

COASTALASKA, INC., AND MEMBER STATIONS

FINANCIAL STATEMENTS

June 30, 2008 and 2007

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

COASTALASKA, INC., AND MEMBER STATIONS

FINANCIAL STATEMENTS

June 30, 2008 and 2007

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COASTALASKA, INC., AND MEMBER STATIONS

FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
CoastAlaska, Inc.

We have audited the accompanying statements of financial position of CoastAlaska, Inc. (a nonprofit corporation) as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of CoastAlaska Inc.'s management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CoastAlaska, Inc. as of June 30, 2008 and 2007, 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.

As described in Note 1, during fiscal 1999, five non-profit Alaska corporations, which operate seven noncommercial public radio stations and one noncommercial public television in Southeast Alaska, formed CoastAlaska, Inc. Administrative and financial activities of the seven radio stations and public television station are now conducted under a Compact Agreement by and between the stations.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2008 on our consideration of CoastAlaska Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 and the Schedule of State Financial Assistance on page 13 are presented for purposes of additional analysis, as required by management and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

ERM

October 1, 2008



COASTALASKA, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2008 and 2007

	2008	2007
<b>ASSETS:</b>		
Current Assets:		
Cash		
Unrestricted	\$ 820,022	\$ 324,119
Restricted (note 9)	103,989	110,477
Investments	515,058	533,208
Accounts receivable, net	163,014	275,365
Grants receivable	329,038	276,253
Contributions receivable, net	24,314	22,490
Prepaid expenses	96,934	317,600
Total Current Assets	2,052,369	1,859,512
Property and Equipment, net	5,071	12,138
Total Assets	\$ 2,057,440	\$ 1,871,650
<b>LIABILITIES AND NET ASSETS:</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 366,429	\$ 307,540
Rental deposits	2,800	10,578
Payable to CCBI Legacy Foundation (note 9)	103,989	110,477
Total Current Liabilities	473,218	428,595
Deferred revenue	170,205	95,026
Total Liabilities	643,423	523,621
Net Assets:		
Unrestricted:		
Undesignated - available for operations	1,408,946	1,335,891
Designated - invested in property and equipment	5,071	12,138
Total Net Assets	1,414,017	1,348,029
Total Liabilities and Net Assets	\$ 2,057,440	\$ 1,871,650

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

COASTALASKA, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Changes in Unrestricted Net Assets from Operating Activities:		
SUPPORT		
Other operating grants	\$ 460,903	\$ 714,175
Membership income	636,786	634,187
Underwriting income	657,122	627,820
Contributions	<u>555,145</u>	<u>550,971</u>
Total Support	2,309,956	2,527,153
REVENUES		
Royalties and production income	163,188	262,360
Other income	<u>354,890</u>	<u>333,899</u>
Total Revenues	<u>518,078</u>	<u>596,259</u>
Total Net Assets Released From Restriction	<u>3,731,878</u>	<u>2,706,554</u>
TOTAL REVENUES and SUPPORT	6,559,912	5,829,966
EXPENSES		
PROGRAM SERVICES		
Programming and productions	1,865,801	1,937,246
Technical	<u>997,593</u>	<u>1,107,637</u>
Total program services	<u>2,863,394</u>	<u>3,044,883</u>
SUPPORTING SERVICES		
Management and general	1,131,237	1,064,346
Occupancy	598,648	515,653
Development	627,961	649,486
Support to member stations:		
For equipment repairs and replacement	1,274,683	524,665
For payment of long-term debt	<u>16,535</u>	<u>185,080</u>
Total supporting services	<u>3,649,064</u>	<u>2,939,230</u>
TOTAL EXPENSES	<u>6,512,458</u>	<u>5,984,113</u>
Change in Unrestricted Net Assets from Operating Activities	47,454	(154,147)
Change in Unrestricted Net Assets From Non-Operating Activities		
Interest and investment income, net	<u>18,534</u>	<u>48,014</u>
Change in Unrestricted Net Assets	<u>65,988</u>	<u>(106,133)</u>
Changes in Temporarily Restricted Net Assets		
Grants	3,731,878	2,706,554
Net assets released from restrictions	<u>(3,731,878)</u>	<u>(2,706,554)</u>
Change in Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
Change in Net Assets	65,988	(106,133)
NET ASSETS, Beginning of Year	<u>1,348,029</u>	<u>1,454,162</u>
NET ASSETS, End of Year	<u>\$ 1,414,017</u>	<u>\$ 1,348,029</u>

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

COASTALASKA, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of the Change in Net Assets To Net Cash Provided By (Used For) Operating Activities		
Change in Net Assets	\$ 65,988	\$ (106,133)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	7,067	7,651
Unrealized (gain) loss from investments	30,557	(5,577)
(Increase) Decrease in:		
Accounts receivable	112,351	(53,966)
Contributions receivable	(1,824)	12,072
Grants receivable	(52,785)	(13,673)
Deposits	-	33,750
Prepaid expenses	220,666	(303,146)
Increase (Decrease) in:		
Accounts payable and accrued liabilities	58,889	106,533
Payable to Legacy Foundation	(6,488)	13,391
Rental deposits	(7,778)	-
Deferred revenue	75,179	(137,446)
Net Cash Provided By (Used For) Operating Activities	501,822	(446,544)
Cash Flows From Investing Activities:		
Purchases of investments, net	(12,407)	(16,391)
Net Cash Used For Investing Activities	(12,407)	(16,391)
Net Increase (Decrease) In Cash	489,415	(462,935)
Cash at Beginning of Year	434,596	897,531
Cash at End of Year	\$ 924,011	\$ 434,596
Supplemental disclosure of cash paid during the year for:		
Interest	\$ 94,427	\$ 79,884

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

# COASTALASKA, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 and 2007

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

On July 1, 1998 five non-profit Alaska corporations, which operate seven noncommercial public radio stations and one noncommercial public television in Southeast Alaska, formed CoastAlaska, Inc., a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include Capital Community Broadcasting, Inc. (CCBI - "KTOO-TV" and "KTOO-FM"), Raven Radio Broadcasting Corporation ("KCAW"), Wrangell Radio Group ("KSTK"), Narrows Broadcasting Corporation ("KFSK"), and Rainbird Community Broadcasting ("KRBD"). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continue to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is exempted from this review and approval process and remains with CCBI's Board of Directors. Each station's budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the station's obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff, which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time, with six months notice, and the Compact will remain in effect as long as two or more stations remain members.

# COASTALASKA, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation and Revenue and Expense Recognition

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

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the “Real and Personal Property and Depreciation” and “Long-Term Debt” notes below.

Contributions and grants that are considered unrestricted are recorded as revenue in the statement of activity when received. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes. When a temporary 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. When a temporarily restricted contribution or grant is received and released from restriction in the same year it is considered unrestricted.

Operating funds restricted by the donor, grantor, or other outside party for particular operating purposes or for property acquisitions are deemed to be earned and reported as revenues or capital additions of operating funds when CoastAlaska has incurred expenses on behalf of the member stations in compliance with the specific restrictions. Such amounts received or receivable but not yet earned are reported as restricted deferred amounts.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in these financial statements. Each member station remains responsible for the conduct of their respective federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, CoastAlaska 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

#### Member Cash and Cash Equivalents

Under the terms of the Compact, each station retained ownership of a cash reserve account. The total of these accounts was \$204,180 at June 30, 1999. During fiscal 2004 the reserve cash was held in an investment account according to policy set forth by the Board of Directors, and CoastAlaska reflected the ownership of this investment basis by the member stations, by reflecting the amount as a liability in the accompanying financial statements. Any income or loss from the investments became the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

#### Management’s 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.

# COASTALASKA, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments

Generally accepted accounting principles require that nonprofit organizations report certain investments at fair market value. Accordingly, CoastAlaska accounts for its marketable equity securities and certificates of deposit at fair value. Investments include stocks and mutual funds holding debt securities. Investments also include certificates of deposits with maturities more than 90 days subsequent to the end of the fiscal year and money market funds, that are designated for unspecified reserves. Unrealized gains and losses are included in the change in net assets. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 3.

#### Real and Personal Property and Depreciation

Property and equipment of the member stations continues to be recorded in the financial statements of the respective members. Expenditures incurred by CoastAlaska for repairs and maintenance of the member stations' property and equipment are charged to operating expense as incurred. Expenditures incurred by CoastAlaska on behalf of the members' stations for property and equipment acquisitions, major renewals and betterments are recorded as contributions to the member stations as incurred. According to the terms and conditions of the National Telecommunications and Information Administration grants, which were received in years prior to 1995, the federal government retains a priority reversionary interest for ten years in equipment purchased with grant proceeds.

#### Long-Term Debt

Expenditures incurred by CoastAlaska for payment of long-term debt of the member stations which is secured by real or personal property are charged to operating expense as incurred. All long-term debt amounts are recorded in the financial statements of member stations.

#### Statement of Cash Flows

For the purpose of the statement of cash flows, CoastAlaska considers all cash in checking, savings and money market accounts, excluding those classified as investments, to be cash.

#### Income Taxes

CoastAlaska is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code. The organization applied for and received a group exemption to include all member stations and the Legacy Foundation as subordinates under its tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to CoastAlaska's tax-exempt purpose is subject to taxation as unrelated business income. There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

#### Contributions Receivable

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. CoastAlaska had contributions receivable of \$24,314 and \$22,490 at June 30, 2008 and 2007. CoastAlaska writes off uncollected pledges in excess of 180 days and management feels it is not necessary to record allowances for pledges less than 180 days.

#### In-Kind Contributions

In-kind contributions for donated materials, property, programs, services and other non-cash donations are recorded as revenue and expense in the accompanying statement of activity at their estimated market value at the date of donation.

#### Functional Allocation of Expenses

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

COASTALASKA, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reclassification

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

**NOTE 2 – PROPERTY AND EQUIPMENT**

Major classifications of property and equipment in total for all member stations at June 30, 2008 and 2007 are summarized below. All property and equipment owned by member stations is recorded in the financial statements of the member stations:

	<u>2008</u>	<u>2007</u>
Held by Member Stations:		
Building and improvements	\$ 3,671,411	\$ 3,412,237
Broadcasting, production and programming equipment	5,637,279	5,300,634
Office fixtures and equipment	71,105	204,736
Land	704,828	704,828
Held by CoastAlaska:		
Broadcasting, production and programming equipment	40,605	40,605
Office fixtures and equipment	<u>3,001</u>	<u>14,855</u>
	10,128,229	9,677,895
Less accumulated depreciation, CoastAlaska	(38,535)	(43,322)
Less accumulated depreciation, member stations	<u>(4,688,090)</u>	<u>(5,025,543)</u>
	<u>\$ 5,401,604</u>	<u>\$ 4,609,030</u>

Depreciation expense was \$7,067 and \$7,651 for CoastAlaska, and \$475,042 and \$415,046 for member stations for the fiscal years ending June 30, 2008 and 2007, respectively.

