

PETALUMA COMMUNITY ACCESS, INC.

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2016

(With Summarized Comparative Totals for 2015)

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Rick R. Torkelson, CPA
Lori A. Enochs, CPA, MS Tax, CFE, CVA
Jill G. Laird, CPA
David H. Storum, CPA

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Petaluma Community Access, Inc.
Petaluma, California

We have reviewed the accompanying financial statements of Petaluma Community Access, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles general accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Torkelson & Associates, LLP".

Torkelson & Associates, LLP
Certified Public Accountants
Petaluma, California

September 9, 2016

PETALUMA COMMUNITY ACCESS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Summarized Comparative Totals for 2015)

ASSETS				
	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
ASSETS				
Cash and cash equivalents	\$ 162,699	\$ -	\$ 162,699	\$ 144,974
Cash, restricted for capital expenditures	-	20,296	20,296	20,296
Access fees receivable	63,160	-	63,160	63,306
Taping fees receivable	-	-	-	324
Prepaid rent deposit/expenses	4,200	-	4,200	2,737
Total current assets	230,059	20,296	250,355	231,637
 Property and equipment, net	 16,809	 70,428	 87,237	 44,868
Total assets	\$ 246,868	\$ 90,724	\$ 337,592	\$ 276,505

LIABILITIES AND NET ASSETS

LIABILITIES				
Accounts payable	\$ 4,352	\$ -	\$ 4,352	\$ 1,414
Accrued expenses	5,064	-	5,064	1,371
Payroll taxes payable	3,408	-	3,408	3,321
Total current liabilities	12,824	-	12,824	6,106
 NET ASSETS	 234,044	 90,724	 324,768	 270,399
Total liabilities and net assets	\$ 246,868	\$ 90,724	\$ 337,592	\$ 276,505

See accompanying notes and independent accountants' review report.

PETALUMA COMMUNITY ACCESS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
REVENUE AND SUPPORT				
Access fees	\$ 255,821	\$ -	\$ 255,821	\$ 245,865
Membership fees	3,185	-	3,185	3,565
Taping fees	16,179	-	16,179	2,763
Tape income	8	-	8	10
Interest income	-	-	-	8
Contributions	-	-	-	2,090
Miscellaneous income	20	-	20	-
Capital fund income	-	41,810	41,810	3,908
Production services income	460	-	460	1,120
DVD sales	507	-	507	447
Workshop fees	570	-	570	-
Radio event income	8,685	-	8,685	4,120
	<u>285,435</u>	<u>41,810</u>	<u>327,245</u>	<u>263,896</u>
Total revenue and support				
EXPENSES				
Program services	186,965	13,990	200,955	176,970
Supporting services	71,921	-	71,921	64,717
	<u>258,886</u>	<u>13,990</u>	<u>272,876</u>	<u>241,687</u>
Total expenses				
CHANGE IN NET ASSETS	26,549	27,820	54,369	22,209
NET ASSETS, BEGINNING OF YEAR	<u>207,495</u>	<u>62,904</u>	<u>270,399</u>	<u>248,190</u>
NET ASSETS, END OF YEAR	<u>\$ 234,044</u>	<u>\$ 90,724</u>	<u>\$ 324,768</u>	<u>\$ 270,399</u>

See accompanying notes and independent accountants' review report.

PETALUMA COMMUNITY ACCESS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Totals for 2015)

	Program Services	Supporting Services	Total 2016	Total 2015
Salaries and wages	\$ 104,762	\$ 57,730	\$ 162,492	\$ 145,384
Payroll taxes	15,509	-	15,509	14,607
Accounting	-	12,384	12,384	7,380
Advertising	500	-	500	635
Bank charges	164	-	164	14
Charitable contributions	80	-	80	95
Computer expense	-	277	277	298
Depreciation expense	16,574	-	16,574	16,321
Dues and subscriptions	942	-	942	1,103
Equipment rental	1,099	-	1,099	-
Insurance	5,276	-	5,276	5,439
Insurance - workers' comp	2,077	-	2,077	2,257
Licenses and permits	122	-	122	50
Meals and entertainment	93	-	93	104
Meetings	874	-	874	478
Miscellaneous	1,536	-	1,536	-
Outside services	2,700	-	2,700	1,440
Payroll service	391	-	391	332
Postage and shipping	401	-	401	234
Printing and reproduction	1,003	-	1,003	901
Promotional	481	-	481	987
Rent	25,200	-	25,200	25,292
Repairs and maintenance	1,464	-	1,464	2,683
Satellite expenses	532	-	532	526
Security	1,021	-	1,021	973
Storage	540	-	540	540
Supplies	8,040	1,530	9,570	4,832
Tape stock	-	-	-	410
Taxes and licenses	10	-	10	36
Telephone and internet	5,423	-	5,423	4,899
Training and development	10	-	10	115
Travel	897	-	897	139
Utilities	2,841	-	2,841	2,913
Web expenses	393	-	393	270
Total expenses	\$ 200,955	\$ 71,921	\$ 272,876	\$ 241,687

See accompanying notes and independent accountants' review report.

