PACIFICA FOUNDATION

The Pacifica Foundation

Financial Statements

For the Years Ended

September 30, 2016 and 2015

With Independent Auditor's Report Thereon

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

THE PACIFICA FOUNDATION

(A California Non-Profit Corporation)
September 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Pacifica Foundation

We have audited the accompanying financial statements of The Pacifica Foundation (a California nonprofit organization) which comprise the statements of financial position as of September 30, 2016 and 2015 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion
The Pacifica Foundation is the sponsor of two distinct pension plans covering substantially all employees. Both plans are delinquent in obtaining audited financial statements as required by the Internal Revenue Service and the Employee Retirement Income Security Act of 1974 ("ERISA"). Additionally, both plans are delinquent with filing tax returns with the Internal Revenue Service. As of the date of the Independent Auditors' Report (May 31, 2018): (a) audits of the plans for 2016 had not been completed, (b) an audit of one

INDEPENDENT AUDITORS' REPORT
(Continued)

Basis for Qualified Opinion *(continued)*
of the plans for 2015 had not been completed, and (c) an audit of one of the plans for 2015 was not required. We were thus unable to obtain sufficient appropriate audit evidence about the correct pension accruals, penalties, and fines for the year ended September 30, 2016. Additionally, we encountered difficulties in obtaining sufficient supporting documentation from some of the locations. Certain of the stations do not use the same accounting software as the corporate office. Some of the data from these stations could not be fully verified because it was missing. Consequently, we were unable to determine whether any adjustments to the amounts recorded in the accounting records were necessary.

Qualified Opinion
In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Pacifica Foundation as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter Regarding Going Concern
[Substantial Doubt About The Organization's Ability To Continue As A Going Concern]
The accompanying financial statements have been prepared assuming that The Pacifica Foundation will continue as a going concern. As discussed in Note 20 to the financial statements, The Pacifica Foundation has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 13 ("Liquidity"). The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of Statement of Financial Position by Division, Statement of Activities and Changes in Net Assets by Division, and Statement of Expenses by Division are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Regalia & Associates

Danville, California
May 31, 2018

THE PACIFICA FOUNDATION

Statements of Financial Position

September 30, 2016 and 2015

Assets

	2016	2015
Current assets:		
Cash and cash equivalents	$ 570,748	$ 243,053
Receivables	4,512	32,911
Premiums inventory	18,153	28,350
Prepaid expenses	44,303	32,270
Total current assets	637,716	336,584
Noncurrent assets:		
Restricted cash	519,369	591,221
Property and equipment, net	2,094,712	2,298,438
Other assets	36,770	42,970
Total noncurrent assets	2,650,851	2,932,629
Total assets	$ 3,288,567	$ 3,269,213

Liabilities and Net Assets

	2016	2015
Current liabilities:		
Accounts payable	$ 2,996,438	$ 3,322,101
Accrued expenses and payroll benefits	2,457,684	978,793
Accrued rent liability, short-term	1,902,875	877,229
Notes payable	-	17,000
Total current liabilities	7,356,997	5,195,123
Noncurrent liabilities:		
Accrued rent liability, long-term	457,208	569,035
Total noncurrent liabilities	457,208	569,035
Total liabilities	7,814,205	5,764,158
Net assets (deficit):		
Unrestricted	(5,707,493)	(3,833,945)
Temporarily restricted	65,800	222,945
Permanently restricted	1,116,055	1,116,055
Total net assets (deficit)	(4,525,638)	(2,494,945)
Total liabilities and net assets (deficit)	$ 3,288,567	$ 3,269,213

THE PACIFICA FOUNDATION

Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	September 30, 2016				September 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Listener support and donations (net)	$ 8,246,789	$ -	$ -	$ 8,246,789	$ 8,186,120	$ -	$ -	$ 8,186,120
Grants and contributed income	1,088,469	-	-	1,088,469	2,350,726	-	-	2,350,726
Community events	166,664	-	-	166,664	300,800	-	-	300,800
Sub-channel income	308,000	-	-	308,000	261,500	-	-	261,500
Other revenue	610,955	-	-	610,955	413,483	-	-	413,483
Investment income	46,235	-	-	46,235	8,953	-	-	8,953
Net assets released from restrictions	157,145	(157,145)	-	-	181,488	(181,488)	-	-
Total revenue and support	10,624,257	(157,145)	-	10,467,112	11,703,070	(181,488)	-	11,521,582
Expenses:								
Program services	5,888,447	-	-	5,888,447	5,826,081	-	-	5,826,081
Management and general	5,022,261	-	-	5,022,261	3,954,605	-	-	3,954,605
Fundraising and development	1,587,097	-	-	1,587,097	1,908,769	-	-	1,908,769
Total expenses	12,497,805	-	-	12,497,805	11,689,455	-	-	11,689,455
Increase (decrease) in net assets	(1,873,548)	(157,145)	-	(2,030,693)	13,615	(181,488)	-	(167,873)
Adjustments to beginning net assets	-	-	-	-	772,458	-	-	772,458
Net assets (deficit) at beginning of year	(3,833,945)	222,945	1,116,055	(2,494,945)	(4,620,018)	404,433	1,116,055	(3,099,530)
Net assets (deficit) at end of year	$ (5,707,493)	$ 65,800	$ 1,116,055	$ (4,525,638)	$ (3,833,945)	$ 222,945	$ 1,116,055	$ (2,494,945)

Statements of Cash Flows

For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	$(2,030,693)	$ (167,873)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	216,780	208,975
Realized and unrealized gains on investments	(39,520)	-
Changes in:		
Receivables	28,399	17,117
Premiums inventory	10,197	53,221
Prepaid expenses	(12,033)	160,731
Other assets	6,200	29,290
Accounts payable	(325,663)	(1,346,284)
Accrued expenses and benefits	1,478,891	(106,800)
Deferred income	-	(18,571)
Accrued rent liabilities	913,819	737,269
Net cash provided by (used for) operating activities	246,377	(432,925)
Cash flows from investing activities:		
Change in restricted cash	71,852	97,270
Acquisition of property and equipment	(13,054)	(231,856)
Reinvestment of investment earnings	39,520	-
Net cash provided by (used for) investing activities	98,318	(134,586)
Cash flows from financing activities:		
Borrowings under notes payable	(17,000)	17,000
Retirement of note payable	-	(156,000)
Prior period adjustments	-	772,458
Net cash provided by financing activities	(17,000)	633,458
Increase in cash and cash equivalents	327,695	65,947
Cash and cash equivalents at beginning of year	243,053	177,106
Cash and cash equivalents at end of year	$ 570,748	$ 243,053
Supplemental Disclosures:		
Interest expense - cash basis	$ -	$ -
State registration taxes paid	$ 150	$ 150