**NOTE 3 – INVESTMENTS**

A summary of CoastAlaska's investments is displayed below by type of instrument. CoastAlaska's investments in the external investment pool, as described below, are not categorized. The Juneau Community Foundation (JCF) is considered to be an external investment pool. CoastAlaska's share of the fair value in JCF is determined by the fair value per share of JCF's underlying portfolio. As of June 30, 2008, the fair value of CoastAlaska's position in JCF approximates the value of CoastAlaska's pool shares.

Cost and fair value of marketable equity securities at June 30, 2008 are as follows:

	<u>Amortized Cost</u>	<u>Unrealized Gains (Losses)</u>	<u>Fair Value</u>
Equity Securities	\$ 283,872	\$ (21,175)	\$ 262,697
Money Market Funds	32,498	-	32,498
Government and Agency Securities	30,522	822	31,344
Corporate Bonds	27,801	(1,263)	26,538
Mutual Funds	58,872	(857)	58,015
Pooled Investments (JCF)	<u>112,050</u>	<u>(8,084)</u>	<u>103,966</u>
Total	<u>\$ 545,615</u>	<u>\$ (30,557)</u>	<u>\$ 515,058</u>

Cost and fair value of marketable equity securities at June 30, 2007 are as follows:

COASTALASKA, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3 – INVESTMENTS (Continued)**

	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Equity Securities	\$ 277,911	\$ (1,741)	\$ 276,170
Money Market Funds	31,940	-	31,940
Government and Agency Securities	36,781	(181)	36,600
Corporate Bonds	19,858	(389)	19,469
Mutual Funds	59,314	(738)	58,576
Pooled Investments (JCF)	<u>101,827</u>	<u>8,626</u>	<u>110,453</u>
Total	<u>\$ 527,631</u>	<u>\$ 5,577</u>	<u>\$ 533,208</u>

Investment and interest income includes the following at June 30:

	2008	2007
Interest and dividend income	\$ 43,508	\$ 42,967
Unrealized gains and (losses)	<u>(24,974)</u>	<u>5,047</u>
Total	<u>\$ 18,534</u>	<u>\$ 48,014</u>

**NOTE 4 – LONG-TERM DEBT AND LINE OF CREDIT**

Long-Term Debt

Long-term debt of the member stations, which is recorded on the financial statements of each of the member stations is summarized below at June 30, 2008 and 2007:

	2008	2007
<u>Capital Community Broadcasting, Inc.</u>		
Fixed rate 8.25% note payable in monthly installments of \$8,670 (including principal and interest) commencing January 1, 2009 to December 1, 2016. Interest computed on a simple interest basis. Collateralized by assignment of security interest in State of Alaska Department of Natural Resources Mental Health Trust Leases.	\$ 582,741	\$ 540,885
Variable rate mortgage loan payable at the lender's prime plus 1% (6.0% at June 30, 2008). Note payable in monthly installments of \$4,933 (including principal and interest) to August 1, 2011. Interest computed on a simple interest basis. Collateralized by building.	169,613	214,040
<u>Raven Radio Broadcasting Corporation</u>		
Fixed rate 5.0% note payable in annual installments of \$10,408 (including principal and interest) to May 2029. Collateralized by land.	129,709	133,445
<u>Rainbird Community Broadcasting</u>		
Variable rate mortgage loan payable at the lender's prime plus 1.5% (6.5% as of June 30, 2008). Note payable in monthly installments of \$3,200 (including principal and interest) to February, 2022. Collateralized by building.	<u>326,968</u>	<u>337,196</u>
	1,209,031	1,225,566
Less Current Portion	<u>(97,553)</u>	<u>(51,614)</u>
	<u>\$ 1,111,478</u>	<u>\$ 1,173,952</u>

COASTALASKA, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4 – LONG-TERM DEBT AND LINE OF CREDIT (Continued)**

Interest expense for the member stations was \$94,427 and \$79,884 for fiscal 2008 and 2007 respectively.

The following is a summary of scheduled maturities on long-term debt as of June 30,:

	<u>Debt</u>
2009	\$ 97,553
2010	132,620
2011	142,125
2012	107,374
2013	101,390
Thereafter	<u>627,969</u>
Total	<u>\$ 1,209,031</u>

Line of Credit

During fiscal year 2007, Rainbird Community Broadcasting (KRBD), a member station, obtained a commercial line of credit with a maximum limit of \$50,000, and an annual interest rate of 9.2%. There was no activity on the line, and at June 30, 2008, the account was closed.

**NOTE 5 – OPERATING LEASES**

CCBI has three operating land leases with the State of Alaska. Lease payments are subject to adjustment at each five-year interval based on appraised rental value of land. The land leases are assignable and during fiscal year 2007, they were assigned to Juneau Economic Development Council (JEDC) as part of the terms for securing the note payable described in Note 4, above. The expenses associated with these leases are recorded in the financial statements of CoastAlaska. As of June 30, 2008, the Schedule of Minimum Future Land Lease Payments is as follows:

<u>Year Ending June 30</u>	<u>Schedule of Minimum Future Land Lease Payments</u>
2009	\$ 60,796
2010	60,796
2011	60,796
2012	60,796
2013	60,796
Thereafter	<u>60,796</u>
Total	<u>\$ 364,776</u>

**NOTE 6 – PENSION EXPENSE**

On January 1, 1999, CoastAlaska became the plan sponsor for a retirement plan designed under the provisions of section 403(b) of the Internal Revenue Code. The CoastAlaska contribution to the plan is a discretionary amount of 5%, of each employee's salary in 2008 and 2007. There is no required employer matching contribution. The contribution is paid as accrued.

Plan participants are 100% vested in all salary deferral contributions upon entering the plan. Employer discretionary contributions, if any, will be fully vested to employees after five years of service.

Pension expense was \$103,796 and \$99,986 for fiscal 2008 and 2007, respectively.

## COASTALASKA, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 7 – CONCENTRATIONS OF CREDIT RISK AND CONTINGENCIES**

##### Grants and Contracts

Expenditures made pursuant to the grants and contracts of member stations may be subject to additional audits by government agencies or their representatives. Although subjected to state and federal single audit requirements, certain grant amounts of member stations reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

##### 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.

##### Collateral – Operating Leases

As discussed in Note 5, three operating land leases with the State of Alaska were assigned to Juneau Economic Development Council (JEDC) as collateral for securing financing for the purchase of K3 Broadcast licenses and other assets. Anticipated repayment terms are described in Note 4. However, in the event the State of Alaska leases are not extended to or beyond December 31, 2016, then monthly principal and interest payments would revert to \$11,515, payable over 66 months, commencing January 1, 2009 and continuing through June 1, 2014.

#### **NOTE 8 – ALASKA ONE, JOINT VENTURE**

Alaska One Public Television Network, Inc. (Alaska One) was formed by three Alaska public television broadcasting stations in Juneau (CCBI-KTOO-TV), Bethel (KYUK) and Fairbanks (KUAC). The stations formed Alaska One to undertake cooperative activities, increase operational efficiencies and decrease costs in the production and broadcasting of public television in Alaska. Alaska One originated a public television programming service to be broadcast by members of Alaska One via transmitters and translators across Alaska. Alaska One started broadcasting on October 31, 1995 and was incorporated on August 13, 1997. Membership revenue is allocated to each station based on regional membership contributions. Substantially all broadcasting of PBS services originates from KUAC in Fairbanks, Alaska. As of June 30, 2007, CoastAlaska, through the Compact of which CCBI is a member, performed substantially all of the membership, fundraising and collection of pledges and donations for Alaska One. Beginning July 1, 2007 these functions are now performed by KUAC in Fairbanks.

Grant revenue of Alaska One which is received by CCBI and pertains to Alaska One, is recorded by CoastAlaska.

#### **NOTE 9 – KTOO LEGACY FOUNDATION**

In 2001, the KTOO Legacy Foundation (Legacy) was formed under the State of Alaska Nonprofit Corporation Act to support and assist CCBI in carrying out its purpose of constructing and operating nonprofit educational broadcasting facilities; and to receive, hold and use contributions for the purposes of supporting CCBI. All assets are to be attributed to CCBI or any successor organizations. CoastAlaska, on behalf of CCBI, performs all administrative functions for Legacy. All contributions by the Legacy Foundation have been placed in an investment account with Juneau Community Foundation, and all earnings are being retained.

Due to the financial and operational interdependency of CoastAlaska, CCBI and Legacy, CoastAlaska includes the assets of Legacy in its financial statements. As of June 30, 2008 and 2007, Legacy's assets included cash balances received in contributions from individuals totaling \$103,989 and \$110,477, respectively. These balances are reported as a liability to Legacy on CoastAlaska's statements of financial position.

COASTALASKA, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 10 – K3 STATIONS ACQUISITION**

On June 8, 2006, CCBI entered into an Asset Purchase Agreement (“Agreement”) with a privately-held corporation to purchase the FCC licenses, transmitter equipment and other incidental assets for two radio stations in Juneau, Alaska. The Agreement also calls for the seller to lease the broadcast tower related to the two stations to CCBI over an initial four-year term with an optional six-year extension. Together, KTOO operates the new stations and its existing station as noncommercial public FM radio stations under the banner of “K3”. On December 27, 2006 the transaction was consummated.

CCBI and CoastAlaska paid a total of approximately \$836,000 consisting of \$676,400 for the licenses transmitter equipment and other incidental assets, and approximately \$160,000 for start-up costs, closing costs and interest reserves.

CCBI financed the acquisition through the issuance of two loans. The first, from CoastAlaska, Inc., is an unsecured loan in an amount not to exceed of \$250,000. It is to be repaid interest free over ten years. Repayment will occur through CCBI’s positive operating results. The balance on this loan at June 30 2008 and 2007 is \$213,000 and \$228,000, respectively. The second loan, from the Juneau Economic Development Corporation, in the initial amount of \$522,176, is secured by real property and is to be repaid over ten years at 8.5% per annum, with principal and interest capitalized for the first two years and the balance to be paid over the following eight years commencing January 1, 2009. The balance on this loan at June 30, 2008 and 2007 is \$582,741 and \$540,885, respectively. See also Note 4.

COASTALASKA, INC.  
 SCHEDULE OF STATE FINANCIAL ASSISTANCE  
 For the Year Ended June 30, 2008

<u>State Grantor / Program Title</u>	<u>Grant Number</u>	<u>Program Award</u>	<u>Receivable 7/1/2007</u>	<u>Revenue Received</u>	<u>Amount Expended</u>	<u>Receivable 6/30/2008</u>
Department of Administration						
Major program:						
Alaska Public Broadcasting Commission	0281919	\$ 743,140	\$ -	\$ 743,140	\$ 743,140	\$ -
		<u>\$ 743,140</u>	<u>\$ -</u>	<u>\$ 743,140</u>	<u>\$ 743,140</u>	<u>\$ -</u>

The accompanying Notes to Schedule of State Financial Assistance are an integral part of this statement.

COASTALASKA, INC.

NOTES TO THE SCHEDULE OF STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2008

**GENERAL**

The accompanying Schedule of State Financial Assistance presents the activity of CoastAlaska Inc.