PETALUMA COMMUNITY ACCESS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Totals for 2015)

	2016	2015
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Increase/(decrease) in net assets	\$ 54,369	\$ 22,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,574	16,321
(Increase)/decrease in:		
Access fees receivable	146	(3,345)
Taping fees receivable	324	(324)
Prepaid rent deposit/expenses	(1,463)	(637)
 Increase/(decrease) in:		
Accounts payable	2,938	1,367
Accrued expenses	3,693	1,359
Payroll liabilities	87	36
 Total cash flows provided by operating activities	76,668	36,986
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of property and equipment	(58,943)	(4,599)
Total cash flows used by investing activities	(58,943)	(4,599)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17,725	32,387
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	165,270	132,883
END OF YEAR	\$ 182,995	\$ 165,270
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ -	\$ -

See accompanying notes and independent accountants' review report.

PETALUMA COMMUNITY ACCESS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. ORGANIZATION

Petaluma Community Access, Inc. (PCA) was formed in 1995 as a Nonprofit Public Benefit Corporation under Corporation Laws of the State of California. PCA is currently under contract with the City of Petaluma to provide public, educational, and governmental access programming and services.

The City initially contracted with PCA for the management of access channels for a period of five years starting May 17, 2001. Since then, the agreement has been extended for additional periods, and the most recent extension ends December 19, 2020. The new agreement provides for the operation of a community radio station to serve the communication needs of the City of Petaluma, the Petaluma Emergency Operations Center, the Petaluma School District, and the Santa Rosa Junior College Petaluma campus. PCA possesses a current FCC license to operate a radio station and on August 22, 2016 PCA was contracted by the Santa Rosa Junior College Petaluma Campus to construct, install, and operate a radio station transmitter and antenna.

Primary funding is by a community access fee collected from cable subscribers and remitted by the cable operator to the City. Other funding is provided by memberships, grants and contributions, and miscellaneous sales.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

PCA prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that PCA 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. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Upon expiration of a donor stipulation, or accomplishment of a donor's intended purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. PCA has no permanently restricted net assets as of June 30, 2016.

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 these estimates.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

See accompanying independent accountants' review report

PETALUMA COMMUNITY ACCESS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

PCA considers all highly liquid investments with an initial maturity of nine months or less to be cash equivalents. If the initial maturity is between three to nine months, there must be no penalty for early withdrawal.

Receivables

Receivables consist primarily of access fees receivable from the cable operator and are paid quarterly. These receivables are considered fully collectible and no allowance for doubtful accounts has been established.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of the property and equipment are charged to expense as incurred. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Income Taxes

In letters to PCA, the Internal Revenue Service and California Franchise Tax Board stated that PCA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and from California bank and corporation taxes under Section 23701(d) of the California Revenue and Taxation Code, respectively. In addition, PCA qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as a publicly supported organization as described in IRC Section 509(a)(1). Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law.

The management of PCA believes that no activities of PCA jeopardized its exemption from income taxes or its classification as a "public charity." In addition, management believes that no activities of PCA are subject to unrelated business income taxes. Accordingly, PCA did not provide for income taxes herein.

Effective July 1, 2009, PCA adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation Number 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – An interpretation of FASB [Accounting Standards Codification (ASC) 740]."

Those provisions require management of PCA to consider certain tax positions taken. A tax position is a position taken in a previously filed tax return or a position management of PCA expects to take in a future tax return that figures in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction in income taxes payable, a deferral of income taxes otherwise currently payable to future years or a change in the expected realizability of deferred tax assets. A tax position also encompasses, but is not limited to:

1. A decision not to file a tax return.
2. An allocation or a shift of income between jurisdictions.
3. The characterization of income or a decision to exclude reporting taxable income in a return.

See accompanying independent accountants' review report

PETALUMA COMMUNITY ACCESS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

4. A decision to classify a transaction, entity or other position in a tax return as tax-exempt.
5. The status of an entity, including its status as a pass-through or tax-exempt entity.