Statement of Functional Expenses
For the Year Ended September 30, 2016

	Program Services	Management and General	Fundraising and Development	Totals
Personnel costs				
Salaries and wages	$ 2,606,281	$ 1,399,794	$ 585,366	$ 4,591,441
Payroll taxes	225,977	121,369	50,754	398,100
Employee benefits	655,303	351,953	147,180	1,154,436
Pension and 403(B) contributions	241,473	129,692	54,234	425,399
Total personnel costs	3,729,034	2,002,808	837,534	6,569,376
Advertising and promotion	-	4,199	7,012	11,211
Associations and periodicals	792	5,732	-	6,524
Audit and accounting	1,991	250,358	-	252,349
Bank charges and credit card fees	5,629	126,915	223,243	355,787
Board meetings and elections	1,501	148,725	-	150,226
Communications expense	139,496	360,418	6,618	506,532
Community events	770	2,789	79,540	83,099
Computer maintenance	19,615	34,741	-	54,356
Consultants	118,770	112,349	25,578	256,697
Depreciation and amortization	104,749	111,927	104	216,780
Direct mail and telemarketing	55,523	8,227	367,728	431,478
Equipment rental	-	53,087	14,800	67,887
Insurance	1,123	215,230	-	216,353
Legal fees	725	311,466	-	312,191
Miscellaneous	892	26,761	-	27,653
Rent-office/studio	-	230,344	-	230,344
Rent-tower	1,151,534	-	-	1,151,534
Office expenses	1,447	73,037	6,057	80,541
Outside services	-	1,510	-	1,510
Permits, fines and filing fees	590	373,253	25	373,868
Programming costs	135,632	17,337	5,642	158,611
Repairs and maintenance	107,231	72,748	4,024	184,003
Storage	-	37,678	-	37,678
Tapes and supplies	16,947	2,131	6,381	25,459
Taxes - property tax	-	347,028	-	347,028
Training conferences	2,982	2,032	1,108	6,122
Travel	6,226	15,081	1,703	23,010
Utilities	248,419	72,044	-	320,463
Website and audioport expenses	36,829	2,306	-	39,135
Total expenses	$ 5,888,447	$ 5,022,261	$ 1,587,097	$ 12,497,805

THE PACIFICA FOUNDATION

Statement of Functional Expenses

For the Year Ended September 30, 2015

	Program Services	Management and General	Fundraising and Development	Totals
Personnel costs				
Salaries and wages	$ 2,948,032	$ 988,857	$ 694,190	$ 4,631,079
Payroll taxes	266,367	87,252	64,121	417,740
Employee benefits	706,301	443,577	198,193	1,348,071
Pension and 403(B) contributions	87,065	38,992	22,694	148,751
Total personnel costs	4,007,765	1,558,678	979,198	6,545,641
Advertising and promotion	-	95,049	35,980	131,029
Associations and periodicals	6,226	6,148	-	12,374
Audit and accounting	-	216,180	-	216,180
Bank charges and credit card fees	76	105,949	206,217	312,242
Board meetings and elections	-	102,735	450	103,185
Communications expense	128,234	382,600	2,237	513,071
Community events	150	18,775	105,863	124,788
Computer maintenance	21,436	42,227	10,245	73,908
Consultants	145,765	27,543	22,288	195,596
Depreciation and amortization	69,693	139,178	104	208,975
Direct mail and telemarketing	31,929	678	402,496	435,103
Equipment rental	-	62,001	21,431	83,432
Insurance	-	218,902	-	218,902
Miscellaneous	2,863	26,536	2,617	32,016
Rent-office/studio	-	251,875	-	251,875
Rent-tower	917,332	17,014	-	934,346
Office expenses	4,518	77,143	2,102	83,763
Outside services	-	21,113	-	21,113
Permits, fines and filing fees	-	22,416	130	22,546
Professional fees	-	259,482	-	259,482
Programming costs	81,545	17,413	48,754	147,712
Repairs and maintenance	119,015	87,274	661	206,950
Storage	537	52,313	-	52,850
Tapes and supplies	22,149	6,248	64,988	93,385
Taxes - property tax	-	24,121	-	24,121
Training conferences	7,109	1,406	526	9,041
Travel	9,377	2,729	2,482	14,588
Utilities	234,453	79,882	-	314,335
Website and audioport expenses	15,909	30,997	-	46,906
Total expenses	$ 5,826,081	$ 3,954,605	$ 1,908,769	$ 11,689,455

Notes to Financial Statements
September 30, 2016 and 2015

1. Organization

The Pacifica Foundation (the "Foundation") was incorporated under the Nonprofit Corporation Law of the State of California on august 24, 1946 and was recognized as a tax exempt organization in April 1958 under section 101(c) of the 1939 Internal Revenue Code which now corresponds with IRC 501(c)(3) as a public charity. Pacifica currently operates on a not-for-profit basis, five FM radio stations and maintains a program tape library which is used to sell and rent taped programs to other non-commercial radio stations, news services, schools, colleges, universities and the general public. Contributions are used to support non-commercial radio stations and to create public affairs programming which is available to approximately 165 affiliated non-commercial radio stations.

The Financial statements include the operations of the following divisions:

Radio Station – KPFA-Berkeley, California
Radio Station – KPFK-Los Angeles, California
Radio Station – KPFT-Houston, Texas
Radio Station – WBAI-New York, New York
Radio Station – WPFW-Washington, D.C.
Pacifica Foundation – National Office
Pacifica Foundation – Pacifica Radio Archives

2. Summary of Significant Accounting Policies

Basis of Accounting and Combination
The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. The financial statements include the accounts of the Foundation and the various divisions identified above, which have common management and have some common board members. All significant balances and transactions between the Foundation's divisions have been eliminated.

Basis of Presentation
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, the Foundation 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.

Revenue Recognition
The Foundation records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments
Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

Cash and Cash Equivalents
Cash and cash equivalents include savings, cash deposits and money market accounts with maturity dates of three months or less. The Foundation may occasionally be the recipient of donated securities. Investments or securities received by gift are recorded at market value at the date of contribution in accordance with ASC 958.320, *Investments of Not For Profit Organizations*. The Foundation converts such securities to liquid assets, and any realized gains or losses are separately stated on the statements of activities and changes in net assets. The Foundation maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits.

Premiums Inventory
Each station maintains an inventory of items used for premium incentives in fundraising activities that are carried at the lower of cost or fair value. The Foundation determined cost using the first-in first-out method. Obsolete or unsalable inventory is reflected at its estimated net realizable value.

Property and Equipment
Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. The cost of property and equipment exceeding $2,000 is capitalized and depreciated over the estimated useful life of each class of depreciable asset. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Maintenance and repairs are charged to expense as incurred. When property and equipment are retired, sold, or otherwise disposed of, amounts representing the asset's carrying amount and related depreciation are removed from the accounts and any gain or loss is included in operations. The useful estimated lives of property and equipment are summarized as follows:

Office and computer equipment	5 years
Leasehold improvements	10 years
Furniture and fixtures	10 years
Transmitter, technical and antenna equipment	10 – 20 years
Buildings	30 years

2. Summary of Significant Accounting Policies *(continued)*

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set-aside during the years ended September 30, 2016.

Revenue Recognition

Listener Support And Donations (Net): Listener support and donations are reflected net of premiums issued in exchange for payments received. Total premiums and related costs amounted to $458,914 and $790,345 for the years ended September 30, 2016 and 2015, respectively.

Grants and Contributed Income: Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in unrestricted net assets. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions in which the donor restrictions are never relieved are recorded as permanently restricted support. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Donated Assets: Donated property is recorded at the estimated fair value at the date of receipt. The Foundation reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

2. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition (continued)

Income recognition from community events: Funds received in advance from community events are shown as deferred income when received. These amounts are recorded as income when the funds are disbursed upon the completion of the community event in order to more closely match revenue with the related expenditure.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, the Foundation is required to report information regarding its exposure to various tax positions taken by the Foundation and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the Foundation has adequately evaluated its current tax positions and has concluded that as of September 30, 2016 and 2015, the Foundation does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary. The Foundation may periodically receive unrelated business income requiring the organization to file separate tax returns under federal and state statutes.

The Foundation has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that the organization continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

Other Revenue

The Foundation combines certain revenue streams (such as premium sales, rental income, advertising income, and other miscellaneous revenue) as other revenue on the statements of activities and changes in net assets. The largest component is income from affiliates which amounted to $204,630 and $233,073 for the years ended September 30, 2016 and 2015, respectively.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform to the presentation used in 2016.