**BASIS OF ACCOUNTING**

The accompanying Schedule of State Financial Assistance is presented using the accrual basis of accounting, which is described in CoastAlaska Inc.'s financial statements.

**RECONCILIATION OF SCHEDULE OF STATE FINANCIAL ASSISTANCE TO FINANCIAL STATEMENTS**

The following is a reconciliation of contributions reported in the financial statements to expenditures reported in the schedule of State Financial Assistance:

Grant support as reflected in the Statement of Activities	\$ 3,731,878
Less: Capital grant support and support from CPB	<u>(2,864,304)</u>
Appropriation From Alaska Public Broadcasting Commission (APBC)	867,574
Less: CoastaAlaska Regional Services portion of APBC grant	(2,334)
Grants awarded directly to Capital Community Broadcasting Inc. and not considered CoastAlaska, Inc. grants for compliance purposes	<u>(122,100)</u>
Total expenditures per Schedule of State Financial Assistance	<u>\$ 743,140</u>

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
CoastAlaska, Inc.

We have audited the financial statements of CoastAlaska, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered CoastAlaska, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CoastAlaska Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CoastAlaska Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether CoastAlaska, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CoastAlaska, Inc. in a separate letter dated October 1, 2008.

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.



October 1, 2008

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS*

To the Board of Directors of  
CoastAlaska, Inc.

### Compliance

We have audited the compliance of CoastAlaska, Inc. with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended June 30, 2008. CoastAlaska, Inc.'s major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of CoastAlaska, Inc.'s management. Our responsibility is to express an opinion on CoastAlaska, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about CoastAlaska, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CoastAlaska, Inc.'s compliance with those requirements.

In our opinion, CoastAlaska, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2008.

### Internal Control over Compliance

The management of CoastAlaska, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered CoastAlaska, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CoastAlaska Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink, consisting of the letters 'ERM' in a cursive, slanted font.

October 1, 2008

COASTALASKA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2008

**Section I—Summary of Auditors’ Results**

***Financial Statements***

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) over financial reporting?
- Significant deficiencies identified that are not considered to be material weakness(es)?

\_\_\_\_\_ Yes \_\_\_x\_\_\_ No

\_\_\_\_\_ Yes \_\_\_x\_\_\_ None  
Reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes \_\_\_x\_\_\_ No

***State Financial Assistance***

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

\_\_\_\_\_ Yes \_\_\_x\_\_\_ None  
Reported

\_\_\_\_\_ Yes \_\_\_x\_\_\_ None

Type of auditors’ report issued on compliance for major programs:

Unqualified

Dollar threshold used to distinguish a state major program:

\$75,000

**Section II – Financial Statement Findings**

None.

**Section III – State Award Findings and Questioned Costs**

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings and questioned costs.

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2008

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
<b>SUPPORT AND REVENUE:</b>								
Membership Revenue	\$ 121,448	\$ 64,719	\$ 98,235	\$ 31,798	\$ 262,609	\$ 57,977	\$ -	\$ 636,786
Underwriting Revenue	107,095	52,862	81,672	36,509	241,933	137,051	-	657,122
Interest and Investment Income	-	-	-	-	-	-	18,534	18,534
Production Income	60	1,977	100	-	945	156,323	-	159,405
Royalties	1,707	-	-	-	-	2,076	-	3,783
Miscellaneous Income	191	-	-	-	-	54,054	-	54,245
Rental Income	23,399	3,073	77,487	10,708	7,108	16,585	-	138,360
Sales Income	10,070	1,072	576	20	275	35,155	-	47,168
APBC Grants	148,628	148,628	148,628	148,628	168,628	102,100	2,334	867,574
CPB Grants	145,398	116,433	134,971	110,674	152,447	841,225	-	1,501,148
Capital Grants	13,192	22,458	48,843	50,414	68,196	1,160,053	-	1,363,156
Other Operating Grants	101,863	5,000	-	-	2,000	352,040	-	460,903
<b>Fundraising Revenues:</b>								
Special Events	11,200	4,715	9,037	420	7,953	-	-	33,325
Auction	8,073	-	5,937	3,353	29,014	-	-	46,377
Gaming	-	3,440	28,340	3,635	-	-	-	35,415
In-kind Contributions	69,020	32,124	51,046	46,938	57,938	298,079	-	555,145
<b>Total Support and Revenue</b>	<b>761,344</b>	<b>456,501</b>	<b>684,872</b>	<b>443,097</b>	<b>999,046</b>	<b>3,212,718</b>	<b>20,868</b>	<b>6,578,446</b>
<b>EXPENSES:</b>								
<b>PROGRAMMING EXPENSES</b>								
Salary and Related Expenses	158,005	80,186	125,993	64,163	324,144	455,489	68,014	1,275,994
Media Stock	270	-	71	-	421	4,946	-	5,708
Contract Labor - Programming	70,307	624	740	465	-	65,151	-	137,287
Production Costs	14,527	11	8	5	-	13,429	-	27,980
Prog/Prod Travel	4,803	534	1,277	294	111	17,680	1,037	25,736
Music Library	421	-	134	431	3,903	2,773	-	7,662
Audience Survey	-	-	-	-	8,780	22,280	-	31,060
Affiliation Fees	23,033	15,855	19,442	14,013	36,449	59,608	-	168,400
Program Acquisitions	25,482	17,108	15,364	12,594	27,729	31,219	-	129,496
News Services	8,640	8,446	5,898	8,446	9,104	-	-	40,534
Studio Maintenance	-	-	-	-	-	1,857	-	1,857
In-kind - Programming	1,106	2,618	1,340	234	3,940	4,849	-	14,087
<b>Total Programming Expenses</b>	<b>306,594</b>	<b>125,382</b>	<b>170,267</b>	<b>100,645</b>	<b>414,581</b>	<b>679,281</b>	<b>69,051</b>	<b>1,865,801</b>
<b>TECHNICAL EXPENSES</b>								
Salary and Related Expenses	-	-	-	-	-	182,878	148,745	331,623
Transmission Charges	6,900	6,900	6,900	6,900	6,900	186,441	-	220,941
Engineering Supplies	272	-	39	42	-	17	235	605
Tech/Broadcast Travel	-	-	-	-	526	1,084	6,902	8,512
Transmitters' Expenses	112	-	-	64	260	-	-	436
Translators' Expenses	6,880	6,622	8,695	-	40	990	-	23,227

(continued)

See Independent Auditors' Report

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2008

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
<b>TECHNICAL EXPENSES (continued)</b>								
Computer Hardware/Software	3,397	-	415	65	4,962	16,097	7,113	32,049
Internet Services	131	239	186	-	340	13,933	803	15,632
Broadcast Equipment Purchase	2,992	6,550	18,733	3,912	1,877	3,630	1,605	39,299
Broadcast Equipment Maintenance	2,861	1,657	48	1,345	3,231	9,153	-	18,295
In-kind - Technical	19,724	16,628	26,075	20,383	14,358	209,806	-	306,974
Total Technical Expenses	43,269	38,596	61,091	32,711	32,494	624,029	165,403	997,593
<b>DEVELOPMENT EXPENSES</b>								
Salary and Related Expenses	32,287	55,102	51,783	33,963	68,998	6,501	83,713	332,347
Premiums	7,572	4,346	6,639	1,087	13,330	-	54,164	87,138
Advertising	23	250	301	141	18	4,256	-	4,989
Development Travel	212	25	604	742	261	-	2,480	4,324
Printing	1,377	857	1,443	947	5,479	-	288	10,391
Special Events	3,044	1,951	14,943	2,697	1,397	-	-	24,032
Credit Card Fees	-	-	-	-	26	-	14,231	14,257
Retail Inventory	5,263	-	-	-	-	4,992	-	10,255
Volunteers	228	-	380	25	443	-	-	1,076
Bulk Mail Postage	522	238	440	262	1,826	245	528	4,061
In-kind - Development	39,945	3,796	12,311	5,988	21,915	51,136	-	135,091
Total Development Expenses	90,473	66,565	88,844	45,852	113,693	67,130	155,404	627,961
<b>OCCUPANCY EXPENSES</b>								
Rent	578	-	-	-	27,277	49,645	-	77,500
Interest Expense	6,672	-	28,171	-	17,876	41,708	-	94,427
Building Maintenance	14,588	1,533	4,221	3,349	4,154	10,330	-	38,175
Automotive	-	-	-	-	186	433	-	619
Janitorial Supplies	5,034	627	491	-	4,091	9,545	-	19,788
Telephone - Local	5,176	4,249	4,623	4,153	6,362	13,315	3,354	41,232
Telephone - Long Distance	1,602	1,115	2,673	1,310	2,248	5,245	437	14,630
Utilities	20,659	10,044	29,392	5,547	31,429	73,569	-	170,640
Insurance	15,146	7,154	9,468	8,292	15,660	36,537	3,691	95,948
In-kind - Occupancy	600	150	-	12,461	9,743	22,735	-	45,689
Total Occupancy Expenses	70,055	24,872	79,039	35,112	119,026	263,062	7,482	598,648
<b>ADMINISTRATIVE EXPENSES</b>								
Salary and Related Expenses	69,204	68,809	65,070	78,336	74,634	332,749	202,909	891,711
Office Supplies	1,848	2,060	1,126	826	1,672	3,499	681	11,712
Administrative Travel	627	90	1,607	325	483	3,237	6,407	12,776
Postage	1,402	1,125	2,510	1,191	4,235	3,661	1,758	15,882
Dues & Subscriptions	1,252	1,710	1,540	358	1,219	1,901	1,921	9,901
Printing	42	-	-	-	70	162	185	459
Office Equipment Rental	-	-	-	-	1,708	4,324	-	6,032

(continued)

See Independent Auditors' Report

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2008

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
ADMINISTRATIVE EXPENSES (continued)								
Office Equipment Maintenance	333	-	-	-	-	-	-	333
Office Equipment Purchase	845	317	508	121	58	136	188	2,173
Shipping - All	199	69	69	163	152	1,821	248	2,721
Public Relations	-	-	-	4	707	30,703	199	31,613
Contract Labor	1,040	693	924	607	1,155	21,386	767	26,572
Board/Admin	1,566	1,790	2,597	682	841	1,885	2,622	11,983
Audit	-	-	-	-	-	-	24,084	24,084
Legal Fees	-	-	-	-	999	2,782	-	3,781
Taxes	2,340	-	6,380	1,044	-	-	-	9,764
Bank and Loan Refinance Fees	56	25	109	5	45	121	9,008	9,369
Depreciation Expense	34,219	56,530	41,373	22,272	96,013	224,635	7,067	482,109
CoastAlaska Support	114,562	103,600	108,057	78,905	147,357	-	(552,481)	-
In-kind - Admin	7,645	8,932	11,320	7,872	7,982	9,553	-	53,304
Total Administrative Expenses	237,180	245,750	243,190	192,711	339,330	642,555	(294,437)	1,606,279
Total Expenses	747,571	501,165	642,431	407,031	1,019,124	2,276,057	102,903	5,696,282
Excess (Deficiency) of Revenue Over Expenses-Station Basis	\$ 13,773	\$ (44,664)	\$ 42,441	\$ 36,066	\$ (20,078)	\$ 936,661	\$ (82,035)	\$ 882,164

