,377
Accumulated depreciation	(339,514)	(35,481)	-	(374,995)
	$ 387,990	$ 182,392	$ -	$ 570,382

Depreciation expense for the years ended December 31, 2013 and 2012 was $49,207 and $35,481, respectively.

NOTE E - NOTE RECEIVABLE

On October 19, 2011, RCR sold the property that was received as an unrestricted contribution in 2011 and received a $160,000 note receivable from Zeus Kuzu with an interest rate of 7.25%. The note called for monthly payments of $1,480 and was due October 19, 2026. The note was secured by a deed of trust. On November 8, 2012 the receivable was sold.

The following is a summary of the change in the note receivable:

Jan 1, 2012 Balance	Additions	Principal Payments	Loss on Sale of Asset	Dec 31, 2012 Balance
$ 157,977	$ -	$ 155,304	$ 2,673	$ -

NOTE F - INVESTMENT

In 2011, RCR received a bequest that contained, among other assets, a collection of silver coins. The fair value at the date of contribution was appraised at $7,000. The silver was sold during 2013 for $4,689 resulting in a loss of $2,311.

NOTE G - DEFERRED REVENUE

Deferred revenue consists of prepayments made by underwriters and are short-term in nature.

NOTE H - NOTES PAYABLE

The following is a schedule of the changes in the long-term debt for the years ended December 2013 and 2012:

					Classification	
	Balance Jan 1, 2013	Principal Additions	Principal Reductions	Balance Dec 31, 2013	Current Portion	Long-Term Portion
Laura Glauberman	$ 20,000	$ -	$ 20,000	$ -	$ -	$ -

					Classification	
	Balance Jan 1, 2012	Principal Additions	Principal Reductions	Balance Dec 31, 2012	Current Portion	Long-Term Portion
Ken Miller	$ 50,000	$ -	$ 50,000	$ -	$ -	$ -
Laura Glauberman	-	20,000	-	20,000	20,000	-
	$ 50,000	$ 20,000	$ 50,000	$ 20,000	$ 20,000	$ -

A. Note payable to Ken Miller payable at $1,498.54 per month beginning January 30, 2012, including interest at 5.0%. The unpaid principal and interest was paid on November 30, 2012. The note was secured by the promissory note (Note E).

B. Note payable to Laura Glauberman payable within 30 days of the sale of RCR interest in the former Fitch property provided that payment is made on or before October 31, 2013 with interest at 3% beginning July 30, 2012;

   The interest rate increases to 6% beginning November 1, 2013 if the unpaid principal is not paid by October 31, 2013. Minimum monthly payments of at least $1,000 will be due beginning November 2014 if the full balance of principal and interest is not fully paid on or before October 31, 2014.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following:

2011 Radio Community Service Grant funds that are restricted to the use of acquiring, producing, promoting, and distributing national public radio programming		$ 6,980
Equipment purchased under three Digital Radio Conversion Grants funded by the Corporation for Public Broadcasting. These grants include a ten-year covenant provision. These grant funds are considered restricted over the life of the assets	$170,380	
Less depreciation on grant fund equipment	(36,175)	134,205
		$ 141,185

The total cost of the equipment, including professional services to place the equipment in service, and including matching funds is as follows:

Cost of Equipment	Accumulated Depreciation	Net Book Value
$ 361,750	$ 57,659	$ 304,091

NOTE J - SIGNIFICANT CONCENTRATION RISK

RCR maintains cash balances with local financial institutions that are insured by either the Federal Deposit Insurance Corporation or the National Credit Union Administration for up to $250,000. Redwood Community Radio, Inc. had no uninsured cash balances at December 31, 2013 and 2012.

NOTE K - OPERATING LEASES

RCR leases space to house a transmitter, antenna and related equipment at three locations as follows:

Lease with Estrella TV
RCR leases space for the transmitter located on Cahto Peak in Mendocino County. The lease is month to month and may be cancelled by either party with thirty days written notice. The monthly rent is $370 per month.

Lease with N. Johannesen
RCR entered into a lease with N. Johannesen on August 11, 1999 for space on a tower for broadcasting equipment on Pratt Mountain. The current rent is $1,270 per month.