Notes to Financial Statements

3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking and savings) at the time of purchase that have a maturity date of 90 days or less. The components of cash and cash equivalents are as follows at September 30:

	2016	2015
Checking accounts and petty cash	$ 554,867	$ 199,968
Money market and savings accounts	15,881	43,085
Total cash and cash equivalents	$ 570,748	$ 243,053

Certain funds on deposit in local financial institutions bear interest at rates ranging from 0.01% to 0.03% per annum. At certain times during the year, deposits may exceed federally insurance limits. The Foundation attempts to minimize its credit risk associated with cash equivalents by utilizing highly-rated financial institutions.

4. Restricted Cash

Restricted cash primarily represents funds restricted for specific purposes and are generally required to be held in separate bank accounts in accordance with donor stipulations and restrictions. The components of restricted cash are as follows at September 30:

	2016	2015
Wells Fargo Bank ACH – KPFA	$ 5,000	$ 5,000
Health Fund – KPFA	490,840	476,843
Building Fund – WPFW	12,330	100,268
Others	11,199	9,110
Total restricted cash	$ 519,369	$ 591,221

Certain funds on deposit in local financial institutions bear interest at rates ranging from 0.01% to 0.03% per annum. At certain times during the year, deposits may exceed federally insurance limits. The Foundation attempts to minimize its credit risk associated with cash equivalents by utilizing highly rated financial institutions.

5. Receivables

Receivables of $4,512 and $32,911 at September 30, 2016 and 2015, respectively, are comprised of amounts due from various donors and entities. All receivables are due within one year from the date of the statement of financial position and management considers all amounts to be fully collectible. Accordingly, there is no provision for doubtful accounts at September 30, 2016 and 2015. Receivables are classified as level 2 assets.

Notes to Financial Statements

6. Premiums Inventory and Premiums Incentives

Premiums inventory of $18,153 and $28,350 at September 30, 2016 and 2015, respectively, consist of various books, CDs, water bottles, T-shirts, and other printed materials. The corresponding expense from premiums goods which are used for incentives in fundraising activities are deducted against listener support and donations in the statements of activities and changes in net assets. The premium incentives incurred by each station are as follows for the years ended September 30:

	2016	2015
KPFA	$ 183,828	$ 183,148
KPFK	144,841	335,024
KPFT	42,471	59,673
WBAI	72,702	125,066
WPFW	7,951	70,260
Pacifica Radio Archives	7,290	5,995
Total cost of premiums incentives	$ 459,084	$ 794,166

Listener support and donations of $8,705,873 and $8,186,120 for the years ended September 30, 2016 and 2015, respectively, are net of premiums incentives of $459,084 and $794,166 for the years ended September 30, 2016 and 2015, respectively, as reflected above. Premiums are classified as level 3 assets.

7. Property and Equipment

The following is a summary of property and equipment at September 30:

	2016	2015
Land	$ 632,428	$ 632,428
Building and Improvements	2,949,013	2,948,220
Leasehold improvements	609,464	609,464
Furniture and fixtures	263,815	263,815
Equipment	6,480,592	6,468,332
Subtotal	10,935,312	10,922,259
Less accumulated depreciation	(8,840,601)	(8,623,821)
Total property, equipment and improvements (net)	$ 2,094,712	$ 2,298,438

Total depreciation and amortization expense amounted to $216,780 and $208,974 for the years ended September 30, 2016 and 2015, respectively, and is reported on the Supplemental Schedule - Statement of Expenses by Division. Included in the property and equipment held at September 30, 2016 and 2015 is certain technical equipment acquired with the assistance of government grants. In accordance with the regulations of these grants, the National Telecommunications and Information Administration retains interest in these assets for a period of ten years following the completion of the grant. At September 30, 2016 and 2015, equipment held by KPFT with a historical cost of $19,100 was subject to the federal ten-year period. The federal ten-year period expired in 2016. The Foundation acquired fixed assets amounting to $13,054 and $231,856 for the years ended September 30, 2016 and 2015, respectively. There were no property and equipment disposals during either fiscal year.

Notes to Financial Statements

8. Note Payable

Note payable of $17,000 at September 30, 2015 is comprised of amounts borrowed from certain individuals under short-term and interest-free borrowing arrangements. The loans were unsecured and due on demand. All amounts were retired during the year ended September 30, 2016.

9. Lease Commitments

The Foundation is obligated under certain multi-year operating leases for office space, studio, and radio tower equipment. The leases expire at various dates through September 30, 2028. The Foundation is also obligated under several month-to-month lease agreements to rent office and studio space. At September 30, 2016, future minimum lease payments under lease agreements extending beyond one year are as follows:

Year Ending:	Towers	Facilities	Equipment	Totals
September 30, 2017	$ 1,280,070	$ 188,475	$ 80,408	$ 1,548,953
September 30, 2018	882,001	282,373	68,835	1,233,209
September 30, 2019	154,579	51,637	54,454	260,670
September 30, 2020	150,174	6,964	56,569	213,707
September 30, 2021	154,679	7,173	32,163	194,015
Thereafter	1,140,145	9,249	154,272	1,303,666

Rent expense for all leases (including facilities, tower, and equipment) amounted to $1,381,878 and $1,269,653 for the years ended September 30, 2016 and 2015, respectively.

Subsequent to year end, the Foundation accepted a settlement agreement with the Empire State Realty Trust (ESRT). The Foundation will pay the ESRT approximately $3.5 million which will cover all monies owed to ESRT including interest, fees, relocation costs, penalties, and legal expenses through May 31, 2018. Further, ESRT will release the Foundation from its contract which would otherwise obligate the Foundation through April 2020.

In connection with the release from the ESRT lease, WBAI will relocate to 4 Times Square, New York, under a new license agreement. The annual fee commitments under the new lease are as follows:

Year Ending:	License Fee	Equipment Advance Repayment	Total
September 30, 2018	$ 60,000	$ -	$ 60,000
September 30, 2019	145,800	9,764	155,564
September 30, 2020	150,174	23,434	173,608
September 30, 2021	154,679	23,434	178,113
September 30, 2022	159,320	23,434	182,754
Thereafter	980,826	130,838	1,111,664

See Note 23 Subsequent Events.

10. Temporarily Restricted Net Assets

The Foundation recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at September 30:

	2016	2015
Capital acquisitions	$ 65,800	$ 222,945
Total temporarily restricted net assets	$ 65,800	$ 222,945

During the years ended September 30, 2016 and 2015, there were no additions to temporarily restricted net assets. In accordance with the provisions of donor instructions, the Foundation released $157,145 and $181,488 from temporarily restricted net assets during the years ended September 30, 2016 and 2015, respectively.

11. Permanently Restricted Net Assets

Permanently restricted net assets consist of funds which are invested in perpetuity in accordance with donor instructions, the income from which is expendable for operations. Permanently restricted net assets consist of the following at September 30:

	2016	2015
KPFA – Health Trust endowment fund	$ 375,000	$ 375,000
KPFA – Other endowment fund	150,000	150,000
KPFK – Other endowment fund	20,000	20,000
National Office – other endowment fund	196,055	196,055
National Office – Health Trust endowment fund	375,000	375,000
Total permanently restricted net assets	$ 1,116,055	$ 1,116,055

The Foundation's endowment consists of five funds established for a variety of purposes. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(continued)

11. Permanently Restricted Net Assets *(continued)*

The remaining portion of the donor-restricted net assets that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflations
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation has not adopted a policy of appropriating an amount for distribution each year.

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor of Board of Directors requires the Foundation to retain as a fund of perpetual duration. The Foundation has a deficit of $639,212 and $639,212 as of September 30, 2016 and 2015, respectively.

Endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	Deficit	Temporarily Restricted	Permanently Restricted	Total Endow-ment Assets
Donor-restricted endowment funds	$ (625,245)	$ -	$ 1,116,055	$ 490,840

Endowment net asset composition by type of fund as of September 30, 2015 is as follows:

	Deficit	Temporarily Restricted	Permanently Restricted	Total Endow-ment Assets
Donor-restricted endowment funds	$ (639,212)	$ -	$ 1,116,055	$ 476,843

The following represents the changes in endowment net assets for the year ended September 30, 2016:

	Deficit	Temporarily Restricted	Permanently Restricted	Total Endow-ment Assets
Endowment net assets, beginning of the year	$ (639,212)	$ -	$ 1,116,055	$ 476,843
Investment return net appreciation (realized/unrealized/transfers)	13,977	-	-	$ 13,977
Endowment net assets, end of year	$ (625,245)	$ -	$ 1,116,055	$ 490,840

(continued)

Notes to Financial Statements

11. Permanently Restricted Net Assets *(continued)*

The following represents the changes in endowment net assets for the year ended September 30, 2015:

	Deficit	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, beginning of the year	$ (794,904)	$ 181,488	$ 1,116,055	$ 502,639
Investment return et appreciation (realized and unrealized)	155,692	(181,488)	-	(25,796)
Endowment net assets, end of year	$ (639,212)	$ -	$ 1,116,055	$ 476,843

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to preserve the purchasing power of the Endowment Fund and at the same time provide a regular distribution of funds for use of the Foundation, consistent with the terms of the Endowment Fund Distribution Policy and the terms governing each of the individual endowment funds. The Foundation follows a balanced approach between risk, preservation of capital, income and growth.

12. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future programs, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions, donor conditions, and government contracts which obligate the Foundation to fulfill certain requirements, conditions, and activities, (b) Funding levels which vary based on factors beyond the Foundation's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, (d) Lawsuits and unasserted claims arising from the ordinary course of business, (e) Loan agreement covenants related to borrowing arrangements, and (f) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

The Foundation has several long-term employment contracts which contain arbitration clauses with certain current and former employees. The estimated liabilities associates with these agreements cannot be estimated and no amount has been accrued in these financial statements.

Concentration Vulnerability: The Foundation receives a substantial portion of its support from listeners and members. A significant reduction in the level of this support could have an adverse effect on its ability to continue programs and activities which are funded wholly or partially by the generosity of listeners and members.

12. Commitments and Contingencies *(continued)*

Union Agreements: Certain employees at certain geographic locations of the Foundation are enrolled in and protected by union agreements. Such agreements place restrictions on the employer and govern the hiring and firing of employees. Management is aware that certain policies reflected in the employee handbook are inconsistent with the union agreements and a labor attorney has been engaged to reconcile the language between these documents.

13. Liquidity

The Foundation has sustained significant losses from operating activities in the current and prior years. These factors resulted in the Foundation developing a total net deficit of $4,525,638 and $2,494,945 at September 30, 2016 and 2015, respectively. The Foundation has taken measures to reduce its operating costs, streamline its operations, and increase revenues and support. Based on management's best estimate of future cash flows, these actions are expected to allow the Foundation to operate through the foreseeable future, subject to the factors discussed in Note 17, Note 19, and Note 20. The Foundation's management is also prepared to employ additional cost-cutting measures if the actual cash flows do not meet the current projections. The ability of the Foundation to sustain its operations in the long term depends on its ability to reduce operating costs and increase sources of cash flows. Lastly, the Foundation prepared a Financial Recovery and Stabilization Plan to address issues related to organizational and financial matters and to set a road map for future operations with an emphasis on stable management and sustainable revenue patterns.

14. Accrued Payroll and Related Benefits (including Compensated Absences)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the Foundation is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on hourly rates in effect at the end of the fiscal year. Total accrued payroll and related benefits amounted to $1,135,207 and $554,375 at September 30, 2016 and 2015, respectively, and are included with accrued expenses and payroll benefits on the statements of financial position.

During July 2016, the Foundation entered into a stipulated award agreement related to unpaid wages as a result of a workforce reduction during fiscal 2015. The terms of the agreement required the Foundation to remit a total of $150,000 for the unpaid wages which occurred as a result of the workforce reduction. The agreement also required the Foundation to make severance and back pay remittances to certain employees totaling approximately $135,000. During the fiscal year ended September 30, 2017, the Foundation made all payments required under the agreement.

15. Advertising and Promotion

Advertising and promotion expenses amounted to $21,703 and $131,029 for the years ended September 30, 2016 and 2015, accordingly.

16. Pension Plans

The Foundation has a 403(b) defined contribution retirement plan covering all eligible regular full time and part time employees who are employed for a minimum of six months. Funds from participants electing to make salary deferrals are invested along with employer matching funds in individual, self-directed accounts. The Foundation's contributions to employee participant accounts amounted to $70,483 and $71,172 during the years ended September 30, 2016 and 2015, respectively.

The Foundation also has an annual "Profit Sharing Plan" which provides for contributions based on 2%-2.5% or more of total annual compensation earned per eligible employee during the plan year. Profit sharing amounts are invested in a portfolio of investments as directed by the Foundation. All employer contributions are subject to limitations imposed by applicable provisions of the Internal Revenue Code. The Foundation's required contributions to the Profit Sharing Plan amounted to $201,941 and $77,579 for the years ended September 30, 2016 and 2015, respectively. These amounts have not been remitted and are included as part of accrued expenses and payroll benefits on the statements of financial position at September 30, 2016 and 2015.

Because the Foundation's contribution to the Plan had not been funded as of September 30, 2016 and 2015, the Department of Labor (in accordance with provisions stipulated under Federal laws) could classify the plan to be in critical or endangered status. Pension plans in critical and endangered status are required to adopt a plan aimed at restoring the financial health of the Plan. Accrued pension liabilities for each division are estimated and summarized as follows at September 30:

	2016	2015
KPFA	$ 118,661	$ 63,714
KPFK	144,845	82,373
KPFT	35,200	20,240
WBAI	52,573	32,540
WPFW	43,197	24,949
National Office	37,261	19,130
Pacifica Radio Archives	33,596	20,457
Estimated late filing penalties, assessments, and interest	300,000	-
Total accrued pension liabilities	$ 765,333	$ 263,403

These accrued pension liabilities are included with accrued expenses and payroll benefits on the statements of financial position.

16. Pension Plans *(continued)*

The Foundation has received notification from opposing legal counsel demanding disclosure of certain information and documents relating to the Retirement Plan and 403(b) Plan, the deposit of outstanding amounts owed to KPFK-bargained employees under the plans, a report on the status of the Retirement Plan's search for a new record-keeper and third party administrator, and information about the 403(b) Plan's vendors no later than May 31, 2018.

Opposing counsel has also threatened additional grievances, enforcement of the stipulated award, a potential complaint to the Department of Labor, and a potential filing of a breach of fiduciary duty lawsuit. According to outside advisors, the Foundation has an obligation to provide the union with relevant information which will assist it in administering the collective bargaining agreement (CBA) and failure to do so exposes the Foundation to liability under the National Labor Relations Act (NLRA) for failure to bargain.

The Employee Retirement Income Security Act of 1974 (ERISA) also imposes certain obligations on the Foundation to provide many of the items requested by opposing counsel to plan participants and beneficiaries within specified time frames upon request. Management is currently working on fulfilling the various requests for information.

ERISA requires plans to provide participants with plan information including important information about plan features and funding; sets minimum standards for participation, vesting, benefit accrual and funding; provides fiduciary responsibilities for those who manage and control plan assets; requires plans to establish a grievance and appeals process for participants to get benefits from their plans; gives participants the right to sue for benefits and breaches of fiduciary duty; and, if a defined benefit plan is terminated, guarantees payment of certain benefits through a federally chartered corporation, known as the Pension Benefit Guaranty Corporation (PBGC). It appears that the Foundation is not in full compliance with some of these rules and regulations.