**Reconciliation of Supplemental Schedule of Activity by Member to CoastAlaska Statement of Activities**

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
Excess (Deficiency) of Revenue Over Expenses-Station Basis	\$ 13,773	\$ (44,664)	\$ 42,441	\$ 36,066	\$ (20,078)	\$ 936,661	\$ (82,035)	\$ 882,164
Contributions to members for payment of								
Repair and replacement of property and equipment	(5,449)	(16,317)	(37,223)	(50,604)	(535,941)	(629,149)	-	(1,274,683)
Debt service, net	(3,736)	-	(10,228)	-	(2,157)	(414)	-	(16,535)
Other member expenses								
Depreciation	34,219	56,530	41,373	22,272	96,013	224,635	-	475,042
Excess of revenue over expenses	\$ 38,807	\$ (4,451)	\$ 36,363	\$ 7,734	\$ (462,163)	\$ 531,733	\$ (82,035)	\$ 65,988

See Independent Auditors' Report

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2007

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
<b>SUPPORT AND REVENUE:</b>								
Membership Revenue	\$ 121,492	\$ 59,121	\$ 84,513	\$ 30,098	\$ 231,470	\$ 107,493	\$ -	\$ 634,187
Underwriting Revenue	111,086	46,442	83,401	36,969	215,216	134,706	-	627,820
Interest and Investment Income	-	-	11,255	-	522	-	36,237	48,014
Production Income	415	2,197	50	222	1,020	256,314	-	260,218
Royalties	1,583	-	-	-	-	559	-	2,142
Miscellaneous Income	1,134	176	-	-	4,255	15,651	-	21,216
Rental Income	20,568	3,073	70,009	10,340	4,614	10,766	-	119,370
Sales Income	14,001	45	555	-	35	38,207	-	52,843
Consulting Income	-	-	-	-	-	22,500	-	22,500
APBC Grants	148,628	148,628	148,628	148,628	148,628	102,100	-	845,240
CPB Grants	148,804	117,285	140,112	112,676	161,464	710,297	-	1,390,638
Capital Grants	267,456	38,908	60,428	50,035	13,380	40,469	-	470,676
Other Operating Grants	96,100	5,000	-	-	9,000	604,075	-	714,175
<b>Fundraising Revenues:</b>								
Special Events	14,730	3,757	10,909	377	15,247	-	-	45,020
Auction	5,435	3,803	5,374	2,711	33,887	-	-	51,210
Gaming	-	-	20,455	1,285	-	-	-	21,740
In-kind Contributions	77,999	33,593	62,509	42,551	44,311	290,008	-	550,971
<b>Total Support and Revenue</b>	<b>1,029,431</b>	<b>462,028</b>	<b>698,198</b>	<b>435,892</b>	<b>883,049</b>	<b>2,333,145</b>	<b>36,237</b>	<b>5,877,980</b>
<b>EXPENSES:</b>								
<b>PROGRAMMING EXPENSES</b>								
Salary and Related Expenses	159,691	82,127	121,733	77,217	301,006	384,181	56,395	1,182,350
Media Stock	409	-	10	-	300	10,994	-	11,713
Contract Labor - Programming	74,435	670	440	150	7,170	85,060	-	167,925
Production Costs	5,279	-	-	9	1,105	190,067	-	196,460
Prog/Prod Travel	4,990	1,785	567	195	2,452	16,932	1,201	28,122
Music Library	541	-	111	279	2,710	2,546	-	6,187
Audience Survey	-	-	-	-	-	-	-	-
Affiliation Fees	21,876	14,983	18,779	13,269	34,851	57,570	-	161,328
Program Acquisitions	22,650	15,811	14,179	13,766	24,378	22,741	-	113,525
News Services	11,458	10,946	12,469	9,349	14,038	3,335	-	61,595
Studio Maintenance	-	-	-	-	-	682	-	682
In-kind - Programming	-	2,170	234	1,482	2,893	580	-	7,359
<b>Total Programming Expenses</b>	<b>301,329</b>	<b>128,492</b>	<b>168,522</b>	<b>115,716</b>	<b>390,903</b>	<b>774,688</b>	<b>57,596</b>	<b>1,937,246</b>
<b>TECHNICAL EXPENSES</b>								
Salary and Related Expenses	-	-	-	-	-	152,470	127,333	279,803
Transmission Charges	6,900	6,900	6,900	6,900	6,900	246,950	-	281,450
Contract Labor - Technical	1,315	-	-	-	6,447	4,505	25,500	37,767
Engineering Supplies	42	-	23	54	-	13	439	571
Tech/Broadcast Travel	-	-	-	-	3,021	260	9,139	12,420
Transmitters' Expenses	1,253	-	-	1,343	-	-	-	2,596
Translators' Expenses	16,981	13,977	17,763	-	271	-	-	48,992

(continued)

See Independent Auditors' Report

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2007

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
<b>TECHNICAL EXPENSES (continued)</b>								
Computer Hardware/Software	2,097	101	957	2,194	4,747	15,738	5,819	31,653
Internet Services	305	120	308	-	1,086	15,405	1,068	18,292
Broadcast Equipment Purchase	5,599	6,891	2,030	97	8,775	5,623	309	29,324
Broadcast Equipment Maintenance	2,197	2,011	62	1,999	2,850	6,374	-	15,493
In-kind - Technical	27,142	19,772	28,922	20,142	15,716	237,582	-	349,276
Total Technical Expenses	63,831	49,772	56,965	32,729	49,813	684,920	169,607	1,107,637
<b>DEVELOPMENT EXPENSES</b>								
Salary and Related Expenses	33,139	46,187	55,162	29,827	53,390	95,369	87,362	400,436
Premiums	12,867	2,958	7,289	2,232	14,153	11,843	-	51,342
Advertising	191	250	-	512	535	1,473	-	2,961
Development Travel	564	854	917	1,295	742	15	2,974	7,361
Direct Mail	-	-	-	15	898	5,292	-	6,205
Printing	1,788	434	1,760	426	5,040	2,436	804	12,688
Fundraising	4,876	1,225	13,838	1,834	3,266	-	-	25,039
Credit Card Fees	-	-	-	-	-	2,046	10,896	12,942
Retail Inventory	8,074	-	-	-	-	11,439	-	19,513
Volunteers	19	-	730	-	1,124	-	-	1,873
Bulk Mail Postage	681	261	494	279	2,019	1,091	441	5,266
In-kind - Development	41,229	3,363	21,517	130	11,286	26,335	-	103,860
Total Development Expenses	103,428	55,532	101,707	36,550	92,453	157,339	102,477	649,486
<b>OCCUPANCY EXPENSES</b>								
Rent	655	-	-	-	23,611	48,813	-	73,079
Interest expense	6,850	-	32,935	-	12,030	28,069	-	79,884
Building Maintenance	832	705	9,390	2,946	5,418	12,297	-	31,588
Automotive	-	-	-	-	180	420	-	600
Janitorial Supplies	5,436	109	521	-	3,917	9,140	-	19,123
Telephone - Local	5,157	3,965	4,017	5,140	6,315	13,833	2,125	40,552
Telephone - Long Distance	1,334	1,154	2,537	1,815	2,283	5,327	633	15,083
Utilities	16,586	11,743	24,182	4,252	20,885	44,868	-	122,516
Insurance	15,923	7,089	9,321	8,900	15,353	35,824	3,089	95,499
In-kind - Occupancy	788	1,028	288	12,077	7,064	16,484	-	37,729
Total Occupancy Expenses	53,561	25,793	83,191	35,130	97,056	215,075	5,847	515,653
<b>ADMINISTRATIVE EXPENSES</b>								
Salary and Related Expenses	60,043	66,702	61,552	70,277	63,346	305,886	188,581	816,387
Office Supplies	1,436	1,235	853	1,170	2,060	4,393	1,009	12,156
Administrative Travel	476	341	950	675	688	1,141	6,106	10,377
Postage	1,819	925	2,505	1,146	3,515	7,038	1,472	18,420
Dues & Subscriptions	1,232	1,823	1,794	196	1,536	2,259	2,703	11,543
Printing	-	-	-	-	834	1,498	958	3,290
Office Equipment Rental	-	-	-	175	1,742	4,064	-	5,981

(continued)

See Independent Auditors' Report

COASTALASKA, INC.

SUPPLEMENTAL SCHEDULE OF ACTIVITY BY MEMBER

For the Year ended June 30, 2007

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
ADMINISTRATIVE EXPENSES (continued)								
Office Equipment Maintenance	260	-	-	-	-	-	52	312
Office Equipment Purchase	328	-	268	201	1,709	3,987	-	6,493
Shipping - All	446	187	687	812	266	1,875	300	4,573
Public Relations	-	-	-	-	3,308	17,675	-	20,983
Contract Labor	990	695	880	578	1,100	2,070	1,343	7,656
Board/Admin	1,713	1,598	1,826	632	1,307	3,424	1,715	12,215
Audit	-	-	-	-	350	-	24,642	24,992
Legal Fees	491	-	-	-	5,212	2,158	48	7,909
Taxes	1,866	-	6,188	983	-	-	-	9,037
Bank and Loan Refinance Fees	11	13	428	9	245	159	1,780	2,645
Depreciation Expense	22,628	42,998	52,789	30,428	79,861	186,342	7,651	422,697
Miscellaneous Expense	-	-	-	219	-	-	-	219
CoastAlaska Support	117,084	89,457	117,358	68,217	156,936	-	(549,052)	-
Non-capitalized Acquisition Costs	-	-	-	-	28,760	-	-	28,760
In-kind - Admin	8,840	7,260	11,548	8,720	7,352	9,027	-	52,747
Total Administrative Expenses	219,663	213,234	259,626	184,438	360,127	552,996	(310,692)	1,479,392
Total Expenses	741,812	472,823	670,011	404,563	990,352	2,385,018	24,835	5,689,414
Excess (Deficiency) of Revenue Over Expenses-Station Basis	\$ 287,619	\$ (10,795)	\$ 28,187	\$ 31,329	\$ (107,303)	\$ (51,873)	\$ 11,402	\$ 188,566

**Reconciliation of Supplemental Schedule of Activity by Member to CoastAlaska Statement of Activities**

	SITKA	PETERSBURG	KETCHIKAN	WRANGELL	JUNEAU		REGIONAL	Total
	KCAW-FM	KFSK-FM	KRBD-FM	KSTK-FM	KTOO-FM	KTOO-TV	SERVICES	
Excess (Deficiency) of Revenue Over Expenses-Station Basis	\$ 287,619	\$ (10,795)	\$ 28,187	\$ 31,329	\$ (107,303)	\$ (51,873)	\$ 11,402	\$ 188,566
Contributions to members for payment of								
Repair and replacement of property and equipment	(292,380)	(31,074)	(60,432)	(52,291)	(40,704)	(47,784)	-	(524,665)
Debt service, net	(3,558)	-	(5,465)	-	(147,677)	(28,380)	-	(185,080)
Other member expenses								
Depreciation	22,628	42,998	52,789	30,428	79,861	186,342	-	415,046
Excess of revenue over expenses	\$ 14,309	\$ 1,129	\$ 15,079	\$ 9,466	\$ (215,823)	\$ 58,305	\$ 11,402	\$ (106,133)

See Independent Auditors' Report

# ELGEE REHFELD MERTZ, LLC

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Raven Radio Foundation, Inc.