Evaluating a tax position requires management of PCA to determine, for each tax position, whether it is more likely than not that, upon examination by taxing authorities, such authorities will uphold the tax position and, for each more-likely-than-not tax position, determine the highest benefit with a more than 50% likelihood of realization upon ultimate settlement. Accordingly, it is possible that tax positions taken on tax returns and related amounts recognized herein could vary.

PCA files tax returns with the IRS and the state of California. PCA recognizes interest and penalties related to income taxes and tax positions with interest and income tax expense, respectively. As of June 30, 2016, management of PCA believes that there are no tax positions of PCA where it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the period ending June 30, 2017. As of June 30, 2016, open tax periods subject to future examination by taxing authorities cover periods from July 1, 2012 through June 30, 2016.

Management of PCA does not believe that differences between income taxes PCA measures using the current "tax position" method and the methods PCA used previously to be material to the financial position of PCA.

Funding

PCA's initial funding consisted of \$500,000 from the City of Petaluma, via its franchise agreement with the cable operator, for the acquisition and installation of access equipment and for the development of access facilities. The City's franchise agreement also provided for an additional \$290,000 to be paid by the cable operator on the third anniversary of the franchise agreement. This occurred on January 17, 1999. As of June 30, 2016 PCA has exhausted these funds.

Access Fees

PCA receives 1.24% of video provider revenues remitted as PEG fees per DIVCA. These payments are received on a quarterly basis.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expenses for the years ended June 30, 2016 and 2015 were \$500 and \$635, respectively.

NOTE 3. COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

See accompanying independent accountants' review report

**PETALUMA COMMUNITY ACCESS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4. PROPERTY AND EQUIPMENT

Major classes of property and equipment are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Non-portable equipment	\$ 139,793	\$ 139,793
Community access	52,258	52,258
Computer equipment	26,715	26,715
Access use equipment	258,200	222,174
Office furniture and fixtures	2,843	2,843
Leasehold improvements	1,600	1,600
Software	<u>964</u>	<u>964</u>
	482,373	446,347
Less accumulated depreciation	<u>(395,136)</u>	<u>(401,479)</u>
Net property and equipment	<u>\$ 87,237</u>	<u>\$ 44,868</u>

Depreciation expense for the year ended June 30, 2016, is \$16,574. Depreciation expense for the year ended June 30, 2015, was \$16,321.

Property and equipment acquired by PCA are considered to be owned by PCA. However, the City of Petaluma has a reversionary interest in those assets purchased with the money held in trust for PCA. Therefore, property and equipment purchased with these monies are considered to be restricted along with any proceeds from the sale thereof. Consequently, cash in the amount of \$20,296 has been temporarily restricted per the professional services agreement with the City for the purchase of property and equipment.

NOTE 5. RELATED PARTY TRANSACTION

PCA has a rental agreement for storage space for a discounted amount with the current Executive Director and his family. This rent amount is subject to increase upon the Executive Director's separation from employment. \$540 per year was paid for the rented storage space for the years ended June 30, 2016 and 2015.

NOTE 6. LEASE

PCA leases office space under a five-year lease commencing November 1, 2012 and terminating October 31, 2017. Minimum future rental payments under this lease are as follows at June 30:

2017	\$ 25,200
2018	8,400
2019	0
2020	0
Thereafter	<u>0</u>
Totals	<u>\$ 33,600</u>

See accompanying independent accountants' review report

PETALUMA COMMUNITY ACCESS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7. ACCRUED VACATION

Paid time off is available to eligible employees of PCA, and is recognized as a liability as it accrues. It is included in accrued expenses, and the balance as of June 30, 2016 and 2015 is \$5,064 and \$1,359, respectively.

NOTE 8. CONCENTRATIONS

In 2006, the State of California passed the Digital Infrastructure Video and Competition Act (DIVCA) AB2987, which assigns franchise authority to the State Public Utilities Commission, and which preempts local franchise authority and sets certain time frames for expiration of previously granted local franchise agreements. PCA receives a substantial portion of its income from cable service providers that have a franchise agreement with the state of California. Video provider revenues and the re-negotiation of contracts could affect revenues received from these sources. One such contract, the local franchise agreement between the City of Petaluma and Comcast Cable Communications, Inc., expired on August 19, 2010. In January of 2011 the City of Petaluma passed a municipal ordinance that set 1.24% as the amount of franchisee revenues to be returned by Comcast and AT&T to PCA as PEG fees.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2016, the date that the financial statements were available to be issued.