The Foundation has been informed that the arbitration award still needs to be revised, because the corrective contributions for the missed employer contributions under the Retirement Plan cannot be deposited into the 403(b) Plan. The Foundation has previously received annotated copies of the arbitration award to review and confirm the terms with applicable retirement plan laws and assist in preparation of the revised award. This is still in progress as of May 31, 2018.

The Foundation has been conducting a search for a new record-keeper/third party administrator for the Retirement Plan. As soon as qualified candidates are identified, the Plan Administrator will evaluate the responses and choose the appropriate record-keeper for the Retirement Plan.

The Foundation's Board has received documentation outlining the compliance steps needed under the plans to correct the missed employer contributions, plan compliance errors, and draft resolutions to be adopted by the Board. Management has been advised of the importance of implementing the compliance steps, making the required corrective contributions, and making a final decision regarding the outstanding items in order to bring the plans into compliance.

17. Indebtedness and Related Party Transactions

Subsequent to year-end, the Foundation entered into a settlement agreement with the Empire State Realty Trust (ESRT). The Foundation will pay the ESRT approximately $3.5 million which will cover all monies owed to ESRT including interest, fees, relocation costs, penalties, and legal expenses through May 31, 2018. Further, ESRT will release the Foundation from its contract with them which would have otherwise obligated the Foundation through June 2020.

In order to remit payment under the ESRT Settlement Agreement, the Foundation obtained a $3.265 million loan from a nonprofit lender during April 2018. The KPFA, KPFK and KPFT buildings have been pledged as collateral for this loan. The loan agreement provides for repayment in full in three years and the lender required a set-aside of approximately $379,000 for the purpose of making interest-only loan payments during the first 18 months of the loan. Management anticipates that this will allow sufficient time for the Foundation to increase revenue and generate cash flows to fulfill the loan obligations and stabilize the Foundation's operations and finances.

Loan covenants: Under the loan, the Foundation is subject to specific loan covenants, some of which are summarized as follows:

- Submission of audited financial statements within 120 days following the close of the fiscal year.
- Submission of paperwork signed by the CFO certifying compliance with all covenants within 120 days following the close of the fiscal year.
- The Foundation shall not make capital expenditures for its stations in excess of $150,000 during any fiscal year without the prior written consent of the lender.
- The Foundation shall not, except with the prior written approval of the lender, incur any debt in excess of $25,000 in any one instance other than customary trade payables.
- A "Reserve Account" in the amount of $379,000 must be created.
- The Foundation must be in compliance wit4h every material provision of the Employee Retirement Income Security Act of 1974 (ERISA).

Also subsequent to year-end, the Foundation obtained a loan in the amount of $500,000 ("Supporters Loan") from various benefactors of the Foundation (Board members and other individuals). The purpose of this loan is to cover restoration and moving expenses related to the relocation of the WBAI transmitter from the Empire State Building to 4 Times Square. The building owned by the Foundation at 1921-1925 Martin Luther King Jr. Way in Berkeley (which currently houses financial staff of the National Office) has been pledged as collateral for this loan. Management anticipates that this loan will be repaid in full during June 2018 when the property at 1921-1925 Martin Luther King Jr. Way is sold for $1.1 million. As of May 31, 2018 (the date of the Independent Auditors' Report), escrow for the sale of the building had not closed. The building will be leased back to Pacifica for a period of two years under an agreement requiring monthly rental payments of $4,500. A Board Resolution is required to allocate the money available from the sales proceeds from the building sale. It is intended that sales proceeds will be used to retire the $500,000 Supporters Loan and $379,000 to fund the FJC Loan Reserve Account. Any remaining balance (after sales commission and closing costs) will be available for other uses.

See related discussions in Note 20 and Note 21.

18. Sub-Carrier Agreement

The Foundation entered into sub-carrier agreements (SCA) in March 1984, whereby outside companies are allowed to use a portion of certain Pacifica stations' base bands in order to broadcast signals to the outside companies' subscribers. The initial terms of the agreements were five years from start of operations at each respective station. Subsequent to the initial agreements, some of the leases have expired and some have renewed. Income from the leases is recorded in total at the National Office and allocated to the various stations for special projects as needed and approved by the Board.

19. Pending or Threatened Litigation: New York

In November 2016 (subsequent to year-end), the owner of the Empire State Building filed a lawsuit against the Foundation alleging that the radio network owed $1.35 million in rent and fees for the tower of its New York City station, WBAI. The suit alleged that Pacifica had been "chronically late" on its rent payments. The lawsuit sought unpaid rent in the amount of $1,357,429 plus attorneys' fees and penalties. The Foundation has accrued all applicable past due rent amounts plus estimated additional fees and related charges in the financial statements. The total accrued rent liabilities of $2,360,083 and $1,446,264 at September 30, 2016 and 2015, respectively, are reflected on the statements of financial position.

During April 2018, the Foundation accepted a settlement agreement with the Empire State Realty Trust (ESRT). The Foundation will pay the ESRT approximately $3.5 million which will cover all monies owed to ESRT including interest, fees, relocation costs, penalties, and legal expenses through May 31, 2018. Further, ESRT will release the Foundation from its contract with them which would have otherwise obligated the Foundation through June 2020.

See related discussions in Note 20 and Note 21.

20. Substantial Doubt about an Entity's Ability to Continue as a Going Concern

In accordance with applicable accounting and auditing standards, substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern

As a consequence of entering into a settlement agreement with Empire State Realty Trust (ESRT), the Foundation has amassed new debt exceeding $4 million (as disclosed in earlier footnotes). These financing commitments will eventually require repayment in full, placing a significant strain on the cash flows and operating activities of the organization.

20. Substantial Doubt about an Entity's Ability to Continue as a Going Concern *(continued)*

Although the lender on the $3.265 million loan has set aside interest payments for the first 18 months of the loan, it is not entirely clear how the remaining funds will materialize. In order to sustain operations, funds will need to be generated from contributed income and earned revenue streams in order to ensure loan repayments. Additionally, it appears that certain of the loan covenants will be difficult (if not impossible) to be complied with. For example, the Foundation will be facing an event of default unless audited financial data is submitted within 120 days of the end of the fiscal year. Other violations of certain loan covenants also appear to be likely, which puts the Foundation at risk of having the loan called prematurely, which also puts at risk property and equipment pledged as collateral.

Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations

The Foundation's management understands the significance of the terms and conditions of all secured and unsecured debt instruments. Management intends to take a proactive approach with respect to the covenants and work with the lenders to mitigate any events of default.

Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

Management continues to formulate plans and programs to enhance the financial condition of the Foundation, including cost-cutting measures, revenue enhancement strategies, and the sale of certain properties to provide sufficient cash flows to properly service the debt and provide sufficient working capital to satisfy ongoing operational expenditures and related commitments (such as payroll and related benefits).

21. Pending or Threatened Litigation: Other Matters

The Foundation has been named as a defendant in various other lawsuits, which include claims of (a) wrongful termination, (b) wrongful removal from Board of Director positions, (c) violation of union contracts, and (d) other matters. In some cases the Foundation has assessed the potential liabilities and has accrued the possible exposure. In other cases the Foundation has contested the claims and sought arbitration.

Management believes that such pending and threatened litigation and related matters will not have a material adverse effect on the financial statements and that all potential liabilities which could materialize have been accrued in the financial statements.