We have audited the accompanying statements of financial position of Raven Radio Foundation, Inc. (a nonprofit corporation) as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raven Radio Foundation, Inc. as of June 30, 2008 and 2007, and 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.

As described in Note 1, during fiscal 1999, Raven Radio Foundation, Inc. and four other public radio stations in Southeast Alaska formed CoastAlaska, Inc. Administrative and financial activities of the seven public radio stations and Capital Community Broadcasting, Inc.'s public television station are now conducted under a Compact Agreement by and between the stations.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Raven Radio Foundation, Inc., taken as a whole. The Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 1, 2008

AN INDEPENDENT MEMBER OF  
**BDO**  
**SEIDMAN**  
**ALLIANCE**

RAVEN RADIO FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2008 and 2007

	2008	2007
<b>ASSETS:</b>		
Property and Equipment, net	\$ 953,968	\$ 982,738
Total Assets	\$ 953,968	\$ 982,738
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 3,923	\$ 3,736
Total Current Liabilities	3,923	3,736
Long-term debt, less current portion	125,786	129,709
Total Liabilities	129,709	133,445
<b>Net Assets:</b>		
Unrestricted: designated - invested in property and equipment, unavailable for spending	824,259	849,293
Total Net Assets	824,259	849,293
Total Liabilities and Net Assets	\$ 953,968	\$ 982,738

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

RAVEN RADIO FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public Support, Revenue and Other Gains		
Support from CoastAlaska for equipment repairs and replacements	\$ 5,449	\$ 292,380
Support from CoastAlaska for payment of long-term debt	<u>3,736</u>	<u>3,558</u>
Total Public Support, Revenue and Other Gains	<u>9,185</u>	<u>295,938</u>
Expenses		
Depreciation	<u>34,219</u>	<u>22,628</u>
Total Expenses	<u>34,219</u>	<u>22,628</u>
Change in unrestricted net assets	(25,034)	273,310
Net Assets, Beginning of Year	<u>849,293</u>	<u>575,983</u>
Net Assets, End of Year	<u>\$ 824,259</u>	<u>\$ 849,293</u>

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

RAVEN RADIO FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of the Change in Net Assets To Net Cash Provided By Operating Activities		
Change in Net Assets	\$ (25,034)	\$ 273,310
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	34,219	22,628
Net Cash Provided By Operating Activities	9,185	295,938
Cash Flows From Investing Activities:		
Cash paid for fixed assets and capital improvements	(5,449)	(292,380)
Net Cash Used For Investing Activities	(5,449)	(292,380)
Cash Flows From Financing Activities:		
Cash paid on long-term liabilities	(3,736)	(3,558)
Net Cash Used For Financing Activities	(3,736)	(3,558)
Net Change In Cash	-	-
Cash at Beginning of Year	-	-
Cash at End of Year	\$ -	\$ -

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

RAVEN RADIO FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 and 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and CoastAlaska, Inc.

Raven Radio Foundation, Inc. (the "Corporation") is a non-profit Alaska corporation, which operates a noncommercial public FM radio station (KCAW-FM in Sitka, Alaska), as described below.

On July 1, 1998 the Corporation joined with four other public broadcasting stations in Southeast Alaska to form CoastAlaska Incorporated, a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include public radio stations in Juneau (CCBI-KTOO-TV and KTOO-FM), Sitka (KCAW), Petersburg (KFSK), Wrangell (KSTK), and Ketchikan (KRBD). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continue to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is exempted from this review and approval process and remains with CCBI's Board of Directors. Each station's budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff, which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time, with six months notice, and the Compact will remain in effect as long as two or more stations remain members.

RAVEN RADIO FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation

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

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the "Real and Personal Property and Depreciation" and "Long-Term Debt" notes below.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

Under the terms of the Compact, the Corporation retained ownership of a cash reserve account in the amount of \$42,928 at June 30, 1999. During fiscal 2004 the reserve account was invested in accordance with the policy set forth by the Board of Directors of CoastAlaska. Any dividend and interest earnings on this reserve becomes the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

Revenue Recognition

Support received from CoastAlaska for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements is recorded when the associated costs or payments are incurred or payable. All support and revenue derived from the operation of the Corporation's radio station are contributed to and recorded by CoastAlaska.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in the financial statements of CoastAlaska, Inc. The Corporation remains responsible for the conduct of its federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Management's 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.

Real and Personal Property and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two and one-half to forty years. Expenditures for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized. Payments by CoastAlaska for repairs and maintenance of the Corporation's property and equipment are recognized as revenue when the amounts are to be paid by CoastAlaska. Expenditures incurred by CoastAlaska on behalf of the Corporation for property and equipment acquisitions, major renewals and betterments are recorded as contributions by the Corporation as incurred.

RAVEN RADIO FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-Term Debt

Expenditures incurred by CoastAlaska for payment of the Corporation's long-term debt are recognized as revenue when the amounts are to be paid by CoastAlaska. All long-term debt amounts are recorded in the financial statements of the Corporation.

Statement of Cash Flows

For the purpose of the statement of cash flows, the Corporation considers all cash in checking, savings and money market accounts, to be cash.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Corporation 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). There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment at June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Land	\$ 497,312	\$ 497,312
Building and improvements	405,396	402,004
Broadcasting, production and programming equipment	447,924	384,010
Office fixtures and equipment	<u>3,586</u>	<u>3,586</u>
	1,354,218	1,286,912
Less accumulated depreciation	<u>(400,250)</u>	<u>(304,174)</u>
	<u>\$ 953,968</u>	<u>\$ 982,738</u>

Depreciation expense was \$34,219 and \$22,628 for fiscal years ended June 30, 2008 and 2007, respectively.

**NOTE 3 - LONG-TERM DEBT**

Long-term debt at June 30, 2008 and 2007 consists of:

	<u>2008</u>	<u>2007</u>
Fixed rate 5.0% note payable in annual installments of \$10,408 (including principal and interest) to May 2029. Collateralized by land.	<u>\$ 129,709</u>	<u>\$ 133,445</u>
Less Current Portion	<u>(3,923)</u>	<u>(3,736)</u>
	<u>\$ 125,786</u>	<u>\$ 129,709</u>

RAVEN RADIO FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3 - LONG-TERM DEBT (Continued)**

Interest expense was \$6,672 and \$6,850 for fiscal years 2008 and 2007, respectively. Interest expense is paid by CoastAlaska in accordance with the Compact.

The following is a summary of scheduled maturities on long-term debt as of June 30, 2008:

<u>Year Ending June 30</u>	<u>Long-Term Debt</u>
2009	\$ 3,923
2010	4,119
2011	4,325
2012	4,541
2013	4,768
Thereafter	<u>108,033</u>
Total	<u>\$ 129,709</u>

**NOTE 4 - CONTINGENT LIABILITIES**

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Although subjected to state and federal single audit requirements, certain grant amounts of the Corporation reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Narrows Broadcasting Corporation

We have audited the accompanying statements of financial position of Narrows Broadcasting Corporation (a nonprofit corporation) as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Narrows Broadcasting Corporation as of June 30, 2008 and 2007, and 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.

As described in Note 1, during fiscal 1999, Narrows Broadcasting Corporation and four other public radio stations in Southeast Alaska formed CoastAlaska, Inc. Administrative and financial activities of the seven public radio stations and Capital Community Broadcasting, Inc.'s public television station are now conducted under a Compact Agreement by and between the stations.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Narrows Broadcasting Corporation, taken as a whole. The Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 1, 2008



NARROWS BROADCASTING CORPORATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Property and Equipment, net	<u>\$ 362,804</u>	<u>\$ 403,017</u>
Total Assets	<u><u>\$ 362,804</u></u>	<u><u>\$ 403,017</u></u>
LIABILITIES AND NET ASSETS:		
Net Assets:		
Unrestricted: designated - invested in property and equipment, unavailable for spending	<u>\$ 362,804</u>	<u>\$ 403,017</u>
Total Liabilities and Net Assets	<u><u>\$ 362,804</u></u>	<u><u>\$ 403,017</u></u>

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

NARROWS BROADCASTING CORPORATION

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public Support, Revenue and Other Gains		
Support from CoastAlaska for equipment repairs and replacements	\$ 16,317	\$ 31,074
Total Public Support, Revenue and Other Gains	<u>16,317</u>	<u>31,074</u>
Expenses		
Depreciation	<u>56,530</u>	<u>42,998</u>
Total Expenses	<u>56,530</u>	<u>42,998</u>
Change in unrestricted net assets	(40,213)	(11,924)
Net Assets, Beginning of Year	<u>403,017</u>	<u>414,941</u>
Net Assets, End of Year	<u><u>\$ 362,804</u></u>	<u><u>\$ 403,017</u></u>

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

NARROWS BROADCASTING CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of the Change in Net Assets To Net Cash Provided By Operating Activities		
Change in Net Assets	\$ (40,213)	\$ (11,924)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	56,530	42,998
Net Cash Provided by Operating Activities	16,317	31,074
Cash Flows From Investing Activities:		
Cash paid for fixed assets and capital improvements	(16,317)	(31,074)
Net Cash Used For Investing Activities	(16,317)	(31,074)
Net Change In Cash	-	-
Cash at Beginning of Year	-	-
Cash at End of Year	\$ -	\$ -

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

# NARROWS BROADCASTING CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008 and 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and CoastAlaska, Inc.

Narrows Broadcasting Corporation (the "Corporation") is a non-profit Alaska corporation, which operates a noncommercial public FM radio station (KFSK-FM in Petersburg, Alaska), as described below.

On July 1, 1998 the Corporation joined with four other public broadcasting stations in Southeast Alaska to form CoastAlaska Incorporated, a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include public radio stations in Juneau (CCBI-KTOO-TV and KTOO-FM), Sitka (KCAW), Petersburg (KFSK), Wrangell (KSTK), and Ketchikan (KRBD). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continues to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is exempted from this review and approval process and remains with CCBI's Board of Directors. Each station's budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff, which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time, with six months notice, and the Compact will remain in effect as long as two or more stations remain members.

NARROWS BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation

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

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the "Real and Personal Property and Depreciation" and "Long-Term Debt" notes below.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

Under the terms of the Compact, the Corporation retained ownership of a cash reserve account in the amount of \$87,141. During fiscal year 2004 the reserve was invested according to policy set forth by the Board of Directors of CoastAlaska. Any dividends and interest earnings on the investments become the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

Revenue Recognition

Support received from CoastAlaska for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements is recorded when the associated costs or payments are incurred or payable. All support and revenue derived from the operation of the Corporation's radio station are contributed to and recorded by CoastAlaska.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in the financial statements of CoastAlaska, Inc. The Corporation remains responsible for the conduct of its federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Management's 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.