Lease with Pollack/Peltz Broadcasting, LLC
This lease is for space on a broadcast tower located in Eureka, California. The lease is renewed each year with a 3% increase from the previous year. The current rent is $813 per month.

NOTE L - COMMUNITY SERVICE GRANTS

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby 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.

The grant funds received under CSG are allocated between unrestricted and restricted amounts by a percentage determined by CPB. The percentages were 80.78% and 77.99% unrestricted and 22.01% and 19.22% restricted for the 2014 and 2013 grant years, respectively. The restricted funds are to be used exclusively for the acquisition, production, promotion and distribution of national programming of high quality, diversity, creativity, excellence, and innovation.

A summary of grants received are as follows:

	2013	2012
Unrestricted	$ 105,504	$ 96,119
Restricted	29,852	25,969
Total	$ 135,356	$ 122,088

NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

NOTE N - CONTINGENT LIABILITIES

Financial awards from federal, state, and local governmental entities in the form of grants are subject to audit. Such audits could result in claims against RCR for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits because the amounts, if any, cannot be determined at this date.

NOTE O - SUBSEQUENT EVENTS

RCR's management has evaluated its subsequent events through July 15, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program	Fund-raising	General and Administrative	Total
Salaries and wages	$ 107,293	$ 47,753	$ 102,256	$ 257,302
Payroll taxes	9,628	4,227	9,337	23,192
Workers' compensation insurance	2,584	1,133	2,555	6,272
	119,505	53,113	114,148	286,766
Advertising	2,877	4,743	-	7,620
Bad debt expense	-	24,184	-	24,184
Bank charges	-	1,633	160	1,793
Broadcasting	53,299	-	260	53,559
Fund-raising and novelty costs	-	30,559	200	30,759
Insurance	-	-	10,576	10,576
Interest expense	-	2	520	522
Occupancy costs	2,704	70	20,457	23,231
Professional	53,001	4,028	32,257	89,286
Programming	11,438	-	-	11,438
Promotion	2,124	-	-	2,124
Repair and maintenance - Building	9,652	-	731	10,383
Staff development and organization development	5,798	-	769	6,567
Supplies	8,064	2,204	16,186	26,454
Travel and training	424	1,365	6,271	8,060
Miscellaneous	-	-	85	85
TOTAL EXPENSES BEFORE DEPRECIATION AND LOSSES	268,886	121,901	202,620	593,407
Depreciation	41,308	-	7,899	49,207
Loss on asset disposal	-	-	2,311	2,311
TOTAL EXPENSES AND LOSSES	$ 310,194	$ 121,901	$ 212,830	$ 644,925

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

	Program	Fund-raising	General and Administrative	Total
Salaries and wages	$ 108,161	$ 26,072	$ 113,544	$ 247,777
Payroll taxes	9,954	2,508	10,305	22,767
Workers' compensation insurance	2,607	628	3,012	6,247
	120,722	29,208	126,861	276,791
Advertising	7,973	-	406	8,379
Bad debt expense	330	25,297	43	25,670
Bank charges	-	1,242	149	1,391
Broadcasting	52,841	-	-	52,841
Fund-raising and novelty costs	4,549	12,548	-	17,097
Insurance	-	-	9,059	9,059
Interest expense	2,281	-	382	2,663
Occupancy costs	3,576	-	20,390	23,966
Professional	15,432	190	28,883	44,505
Programming	12,113	-	-	12,113
Promotion	10,354	81	-	10,435
Repair and maintenance - Building	12,518	-	11	12,529
Staff development and organization development	4,180	-	851	5,031
Supplies	5,750	253	16,679	22,682
Travel and training	1,108	255	3,375	4,738
Miscellaneous	-	12	2,181	2,193
TOTAL EXPENSES BEFORE DEPRECIATION AND LOSSES	253,727	69,086	209,270	532,083
Depreciation	27,567	-	7,914	35,481
Loss on asset disposal	-	-	1,900	1,900
TOTAL EXPENSES AND LOSSES	$ 281,294	$ 69,086	$ 219,084	$ 569,464

The accompanying notes to financial statements are an integral part of this statement.