22. Prior Period Adjustments

During the year ended September 30, 2015, certain adjustments to beginning net assets totaling $772,458 have been reflected on the statement of activities and changes in net assets as a result of an exhaustive effort by the Foundation's management. Many of the adjustments impacting prior year unrestricted net assets were discovered by analyzing cash, accounts payable, and accrued expenses in the books and records of the Foundation's affiliated divisions (see Note 1 for a list of all divisions). Management discovered many liabilities which were no longer valid, either because the expenditure was made in a prior year without being removed from the liability ledger and/or because the estimated accrual for the future expense never materialized. There were no prior period adjustments for the year ended September 30, 2016.

23. Allocation of Joint Costs

The Foundation follows the provisions of Statement of Position 98-2 (SOP 98-2) *Accounting for costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities That Include a Fund-Raising Appeal*. Under SOP 98-2 for the year ended September 30, 2016, the Foundation incurred allocable joint costs of $431,478 for the informational materials and activity that included fundraising appeals. Of these costs, $55,523 was allocable to program activities, $8,227 was allocable to management and general, and $367,728 was allocable to fundraising. For the year ended September 30, 2015, the Foundation incurred allocable joint costs of $435,103 for the informational materials and activity that included fundraising appeals. Of these costs, $31,929 was allocable to program activities, $678 was allocable to management and general, and $402,496 was allocable to fundraising.

24. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, the Foundation has evaluated subsequent events through May 31, 2018, the date the financial statements were available to be issued.

In November 2016, the owner of the Empire State Building filed a lawsuit against the Foundation alleging that the radio network owed $1.35 million in rent and fees for the tower of its New York City station, WBAI. The lawsuit sought unpaid rent in the amount of $1,357,429 plus attorneys' fees and related costs. This amount, along with additional penalties and interest, has been accrued in the financial statements and is a component of accrued rent liability. See Note 19 for additional discussion.

During April 2018, the Foundation accepted a settlement agreement with the Empire State Realty Trust (ESRT). The Foundation will pay the ESRT approximately $3.5 million which will cover all monies owed to ESRT including interest, fees, relocation costs, penalties, and legal expenses through May 31, 2018. Further, ESRT will release the Foundation from its contract with them which would have otherwise obligated the Foundation through June 2020. See Note 19 for additional discussion.

23. Subsequent Events *(continued)*

In order to remit payment under the ESRT Settlement Agreement, the Foundation obtained a $3.265 million loan from a nonprofit lender during April 2018. The KPFA, KPFK and KPFT buildings have been pledged as collateral for this loan. The loan agreement provides for repayment in full in three years and the lender required a set-aside of approximately $379,000 for the purpose of making interest only loan payments during the first 18 months of the loan. Management anticipates that this will allow sufficient time for the Foundation to increase revenue and generate cash flows to fulfill the loan obligations and stabilize the Foundation's operations and finances.

Also subsequent to year-end, the Foundation obtained a loan in the amount of $500,000 ("Supporters Loan") from various benefactors of the Foundation (Board members and other individuals). The purpose of this loan is to cover restoration and moving expenses related to the relocation of the WBAI transmitter from the Empire State Building to 4 Times Square. The building owned by the Foundation at 1921-1925 Martin Luther King Jr. Way in Berkeley (which currently houses financial staff of the National Office) has been pledged as collateral for this loan.

The Attorney General of the State of California requires exempt organizations with revenue in excess of $2 million to obtain audited financial statements in accordance with the California Nonprofit Integrity Act. The audit of the September 30, 2016 was not completed when Form RRF-1 was originally prepared and filed with the Attorney General's Office in July 2017. The Foundation requested and received extensions to complete and submit the audit no later than June 19, 2018 in order to comply with the law. The Foundation anticipates meeting this deadline and submitting the September 30, 2016 audited financial statements on or before June 19, 2018.

During July 2016, the Foundation entered into a stipulated award agreement related to unpaid wages as a result of a workforce reduction during fiscal 2015. The terms of the agreement required the Foundation to remit a total of $150,000 for the unpaid wages which occurred as a result of the workforce reduction. The agreement also required the Foundation to make severance and back pay remittances to certain employees totaling approximately $135,000. During the fiscal year ended September 30, 2017, the Foundation made all payments required under the agreement.

During the year ended September 30, 2017, the American Arbitration Association awarded $71,438 to SAG-AFTRA for mandatory contributions (which includes accrued interest) to the Pacifica pension plan for the period October 1, 2014 through September 30, 2017.

During March 2018, the Foundation entered into an agreement to sell the property at 1921-1925 Martin Luther King Jr. Way for $1.1 million. As of May 31, 2018 (the date of the Independent Auditors' Report), escrow for the sale of the building had not closed. The building will be leased back to the Foundation for a period of two years under an agreement requiring monthly rental payments of $4,500. A Board Resolution is required to allocate the money available from the sales proceeds from the building sale. It is intended that sales proceeds will be used to retire the $500,000 Supporters Loan and $379,000 to fund the FJC Loan Reserve Account. Any remaining balance (after sales commission and closing costs) will be available for other uses.

In the opinion of management, there are no other subsequent events which require disclosure in the financial statements.

THE PACIFICA FOUNDATION

Supplemental Schedule - Statement of Financial Position by Division

September 30, 2016

Assets

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Current assets:									
Cash and cash equivalents	$ 102,228	$ 2,881	$ 375,090	$ 75,606	$ 7,070	$ 5,480	$ 2,393	$ -	$ 570,748
Receivables	-	3,898	614	-	-	-	-	-	4,512
Premiums inventory	-	-	1,597	9,869	-	4,969	1,718	-	18,153
Prepaid expenses	38,377	-	5,926	-	-	-	-	-	44,303
Total current assets	140,605	6,779	383,227	85,475	7,070	10,449	4,111	-	637,716
Noncurrent assets:									
Restricted cash	773	2,215	495,840	7,277	933	12,331	-	-	519,369
Property and equipment, net	6,622	7,969	1,164,379	457,646	8,514	4,771	444,811	-	2,094,712
Inter-division receivables	7,679,684	470,930	1,795,870	-	247,690	-	57,330	(10,251,504)	-
Other assets	-	-	-	17,780	5,300	13,690	-	-	36,770
Total noncurrent assets	7,687,079	481,114	3,456,089	482,703	262,437	30,792	502,141	(10,251,504)	2,650,851
Total assets	$ 7,827,684	$ 487,893	$ 3,839,316	$ 568,178	$ 269,507	$ 41,241	$ 506,252	$(10,251,504)	$ 3,288,567

Liabilities and Net Assets

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Current liabilities:									
Accounts payable	$ 2,791,138	$ 3,708	$ 14,824	$ 11,842	$ 40,465	$ 103,714	$ 30,747	$ -	$ 2,996,438
Accrued expenses/accrued payroll	618,071	57,813	834,839	301,955	500,328	87,240	57,438	-	2,457,684
Accrued rent liability, short-term	-	-	-	-	1,902,875	-	-	-	1,902,875
Notes payable	-	-	-	-	-	-	-	-	-
Total current liabilities	3,409,209	61,521	849,663	313,797	2,443,668	190,954	88,185	-	7,356,997
Noncurrent liabilities:									
Accrued rent liability, long-term	-	-	-	-	457,208	-	-	-	457,208
Inter-division payables	1,584,860	1,380,002	51,288	677,553	4,028,461	1,741,840	787,500	(10,251,504)	-
Total noncurrent liabilities	1,584,860	1,380,002	51,288	677,553	4,485,669	1,741,840	787,500	(10,251,504)	457,208
Total liabilities	4,994,069	1,441,523	900,951	991,350	6,929,337	1,932,794	875,685	(10,251,504)	7,814,205
Net assets (deficit):									
Unrestricted	2,262,560	(953,630)	2,413,365	(443,172)	(6,725,630)	(1,891,553)	(369,433)	-	(5,707,493)
Temporarily restricted	-	-	-	-	65,800	-	-	-	65,800
Permanently restricted	571,055	-	525,000	20,000	-	-	-	-	1,116,055
Total net assets (deficit)	2,833,615	(953,630)	2,938,365	(423,172)	(6,659,830)	(1,891,553)	(369,433)	-	(4,525,638)
Total liabilities and net assets	$ 7,827,684	$ 487,893	$ 3,839,316	$ 568,178	$ 269,507	$ 41,241	$ 506,252	$(10,251,504)	$ 3,288,567