Real and Personal Property and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two and one-half to forty years. Expenditures for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized. Payments by CoastAlaska for repairs and maintenance of the Corporation's property and equipment are recognized as revenue when the amounts are to be paid by CoastAlaska. Expenditures incurred by CoastAlaska on behalf of the Corporation for property and equipment acquisitions, major renewals and betterments are recorded as contributions by the Corporation as incurred.

NARROWS BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Statement of Cash Flows

For the purpose of the statement of cash flows, the Corporation considers all cash in checking, savings and money market accounts, to be cash.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Corporation 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). There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment at June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Land	\$ 25,000	\$ 25,000
Building and improvements	302,816	302,816
Broadcasting, production and programming equipment	503,620	614,054
Office fixtures and equipment	<u>3,600</u>	<u>27,489</u>
	835,036	969,359
Less accumulated depreciation	<u>(472,232)</u>	<u>(566,342)</u>
	<u>\$ 362,804</u>	<u>\$ 403,017</u>

Depreciation expense was \$56,530 and \$42,998 for fiscal years ended June 30, 2008 and 2007, respectively.

**NOTE 3 - CONTINGENT LIABILITIES**

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Although subjected to state and federal single audit requirements, certain grant amounts of the Corporation reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Rainbird Community Broadcasting Corporation

We have audited the accompanying statements of financial position of Rainbird Community Broadcasting Corporation (a nonprofit corporation) as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbird Community Broadcasting Corporation as of June 30, 2008 and 2007, and 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.

As described in Note 1, during fiscal 1999, Rainbird Community Broadcasting Corporation and four other public radio stations in Southeast Alaska formed CoastAlaska, Inc. Administrative and financial activities of the seven public radio stations and Capital Community Broadcasting, Inc.'s public television station are now conducted under a Compact Agreement by and between the stations.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Rainbird Community Broadcasting Corporation, taken as a whole. The Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 1, 2008

RAINBIRD COMMUNITY BROADCASTING CORPORATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Property and Equipment, net	<u>\$ 641,976</u>	<u>\$ 646,126</u>
Total Assets	<u>\$ 641,976</u>	<u>\$ 646,126</u>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Current portion of long-term debt	<u>\$ 17,147</u>	<u>\$ 5,523</u>
Total Current Liabilities	17,147	5,523
Long-term debt, less current portion	<u>309,821</u>	<u>331,673</u>
Total Liabilities	<u>326,968</u>	<u>337,196</u>
Net Assets:		
Unrestricted: designated - invested in property and equipment, unavailable for spending	<u>315,008</u>	<u>308,930</u>
Total Net Assets	<u>315,008</u>	<u>308,930</u>
Total Liabilities and Net Assets	<u>\$ 641,976</u>	<u>\$ 646,126</u>

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

RAINBIRD COMMUNITY BROADCASTING CORPORATION

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public Support, Revenue and Other Gains		
Support from CoastAlaska for equipment repairs and replacements	\$ 37,223	\$ 60,432
Support from CoastAlaska for payment of long-term debt	<u>10,228</u>	<u>5,465</u>
Total Public Support, Revenue and Other Gains	<u>47,451</u>	<u>65,897</u>
Expenses		
Depreciation	<u>41,373</u>	<u>52,789</u>
Total Expenses	<u>41,373</u>	<u>52,789</u>
Change in unrestricted net assets	6,078	13,108
Net Assets, Beginning of Year	<u>308,930</u>	<u>295,822</u>
Net Assets, End of Year	<u>\$ 315,008</u>	<u>\$ 308,930</u>

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

RAINBIRD COMMUNITY BROADCASTING CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of the Change in Net Assets To Net Cash Provided By Operating Activities		
Change in Net Assets	\$ 6,078	\$ 13,108
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	<u>41,373</u>	<u>52,789</u>
Net Cash Provided By Operating Activities	<u>47,451</u>	<u>65,897</u>
Cash Flows From Financing Activities:		
Cash paid for fixed assets and capital improvements	(37,223)	(60,432)
Cash paid on long-term liabilities	<u>(10,228)</u>	<u>(5,465)</u>
Net Cash Used For Financing Activities	<u>(47,451)</u>	<u>(65,897)</u>
Net Change In Cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
Cash at End of Year	<u>\$ -</u>	<u>\$ -</u>

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

RAINBIRD COMMUNITY BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008 and 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and CoastAlaska, Inc.

Rainbird Community Broadcasting Corporation (the "Corporation") is a non-profit Alaska corporation, which operates a noncommercial public FM radio station (KBRD-FM in Ketchikan, Alaska), as described below.

On July 1, 1998 the Corporation joined with four other public broadcasting stations in Southeast Alaska to form CoastAlaska Incorporated, a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include public radio stations in Juneau (CCBI-KTOO-TV and KTOO-FM), Sitka (KCAW), Petersburg (KFSK), Wrangell (KSTK), and Ketchikan (KRBD). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continue to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is exempted from this review and approval process and remains with CCBI's Board of Directors. Each station's budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff, which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time, with six months notice, and the Compact will remain in effect as long as two or more stations remain members.

RAINBIRD COMMUNITY BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation

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

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the "Real and Personal Property and Depreciation" and "Long-Term Debt" notes below.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

Under the terms of the Compact, the Corporation retained ownership of a cash reserve account in the amount of \$29,405. During fiscal year 2004 the reserve was invested according to policy set forth by the Board of Directors of CoastAlaska. Any dividend and interest earnings on the investment reserve become the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

Revenue Recognition

Support received from CoastAlaska for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements is recorded when the associated costs or payments are incurred or payable. All support and revenue derived from the operation of the Corporation's radio station are contributed to and recorded by CoastAlaska.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in the financial statements of CoastAlaska, Inc. The Corporation remains responsible for the conduct of its federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Management's 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.

Real and Personal Property and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two and one-half to forty years. Expenditures for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized.

RAINBIRD COMMUNITY BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Real and Personal Property and Depreciation (Continued)

Payments by CoastAlaska for repairs and maintenance of the Corporation's property and equipment are recognized as revenue when the amounts are to be paid by CoastAlaska. Expenditures incurred by CoastAlaska on behalf of the Corporation for property and equipment acquisitions, major renewals and betterments are recorded as contributions by the Corporation as incurred.

Long-Term Debt

Expenditures incurred by CoastAlaska for payment of the Corporation's long-term debt are recognized as revenue when the amounts are to be paid by CoastAlaska. All long-term debt amounts are recorded in the financial statements of the Corporation.

Statement of Cash Flows

For the purpose of the statement of cash flows, the Corporation considers all cash in checking, savings and money market accounts, to be cash.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Corporation 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). There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment at June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Land	\$ 173,516	\$ 173,516
Building and improvements	718,075	718,075
Broadcasting, production and programming equipment	475,675	677,672
Office fixtures and equipment	<u>4,950</u>	<u>54,817</u>
	1,372,216	1,624,080
Less accumulated depreciation	<u>(730,240)</u>	<u>(977,954)</u>
	<u>\$ 641,976</u>	<u>\$ 646,126</u>

Depreciation expense was \$41,373 and \$52,789 for fiscal years ended June 30, 2008 and 2007, respectively.

RAINBIRD COMMUNITY BROADCASTING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3 - LONG-TERM DEBT AND LINE OF CREDIT**

Long-term Debt

Long-term debt at June 30, 2008 and 2007 consists of:

	<u>2008</u>	<u>2007</u>
Variable rate mortgage loan payable at the lender's prime plus 1.5% (6.5% as of June 30, 2008). Note payable in monthly installments of \$3,200 (including principal and interest) to February, 2022. Collateralized by building.	\$ 326,968	\$ 337,196
Less Current Portion	<u>(17,147)</u>	<u>(5,523)</u>
	<u>\$ 309,821</u>	<u>\$ 331,673</u>

Interest expense was \$28,171 and \$32,935 for fiscal years ended June 30, 2008 and 2007, respectively. Interest expense is paid by CoastAlaska in accordance with the Compact.

The following is a summary of scheduled maturities on long-term debt as of June 30, 2008:

<u>Year Ending June 30</u>	<u>Long-Term Debt</u>
2009	\$ 17,147
2010	18,262
2011	19,449
2012	20,713
2013	22,059
Thereafter	<u>229,338</u>
Total	<u>\$ 326,968</u>

Line of Credit

During fiscal year 2007, the Corporation obtained a commercial line of credit with a maximum limit of \$50,000, and an annual interest rate of 9.2%. There was no activity on the line, and at June 30, 2008, the account was closed.

**NOTE 4 - CONTINGENT LIABILITIES**

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Although subjected to state and federal single audit requirements, certain grant amounts of the Corporation reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Wrangell Radio Group, Inc.

We have audited the accompanying statements of financial position of Wrangell Radio Group, Inc. (a nonprofit corporation) as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wrangell Radio Group, Inc. as of June 30, 2008 and 2007, and 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.

As described in Note 1, during fiscal 1999, Wrangell Radio Group, Inc. and four other public radio stations in Southeast Alaska formed CoastAlaska, Inc. Administrative and financial activities of the seven public radio stations and Capital Community Broadcasting, Inc.'s public television station are now conducted under a Compact Agreement by and between the stations.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Wrangell Radio Group Inc., taken as a whole. The Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 1, 2008



WRANGELL RADIO GROUP, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2008 and 2007

	2008	2007
ASSETS:		
Property and Equipment, net	\$ 226,768	\$ 198,436
Total Assets	\$ 226,768	\$ 198,436
LIABILITIES AND NET ASSETS:		
Net Assets:		
Unrestricted: designated - invested in property and equipment, unavailable for spending	\$ 226,768	\$ 198,436
Total Liabilities and Net Assets	\$ 226,768	\$ 198,436

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

WRANGELL RADIO GROUP, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2008 and 2007

	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS:		
Public Support, Revenue and Other Gains		
Support from CoastAlaska for equipment repairs and replacements	\$ 50,604	\$ 52,291
Total Public Support, Revenue and Other Gains	50,604	52,291
Expenses		
Depreciation	22,272	30,428
Total Expenses	22,272	30,428
Change in unrestricted net assets	28,332	21,863
Net Assets, Beginning of Year	198,436	176,573
Net Assets, End of Year	\$ 226,768	\$ 198,436

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

WRANGELL RADIO GROUP, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of the Change in Net Assets		
To Net Cash Provided By Operating Activities		
Change in Net Assets	\$ 28,332	\$ 21,863
Adjustments to reconcile change in net assets		
to net cash used for operating activities		
Depreciation	22,272	30,428
Net Cash Provided By Operating Activities	50,604	52,291
Cash Flows From Financing Activities		
Cash paid for fixed assets and capital improvements	(50,604)	(52,291)
Net Cash Used For Financing Activities	(50,604)	(52,291)
Net Change in Cash	-	-
Cash at Beginning of Year	-	-
Cash at End of Year	\$ -	\$ -

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

WRANGELL RADIO GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008 and 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and CoastAlaska, Inc.

Wrangell Radio Group, Inc. (the "Corporation") is a non-profit Alaska corporation, which operates a noncommercial public FM radio station (KSTK-FM in Wrangell, Alaska), as described below.

On July 1, 1998 the Corporation joined with four other public broadcasting stations in Southeast Alaska to form CoastAlaska Incorporated, a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include public radio stations in Juneau (CCBI-KTOO-TV and KTOO-FM), Sitka (KCAW), Petersburg (KFSK), Wrangell (KSTK), and Ketchikan (KRBD). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continues to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is exempted from this review and approval process and remains with CCBI's Board of Directors. Each station's budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff, which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time and the Compact will remain in effect as long as two or more stations remain members.

Basis of Presentation

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

WRANGELL RADIO GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the "Real and Personal Property and Depreciation" and "Long-Term Debt" notes below.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

Under the terms of the Compact, the Corporation retained ownership of a cash reserve account in the amount of \$522. During fiscal year 2004 the reserve cash was invested according to policy set forth by the CoastAlaska Board of Directors. Any dividends and interest earnings on this cash becomes the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

Revenue Recognition

Support received from CoastAlaska for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements is recorded when the associated costs or payments are incurred or payable. All support and revenue derived from the operation of the Corporation's radio station are contributed to and recorded by CoastAlaska.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in the financial statements of CoastAlaska, Inc. The Corporation remains responsible for the conduct of its federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Management's 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.

Real and Personal Property and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two and one-half to forty years. Expenditures for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized. Payments by CoastAlaska for repairs and maintenance of the Corporation's property and equipment are recognized as revenue when the amounts are to be paid by CoastAlaska. Expenditures incurred by CoastAlaska on behalf of the Corporation for property and equipment acquisitions, major renewals and betterments are recorded as contributions by the Corporation as incurred.

WRANGELL RADIO GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-Term Debt

Expenditures incurred by CoastAlaska for payment of the Corporation's long-term debt are recognized as revenue when the amounts are to be paid by CoastAlaska. All long-term debt amounts are recorded in the financial statements of the Corporation.

Statement of Cash Flows

For the purpose of the statement of cash flows, the Corporation considers all cash in checking, savings and money market accounts, to be cash.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. 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). There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment at June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Land	\$ 9,000	\$ 9,000
Building and improvements	277,761	262,145
Broadcasting, production and programming equipment	351,546	675,637
Office fixtures and equipment	<u>7,994</u>	<u>67,867</u>
	646,301	1,014,649
Less accumulated depreciation	<u>(419,533)</u>	<u>(816,213)</u>
	<u>\$ 226,768</u>	<u>\$ 198,436</u>

Depreciation expense was \$22,272 and \$30,428 for fiscal years ended June 30, 2008 and 2007, respectively.

**NOTE 3- CONTINGENT LIABILITIES**

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Although subjected to state and federal single audit requirements, certain grant amounts of the Corporation reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

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# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Capital Community Broadcasting, Inc.

We have audited the accompanying statements of financial position of Capital Community Broadcasting, Inc. (CCBI), a nonprofit corporation, as of June 30, 2008 and 2007 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the CCBI's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Community Broadcasting, Inc. as of June 30, 2008 and 2007, and 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.

As described in Note 1, during fiscal 1999, Capital Community Broadcasting, Inc. and four other public radio stations in Southeast Alaska formed CoastAlaska, Inc. Administrative and financial activities of the seven public radio stations and Capital Community Broadcasting, Inc.'s public television station are now conducted under a Compact Agreement by and between the stations.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2008 on our consideration of CCBI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of CCBI, taken as a whole. The accompanying Schedule of Activity by Member for the years ended June 30, 2008 and 2007 appearing on pages 19 - 24 and the Schedule of Expenditures of Federal Awards on page 67 are presented for purposes of additional analysis as supplementary information and as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 1, 2008

CAPITAL COMMUNITY BROADCASTING, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Property and Equipment, net	\$ 3,211,014	\$ 2,366,572
Intangibles	<u>621,400</u>	<u>621,400</u>
Total Assets	<u>\$ 3,832,414</u>	<u>\$ 2,987,972</u>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Current portion of long-term debt	<u>\$ 76,483</u>	<u>\$ 42,355</u>
Total Current Liabilities	76,483	42,355
Long-term Liabilities:		
Other Long-term debt	<u>675,871</u>	<u>712,570</u>
Total Long-term debt, less current portion	675,871	712,570
Total Liabilities	<u>752,354</u>	<u>754,925</u>
Net Assets:		
Unrestricted: designated - invested in property and equipment, unavailable for spending	<u>3,080,060</u>	<u>2,233,047</u>
Total Net Assets	<u>3,080,060</u>	<u>2,233,047</u>
Total Liabilities and Net Assets	<u>\$ 3,832,414</u>	<u>\$ 2,987,972</u>

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

CAPITAL COMMUNITY BROADCASTING, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public Support, Revenue and Other Gains		
Support from CoastAlaska for equipment repairs and replacements	1,165,090	\$ 88,488
Support from CoastAlaska for payment of long-term debt	<u>2,571</u>	<u>176,057</u>
Total Public Support, Revenue and Other Gains	<u>1,167,661</u>	<u>264,545</u>
Expenses		
Depreciation	<u>320,648</u>	<u>266,203</u>
Total Expenses	<u>320,648</u>	<u>266,203</u>
Change in unrestricted net assets	847,013	(1,658)
Net Assets, Beginning of Year	<u>2,233,047</u>	<u>2,234,705</u>
Net Assets, End of Year	<u><u>\$ 3,080,060</u></u>	<u><u>\$ 2,233,047</u></u>

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

CAPITAL COMMUNITY BROADCASTING, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of the Change in Net Assets To Net Cash Provided By Operating Activities		
Change in Net Assets	\$ 847,013	\$ (1,658)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	<u>320,648</u>	<u>266,203</u>
Net Cash Provided By Operating Activities	<u>1,167,661</u>	<u>264,545</u>
Cash Flows From Investing Activities:		
Cash paid for fixed assets and capital improvements	(1,165,090)	(764,886)
Cash paid on long-term liabilities	<u>(2,571)</u>	<u>(176,057)</u>
Net Cash Used For Investing Activities	<u>(1,167,661)</u>	<u>(940,943)</u>
Cash Flows From Financing Activities:		
Cash received from note payable	<u>-</u>	<u>676,398</u>
Net Cash Provided By Financing Activities	<u>-</u>	<u>676,398</u>
Net Change In Cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
Cash at End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 and 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and CoastAlaska, Inc.

Capital Community Broadcasting, Inc. (CCBI) is a non-profit Alaska corporation, which operates a noncommercial public television station (KTOO-TV in Juneau, Alaska) and a noncommercial public FM radio station (KTOO-FM in Juneau, Alaska), as described below.

On July 1, 1998 CCBI joined with four other public broadcasting stations in Southeast Alaska to form CoastAlaska Incorporated, a non-profit corporation, that was organized to develop and promote the funding, conduct, and collaboration of public radio broadcasting within Southeast Alaska and to assist and facilitate the administration, business management, marketing and cooperation of its member stations in the most effective and efficient means possible. The members of CoastAlaska include public radio stations in Juneau (CCBI's KTOO-TV and KTOO-FM), Sitka (KCAW), Petersburg (KFSK), Wrangell (KSTK), and Ketchikan (KRBD). CoastAlaska operates under a Compact Agreement entered into on July 1, 1998.

During fiscal 1999, the members of CoastAlaska, as contemplated under the Compact, contributed all current assets, except certain excluded cash balances, and transferred all current liabilities to CoastAlaska. Each member retained respective ownership of all real and personal property of the stations and continue to remain obligated for any mortgage debt related to that property. In addition, the members retain ownership of their respective Federal Communications Commission (FCC) licenses, permits or other privileges, and maintain responsibility for programming, editorial practices and local production.

Annually, the members develop operating budgets for their stations, which are submitted to the CoastAlaska Board of Directors for review and approval. Budgets are prepared to assure the continued vitality of all the member stations. The budget for KTOO-TV is excepted from this review and approval process and remains with CCBI's Board of Directors. Each stations' budget includes provisions for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements.

All operating revenues received or raised are contributed to CoastAlaska. All operating expenses are the responsibility of and are paid by CoastAlaska. CoastAlaska's Board of Directors has an Executive Director who is responsible for the administration of the Compact, the stations' budgets, and on-going management of CoastAlaska. However, each member's Board of Directors retains control over all local personnel decisions, including hiring, firing and discipline. CoastAlaska's Executive Director maintains a central office staff which provides the following services to CoastAlaska and its members:

- Financial reporting, budgeting, monitoring, compliance with the budget and other regulatory requirements and all daily accounting functions
- Development of membership and underwriting support, and pledge fulfillment
- Engineering and engineering development
- Payroll and benefits administration
- Personnel and human resources administration
- Other administrative and financial operations

CoastAlaska is liable for the failure to provide any of the above-referenced services to the fullest extent provided by Alaska law.

Each member of CoastAlaska has the right to nominate two of CoastAlaska's Board of Directors. A member can withdraw at any time, with six months notice, and the Compact will remain in effect as long as two or more stations remain members.

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation

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

As discussed above and described in the Compact, all activity of each of the member stations of CoastAlaska, excluding the recording of real and personal property and related debt amounts, is contributed to and recorded in the financial statements of CoastAlaska. The accounting treatment for real and personal property and related debt amounts is discussed in the "Real and Personal Property and Depreciation" and "Long-Term Debt" notes below.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, CCBI 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. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. There were no temporarily restricted or permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

Under the terms of the Compact, CCBI retained ownership of a cash reserve account in the amount of \$44,184. During fiscal year 2004 the reserve cash was invested according to policy set forth by the CoastAlaska Board of Directors. Any dividends and interest earnings on this cash becomes the property of CoastAlaska. During 2005, the member stations voted to transfer these reserves to CoastAlaska.

Revenue Recognition

Support received from CoastAlaska for the maintenance, repair and replacement of real and personal property held by the stations and payment of the stations' obligations under long-term debt agreements is recorded when the associated costs or payments are incurred or payable. All support and revenue derived from the operation of CCBI's radio and television station are contributed to and recorded by CoastAlaska.

All expenditures related to grants received from state or federal agencies and associated revenues derived from these grants are recorded in the financial statements of CoastAlaska, Inc. CCBI remains responsible for the conduct of its federal and state grants in accordance with laws and regulations and the provisions of the grant agreements.

Management's 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.

Real and Personal Property and Depreciation

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from two and one-half to forty years. Expenditures for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized.

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Real and Personal Property and Depreciation (Continued)

Payments by CoastAlaska for repairs and maintenance of CCBI's property and equipment are recognized as revenue when the amounts are to be paid by CoastAlaska. Expenditures incurred by CoastAlaska on behalf of CCBI for property and equipment acquisitions, major renewals and betterments are recorded as contributions by CCBI as incurred.