THE PACIFICA FOUNDATION

Supplemental Schedule - Statement of Activities and Changes in Net Assets by Division
For the Year Ended September 30, 2016

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Unrestricted revenue and support:									
Listener support and donations (net)	$ 75	$ 68,228	$ 2,836,208	$ 2,504,410	$ 1,200,676	$ 883,693	$ 753,499	$ -	$ 8,246,789
Grants and contributed income	140,497	61,749	392,405	246,291	112,954	24,526	110,047	-	1,088,469
Community events	-	2,366	92,657	25,878	-	-	45,763	-	166,664
Sub-channel income	308,000	-	-	-	-	-	-	-	308,000
Other revenue	315,353	58,446	49,739	168,295	7,294	1,400	10,428	-	610,955
Investment income	312	20	39,519	5,716	-	68	600	-	46,235
Central services	1,386,912	208,560	-	-	-	-	-	(1,595,472)	-
Net assets released from restrictions	-	-	-	-	-	157,145	-	-	157,145
Total revenue and support	2,151,149	399,369	3,410,528	2,950,590	1,320,924	1,066,832	920,337	(1,595,472)	10,624,257
Expenses:									
Program services	830,475	190,811	1,634,113	1,299,114	1,174,324	573,411	478,332	-	6,180,581
Management and general	791,132	181,772	1,085,243	736,702	865,348	338,070	294,044		4,292,312
Fundraising and development	272,084	62,514	535,376	425,622	384,738	187,864	156,714	-	2,024,912
Central services	-	-	471,456	500,868	253,344	208,176	161,628	(1,595,472)	-
Total expenses	1,893,692	435,097	3,726,189	2,962,307	2,677,754	1,307,520	1,090,718	-	12,497,805
Increase (decrease) in unrestricted net assets	257,457	(35,728)	(315,661)	(11,717)	(1,356,830)	(240,688)	(170,381)	(1,595,472)	(1,873,548)
Net assets (deficit) at beginning of year	2,576,158	(917,902)	3,254,026	(411,455)	(5,303,000)	(1,493,720)	(199,052)	-	(2,494,945)
Net assets released from restrictions	-	-	-	-	-	(157,145)	-	-	(157,145)
Net assets (deficit) at end of year	$ 2,833,615	$ (953,630)	$ 2,938,365	$ (423,172)	$ (6,659,830)	$ (1,891,553)	$ (369,433)	$ (1,595,472)	$ (4,525,638)

THE PACIFICA FOUNDATION

Supplemental Schedule - Statement of Expenses by Division

For the Year Ended September 30, 2016

Expenses:	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Personnel costs	$ 746,966	$ 357,366	$ 1,996,377	$ 1,728,425	$ 592,506	$ 610,179	$ 537,557	$ -	$ 6,569,376
Advertising and promotion	-	-	5,235	3,403	1,507	-	1,066	-	11,211
Association and periodicals	142	365	832	-	514	-	4,671	-	6,524
Audit and accounting fees	216,138	-	-	36,211	-	-	-	-	252,349
Bank and finance charges	33,752	7,053	97,212	83,514	51,166	27,469	55,621	-	355,787
Board meetings and elections	43,364	-	28,650	34,631	21,748	1,600	20,233	-	150,226
Central services	-	-	471,456	500,868	253,344	208,176	161,628	(1,595,472)	-
Communications	83,528	8,617	153,785	107,321	21,159	70,968	61,154	-	506,532
Community events	-	781	42,464	5,011	5,651	7,665	21,527	-	83,099
Computer maintenance	30,374	280	1,834	21,302	416	150	-	-	54,356
Consultants	76,482	3,150	11,625	-	86,628	66,717	12,095	-	256,697
Depreciation and amortization	1,963	7,442	103,229	68,964	2,143	2,444	30,595	-	216,780
Direct mail and telemarketing	821	2,190	150,394	84,646	138,171	1,200	54,056	-	431,478
Equipment rental	129	3,460	8,861	17,073	21,809	6,136	10,419	-	67,887
Insurance	194,526	-	9,029	11,676	-	-	1,122	-	216,353
Legal fees	49,892	-	-	3,525	258,774	-	-	-	312,191
Miscellaneous	11,501	136	7,333	6,662	515	-	1,506	-	27,653
Rent - office/studio	-	-	-	-	63,600	166,744	-	-	230,344
Rent - tower	-	-	-	22,193	561,266	39,915	79,904	-	703,278
Office	11,526	1,674	12,319	9,630	27,416	5,823	12,153	-	80,541
Outside services	1,410	-	-	-	100	-	-	-	1,510
Permits, fines, and filing fees	300,000	-	73,253	590	448,256	-	25	-	822,124
Programming costs	65,050	-	50,259	18,784	15,256	9,262	-	-	158,611
Repairs and maintenance	5,224	892	44,386	69,412	30,041	20,162	13,886	-	184,003
Storage	-	23,068	-	2,513	12,097	-	-	-	37,678
Tapes and supplies	-	12,596	1,842	3,124	7,061	-	836	-	25,459
Taxes - property tax	-	-	337,826	9,202	-	-	-	-	347,028
Training and conferences	1,016	3,551	48	-	-	-	1,507	-	6,122
Travel	7,112	54	4,805	2,303	8,490	-	246	-	23,010
Utilities	7,859	-	89,224	105,272	46,325	62,910	8,873	-	320,463
Website and audioport	4,917	2,422	23,911	6,052	1,795	-	38	-	39,135
Total expenses	$ 1,893,692	$ 435,097	$ 3,726,189	$ 2,962,307	$ 2,677,754	$ 1,307,520	$ 1,090,718	$ (1,595,472)	$ 12,497,805

THE PACIFICA FOUNDATION

Supplemental Schedule - Statement of Financial Position by Division
September 30, 2015

Assets

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Current assets:									
Cash and cash equivalents	$ 40,794	$ 2,113	$ 143,167	$ 10,664	$ (20)	$ 2,340	$ 43,995	$ -	$ 243,053
Receivables	-	12,934	18,227	-	1,750	-	-	-	32,911
Premiums inventory	-	-	250	15,002	-	10,225	2,873	-	28,350
Prepaid expenses	32,270	-	-	-	-	-	-	-	32,270
Total current assets	73,064	15,047	161,644	25,666	1,730	12,565	46,868	-	336,584
Noncurrent assets:									
Restricted cash	454	1,092	481,843	7,277	287	100,268	-	-	591,221
Property and equipment, net	585	15,411	1,262,554	526,610	10,657	7,215	475,406	-	2,298,438
Inter-division receivables	7,192,996	443,509	1,786,729	-	245,190	-	57,330	(9,725,754)	-
Other assets	11,500	-	-	17,780	-	13,690	-	-	42,970
Total noncurrent assets	7,205,535	460,012	3,531,126	551,667	256,134	121,173	532,736	(9,725,754)	2,932,629
Total assets	$ 7,278,599	$ 475,059	$ 3,692,770	$ 577,333	$ 257,864	$ 133,738	$ 579,604	$(9,725,754)	$ 3,269,213