Long-Term Debt

Expenditures incurred by CoastAlaska for payment of CCBI's long-term debt are recognized as revenue when the amounts are to be paid by CoastAlaska. All long-term debt amounts are recorded in the financial statements of CCBI.

Statement of Cash Flows

For the purpose of the statement of cash flows, CCBI considers all cash in checking, savings and money market accounts, to be cash.

Income Taxes

CCBI is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the CCBI's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the CCBI 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). There was no required provision for income taxes for fiscal years ended June 30, 2008 and 2007.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment at June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Building and improvements	\$ 1,967,363	\$ 1,727,197
Broadcasting, production and programming equipment	3,858,514	2,949,261
Office fixtures and equipment	<u>50,974</u>	<u>50,974</u>
	5,876,851	4,727,432
Less accumulated depreciation	<u>(2,665,837)</u>	<u>(2,360,860)</u>
	<u>\$ 3,211,014</u>	<u>\$ 2,366,572</u>

Depreciation expense was \$320,648 and \$266,203 for fiscal years ended June 30, 2008 and 2007.

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3 - LONG-TERM DEBT**

Long-term debt at June 30, 2008 and 2007 consists of:

	<u>2008</u>	<u>2007</u>
Fixed rate 8.25% note payable in monthly installments of \$8,670 (including principal and interest) commencing January 1, 2009 to December 1, 2016. Interest computed on a simple interest basis. Collateralized by assignment of security interest in State of Alaska Department of Natural Resources Mental Health Trust Leases.	\$ 582,741	\$ 540,885
Variable rate mortgage loan payable at the lender's prime plus 1% (6.00% at June 30, 2008). Note payable in monthly installments of \$4,933 (including principal and interest) to August 1, 2011. Interest computed on a simple interest basis. Collateralized by building.	<u>\$ 169,613</u>	<u>\$ 214,040</u>
	752,354	754,925
Less Current Portion	<u>(76,483)</u>	<u>(42,355)</u>
	<u>\$ 675,871</u>	<u>\$ 712,570</u>

Interest expense was \$59,584 and \$40,099 for fiscal years ended June 30, 2008 and 2007. Interest expense is paid by CoastAlaska in accordance with the Compact.

The following is a summary of scheduled maturities on long-term debt as of June 30, 2008:

<u>Year Ending June 30</u>	<u>Long-Term Debt</u>
2009	\$ 76,483
2010	110,240
2011	118,351
2012	82,120
2013	74,563
Thereafter	<u>290,597</u>
	<u>\$ 752,354</u>

**NOTE 4 - OPERATING LEASES**

Capital Community Broadcasting, Inc. has three operating land leases with the State of Alaska. Lease payments are subject to adjustment at each five-year interval based on appraised rental value of land. The land leases are assignable and during fiscal year 2007, they were assigned to Juneau Economic Development Council (JEDC) as part of the terms for securing the note payable described in Note 3, above. The expenses associated with these leases are recorded in the financial statements of CoastAlaska.

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4 - OPERATING LEASES (Continued)**

As of June 30, 2008, the Schedule of Minimum Future Land Lease Payments is as follows:

<u>Year Ending June 30</u>	<u>Schedule of Minimum Future Land Lease Payments</u>
2009	\$ 60,796
2010	60,796
2011	60,796
2012	60,796
2013	60,796
Thereafter	<u>60,796</u>
Total	<u>\$ 364,776</u>

**NOTE 5 – CONTINGENT LIABILITIES**

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies.

Although subjected to state and federal single audit requirements, certain grant amounts of CCBI reflected in the financial statements of CoastAlaska have not been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are audited by such agencies.

Collateral – Operating Leases

As discussed in Note 4, three operating land leases with the State of Alaska were assigned to Juneau Economic Development Council (JEDC) as collateral for securing financing for the purchase of K3 Broadcast licenses and other assets. Anticipated repayment terms are described in Note 3. However, in the event the State of Alaska leases are not extended to or beyond December 31, 2016, then monthly principal and interest payments would revert to \$11,515, payable over 66 months, commencing January 1, 2009 and continuing through June 1, 2014.

**NOTE 6 – ALASKA ONE, JOINT VENTURE**

Alaska One Public Television Network, Inc. (Alaska One) was formed by three Alaska public television broadcasting stations in Juneau (CCBI-KTOO-TV), Bethel (KYUK) and Fairbanks (KUAC). The stations formed Alaska One to undertake cooperative activities, increase operational efficiencies and decrease costs in the production and broadcasting of public television in Alaska. Alaska One originated a public television programming service to be broadcast by members of Alaska One via transmitters and translators across Alaska. Alaska One started broadcasting on October 31, 1995 and was incorporated on August 13, 1997. Substantially all broadcasting of PBS services originates from KUAC in Fairbanks, Alaska. As of June 30, 2007, CoastAlaska, through the Compact of which CCBI is a member, performed substantially all of the membership, fundraising and collection of pledges and donations for Alaska One. Beginning July 1, 2007 these functions are now performed by KUAC in Fairbanks.

Grant revenue of Alaska One that is received by CCBI, and pertains to Alaska One, is recorded by CoastAlaska.

CAPITAL COMMUNITY BROADCASTING, INC.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 7 – KTOO LEGACY FOUNDATION**

In 2001, the KTOO Legacy Foundation (Legacy) was formed under the State of Alaska Nonprofit corporation Act to support and assist CCBI in carrying out its purpose of constructing and operating nonprofit educational broadcasting facilities; and to receive, hold and use contributions for the purposes of supporting CCBI. All assets are to be attributed to CCBI or any successor organizations. CoastAlaska, on behalf of CCBI, performs all administrative functions for Legacy. All contributions by the Legacy Foundation have been placed in an investment account with Juneau Community Foundation, and all earnings are being retained.

Due to the financial and operational interdependency of CoastAlaska, CCBI and Legacy, CoastAlaska includes the assets of Legacy in its financial statements. As of June 30, 2008 and 2007, Legacy's assets included cash balances received in contributions from individuals totaling \$103,989 and \$110,477, respectively. These balances are reported as a liability to Legacy on CoastAlaska's statements of financial position.

**NOTE 8 – K3 STATIONS ACQUISITION**

On June 8, 2006, CCBI entered into an Asset Purchase Agreement ("Agreement") with a privately-held corporation to purchase the FCC licenses, transmitter equipment and other incidental assets for two radio stations in Juneau, Alaska. The Agreement also calls for the seller to lease the broadcast tower related to the two stations to CCBI over an initial four-year term with an optional six-year extension. Together, KTOO operates the new stations and its existing station as noncommercial public FM radio stations under the banner of "K3". On December 27, 2006 the transaction was consummated.

CCBI and CoastAlaska paid a total of approximately \$836,000 consisting of \$676,400 for the licenses transmitter equipment and other incidental assets, and approximately \$160,000 for start-up costs, closing costs and interest reserves.

CCBI financed the acquisition through the issuance of two loans. The first, from CoastAlaska, Inc., is an unsecured loan in an amount not to exceed of \$250,000. It is to be repaid interest free over ten years. Repayment will occur through CCBI's positive operating results. The balance on this loan at June 30 2008 and 2007 is \$213,000 and \$228,000, respectively. The second loan, from the Juneau Economic Development Corporation, in the initial amount of \$522,176, is secured by real property and is to be repaid over ten years at 8.5% per annum, with principal and interest capitalized for the first two years and the balance to be paid over the following eight years commencing January 1, 2009. The balance on this loan at June 30, 2008 and 2007 is \$582,741 and \$540,885, respectively. See also Note 3.

CAPITAL COMMUNITY BROADCASTING, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2008

	CFDA Number	Grant Number	Program or Award Amount	Amount Expended
U.S. Department of Agriculture:				
<i>Direct program:</i>				
Rural Utilities Service				
Public Television Station Digital Transition Grant				
FY 2006	* 10.861	130337	\$1,000,000	\$ 1,000,000
FY 2004	* 10.861	773	591,000	930
Total CFDA 10.861				1,000,930
 <i>Rural Business Enterprise Grant</i>				
Television Demonstration	10.769	60-04-9200058054	45,000	45,000
Total U.S. Department of Agriculture				1,045,930
 Denali Commission:				
<i>Pass-through program from:</i>				
Alaska Public Broadcasting, Inc. (APBI)				
Round 1	90.100	174-05	100,000	77,360
Round 2	90.100	174-05	100,000	100,000
Total CFDA 90.100				177,360
Total Denali Commission				177,360
Total Expenditures of Federal Awards				\$ 1,223,290

\* Denotes Major Program

The accompanying Notes the Schedule of Expenditures of Federal Awards is an integral part of this statement.

CAPTIAL COMMUNITY BROADCASTING, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

**GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of Capital Community Broadcasting, Inc. (CCBI).

**BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in CCBI's financial statements.

**RECONCILIATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO FINANCIAL STATEMENTS**

The following is a reconciliation of contributions reported in the financial statements to expenditures reported in the schedule of expenditures of federal awards:

Grant revenue recorded in the financial statements of CCBI	\$	-
Grant revenue recorded in the financial statements of CoastAlaska, Inc. and described in Note 1 of CCBI's financial statements.		3,731,878
Less: Support from CPB		(1,501,148)
Support from APBC		(867,574)
Capital and other grants awarded to CoastAlaska, Inc. or other member station		(139,866)
Total expenditures per Schedule of Expenditures of Federal Awards	\$	<u>1,223,290</u>

# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Capital Community Broadcasting, Inc.

We have audited the financial statements of Capital Community Broadcasting, Inc. (CCBI), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered CCBI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCBI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CCBI's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCBI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CCBI in a separate letter dated October 1, 2008.

This report is intended solely for the information and use of the board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ERM

October 1, 2008

# ELGEE REHFELD MERTZ, LLC

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of  
Capital Community Broadcasting, Inc.

### Compliance

We have audited the compliance of Capital Community Broadcasting, Inc. (CCBI), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. CCBI's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of CCBI's management. Our responsibility is to express an opinion on CCBI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CCBI's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CCBI's compliance with those requirements.

In our opinion, CCBI complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

### Internal Control over Compliance

The management of CCBI is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered CCBI's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CCBI's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*ERM*

October 1, 2008

CAPTIAL COMMUNITY BROADCASTING, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

**SUMMARY OF AUDIT RESULTS**

***Financial Statements***

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) over financial reporting?
- Significant deficiencies identified that are not considered to be material weakness(es)?

\_\_\_\_\_ Yes   x   No

\_\_\_\_\_ Yes   x   None  
Reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes   x   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

\_\_\_\_\_ Yes   x   None  
Reported

\_\_\_\_\_ Yes   x   None

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_\_\_ Yes   x   No

Major program:

<u>CFDA #</u>	<u>Name</u>
10.861	U.S. Department of Agriculture – Rural Utilities Service – Public Television Digital Transition Grant

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

\_\_\_\_\_ Yes   x   No

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None reported for fiscal year 2008.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None reported for fiscal year 2008.

CAPTIAL COMMUNITY BROADCASTING, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2008

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None reported for fiscal year 2007.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

None reported for fiscal year 2007.