Liabilities and Net Assets

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Current liabilities:									
Accounts payable	$ 3,037,904	$ 985	$ 146,518	$ 80,418	$ (1,387)	$ 25,742	$ 31,921	$ -	$ 3,322,101
Accrued expenses and benefits	86,944	39,894	238,246	306,093	228,045	35,318	44,253	-	978,793
Accrued rent liability, short-term	-	-	-	-	877,229	-	-	-	877,229
Notes payable	-	-	-	17,000	-	-	-	-	17,000
Total current liabilities	3,124,848	40,879	384,764	403,511	1,103,887	61,060	76,174	-	5,195,123
Noncurrent liabilities:									
Accrued rent liability, long-term	-	-	-	-	569,035	-	-	-	569,035
Inter-division payable	1,577,593	1,352,082	53,980	585,277	3,887,942	1,566,398	702,482	(9,725,754)	-
Total noncurrent liabilities	1,577,593	1,352,082	53,980	585,277	4,456,977	1,566,398	702,482	(9,725,754)	569,035
Total liabilities	4,702,441	1,392,961	438,744	988,788	5,560,864	1,627,458	778,656	(9,725,754)	5,764,158
Net assets (deficit):									
Unrestricted	2,005,103	(917,902)	2,729,026	(431,455)	(5,368,800)	(1,650,865)	(199,052)	-	(3,833,945)
Temporarily restricted	-	-	-	-	65,800	157,145	-	-	222,945
Permanently restricted	571,055	-	525,000	20,000	-	-	-	-	1,116,055
Total net assets (deficit)	2,576,158	(917,902)	3,254,026	(411,455)	(5,303,000)	(1,493,720)	(199,052)	-	(2,494,945)
Total liabilities and net assets	$ 7,278,599	$ 475,059	$ 3,692,770	$ 577,333	$ 257,864	$ 133,738	$ 579,604	$(9,725,754)	$ 3,269,213

Supplemental Schedule - Statement of Activities and Changes in Net Assets by Division
For the Year Ended September 30, 2015

	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Unrestricted revenue and support:									
Listener support and donations (net)	$ -	$ 112,318	$ 2,271,898	$ 2,650,838	$ 1,379,035	$ 856,429	$ 915,602	$ -	$ 8,186,120
Grants and contributed income	269,183	140,162	1,355,164	170,839	20,236	253,748	141,394	-	2,350,726
Community events	-	1,776	203,578	26,949	600	24,487	43,410	-	300,800
Sub-channel income	261,500	-	-	-	-	-	-	-	261,500
Other revenue	241,541	57,692	(16,956)	75,973	23,522	6,298	25,413	-	413,483
Investment income	28	18	-	8,280	-	592	35	-	8,953
Central services	1,386,912	208,560	-	-	-	-	-	(1,595,472)	-
Net assets released from restrictions	-	-	181,488	-	-	-	-	-	181,488
Total revenue and support	2,159,164	520,526	3,995,172	2,932,879	1,423,393	1,141,554	1,125,854	(1,595,472)	11,703,070
Expenses:									
Program services	647,872	252,961	1,459,735	1,512,142	928,007	551,142	474,222	-	5,826,081
Management and general	617,180	240,977	919,126	939,638	630,699	316,856	290,129		3,954,605
Fundraising and development	212,259	82,877	478,246	495,415	304,038	180,567	155,367	-	1,908,769
Central services	-	-	471,456	500,868	253,344	208,176	161,628	(1,595,472)	-
Total expenses	1,477,311	576,815	3,328,563	3,448,063	2,116,088	1,256,741	1,081,346	-	11,689,455
Increase (decrease) in unrestricted net assets	681,853	(56,289)	666,609	(515,184)	(692,695)	(115,187)	44,508	(1,595,472)	13,615
Net assets (deficit) at beginning of year	1,666,169	(861,613)	2,739,187	(66,940)	(4,689,403)	(1,654,068)	(232,862)	-	(3,099,530)
Net assets released from restrictions	-	-	(181,488)	-	-	-	-	-	(181,488)
Prior period adjustments	228,136	-	29,718	170,669	79,098	275,535	(10,698)	-	772,458
Net assets (deficit) at end of year	$ 2,576,158	$ (917,902)	$ 3,254,026	$ (411,455)	$ (5,303,000)	$ (1,493,720)	$ (199,052)	$ (1,595,472)	$ (2,494,945)

Supplemental Schedule - Statement of Expenses by Division
For the Year Ended September 30, 2015

Expenses:	National Division	PRA	KPFA	KPFK	WBAI	WPFW	KPFT	Eliminations	Totals
Personnel costs	$ 656,118	$ 418,683	$ 1,996,668	$ 1,851,533	$ 561,818	$ 519,434	$ 541,387	$ -	$ 6,545,641
Advertising and promotion	-	1,525	16,241	110,933	-	-	2,330	-	131,029
Association and periodicals	900	675	4,583	1,247	-	-	4,969	-	12,374
Audit and accounting fees	165,764	-	-	50,416	-	-	-	-	216,180
Bank and finance charges	28,075	8,606	61,204	73,953	51,910	24,300	64,194	-	312,242
Board meetings and elections	69,745	-	7,381	5,793	6,062	7,483	6,720	-	103,184
Central services	-	-	471,456	500,868	253,344	208,176	161,628	(1,595,472)	-
Communications	75,494	9,482	133,517	150,468	47,885	39,000	54,235	-	510,081
Community events	-	817	85,482	9,839	6,828	416	21,407	-	124,789
Computer maintenance	29,012	1,067	13,611	29,239	979	-	-	-	73,908
Consultants	24,375	1,350	4,558	902	57,286	92,515	14,610	-	195,596
Depreciation and amortization	1,796	7,913	100,683	67,374	3,248	3,529	24,431	-	208,974
Direct mail and telemarketing	8,317	14,751	129,429	121,467	95,228	14,184	51,727	-	435,103
Equipment rental	723	3,217	8,265	29,857	20,148	(2,956)	10,487	-	69,741
Insurance	178,944	-	22,000	17,959	-	-	-	-	218,903
Legal fees	123,206	-	-	75,933	39,260	21,082	1	-	259,482
Miscellaneous	20,135	589	(3,656)	14,550	20	-	377	-	32,015
Rent - office/studio	-	-	-	-	68,900	196,665	-	-	265,565
Rent - tower	-	-	960	26,513	790,288	39,908	76,676	-	934,345
Office	6,424	2,072	8,968	10,647	28,298	20,771	6,584	-	83,764
Outside services	21,113	-	-	-	-	-	-	-	21,113
Permits, fines, and filing fees	14,214	-	6,891	1,327	-	-	114	-	22,546
Programming costs	33,541	207	49,170	68,979	(55)	-	4,885	-	156,727
Repairs and maintenance	3,086	2,367	75,108	69,139	24,660	15,415	17,176	-	206,951
Storage	6,828	22,968	-	3,398	16,282	3,374	-	-	52,850
Tapes and supplies	-	78,542	2,272	3,849	1,388	3,329	4,006	-	93,386
Taxes - property tax			14,354	9,762	-	-	5	-	24,121
Training expense	8	50	2,122	-	-	-	835	-	3,015
Travel	3,343	-	2,672	5,030	2,632	-	911	-	14,588
Utilities	6,150	-	78,496	128,722	39,440	50,116	11,412	-	314,336
Website and audioport	-	1,934	36,128	8,366	239	-	239	-	46,906
Total expenses	$ 1,477,311	$ 576,815	$ 3,328,563	$ 3,448,063	$ 2,116,088	$ 1,256,741	$ 1,081,346	$ (1,595,472)	$ 11,689,455