

AUDITED FINANCIAL STATEMENTS

KODIAK PUBLIC BROADCASTING CORPORATION

Year ended June 30, 2016

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Kodlak Public Broadcasting Corporation

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Independent Auditor's report

To the Board of Directors
Kodiak Public Broadcasting Corporation
Kodiak, Alaska

We have audited the accompanying financial statements of Kodiak Public Broadcasting Corporation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, net assets, functional expenses, and cash flows, for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

The June 30, 2015 unrestricted net assets have been restated to reflect reclassification for comparative purposes to conform to the presentation in the current year financial statements and the correction of an error. Further disclosures related to the restatement are included in note 16 of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Botanical Garden Inc. as of December 31, 2013, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

TruVim, CPA

Anchorage, Alaska
January 13, 2017

Kodiak Public Broadcasting Corporation
Statement of Financial Position
As of June 30, 2016

Assets

Current Assets

Cash	\$	51,086
Underwriting and other receivables - net of allowance		52,429
Prepaid Expense and other		<u>10,290</u>
Total Current Assets		<u>113,805</u>
Investment in marketable securities		457,203
Investment in joint venture		22,161
Property and equipment - net of accumulated depreciation		<u>421,639</u>
Total Assets	\$	<u><u>1,014,808</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$	7,363
Accrued payroll and related liabilities		29,065
Deferred revenue		<u>26,470</u>
Total Current Liabilities		<u>62,898</u>
Total Liabilities		<u>62,898</u>

Net Assets

Unrestricted designated for:		
Operation		530,271
Property and Equipment		<u>421,639</u>
Total Net Assets		<u>951,910</u>
Total Liabilities and Net Assets	\$	<u><u>1,014,808</u></u>

Kodiak Public Broadcasting Corporation
Statement of Activities and Net Assets
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support			
State and local grants	\$ 136,352	\$ -	\$ 136,352
Corporation for Public Broadcasting grant	103,173	27,583	130,756
Underwriting	92,973	-	92,973
In-kind contributions	45,222	-	45,222
Memberships and donations	61,974	-	61,974
Fundraising and gaming	109,595	-	109,595
Premium sales	305	-	305
Other revenue	1,100	-	1,100
Investment return, net of fees	(13,651)	-	(13,651)
Net assets released from restriction:			
Purpose restrictions met	27,583	(27,583)	-
Total Revenue, Gains, and Other Support	564,626	-	564,626
Expenses			
Programing and production	336,075	-	336,075
Technical and broadcasting	47,080	-	47,080
Fundraising and development	86,961	-	86,961
Management and general	149,772	-	149,772
Total Expenses	619,888	-	619,888
Increase (decrease) in Net Assets	\$ (55,262)	\$ 0	\$ (55,262)
Net Assets - beginning of year	1,007,172	-	1,007,172
Net Assets - end of year	\$ 951,910	\$ 0	\$ 951,910

Kodiak Public Broadcasting Corporation
Statement of Activities
For the year ended June 30, 2016

	Program Services		Supporting Services		Total
	Programming and Production	Technical and Broadcasting	Fundraising and Development	Management and General	
Salaries and benefits	\$ 199,248	\$ -	\$ 59,245	\$ 88,467	\$ 346,960
In-Kind expense	-	32,227	1,280	11,715	45,222
Programs and network fees	77,629	-	-	-	77,629
Fundraising expenses/premiums	26	-	24,810	-	24,836
Depreciation	11,997	6,442	-	15,308	33,747
Accounting and legal	9,000	-	-	21,871	30,871
Contract services	-	8	-	-	8
Utilities	14,843	-	-	-	14,843
Insurance	6,933	-	-	822	7,755
Office expense	710	2,226	938	2,719	6,593
News service	6,945	-	-	-	6,945
Board expenses and training	-	-	-	893	893
Scholarships	2,250	-	-	-	2,250
Telephone and Internet	5,603	-	688	2,916	9,207
Travel and per diem	-	-	-	1,470	1,470
Repairs and maintenance	-	6,177	-	3,024	9,201
Dues and publications	620	-	-	567	1,187
Production supplies	271	-	-	-	271
Volunteer	-	-	-	-	-
	\$ 336,075	\$ 47,080	\$ 86,961	\$ 149,772	\$ 619,888

Kodiak Public Broadcasting Corporation
Statement of Cash Flows
For the year ended June 30, 2016

Cash Flows from Operating Activities

Increase (decrease) in net assets	\$	(55,260)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense		33,747
(Increase) decrease in current assets:		
Underwriting and other receivables		999
Prepaid expenses		(3,999)
Increase (decrease) in current liabilities:		
Accounts payable		(2,411)
Accrued payroll and related liabilities		(1,100)
Deferred revenue		(7,937)
Net cash provided by (used in) operating activities		(35,961)

Cash Flows from Investing Activities

Investment in money market account, net		13,651
Investment in SMS-KMXT Joint Venture, net		(961)
Acquisition of property and equipment		(17,425)
Net cash provided by (used in) investing activities		(4,735)

Net increase (decrease) in cash and cash equivalents		(40,696)
Cash - beginning of year		86,782
Prior year net asset reclassification		5,000
Cash - end of year	\$	51,086

Notes to Financial Statements

Year Ended June 30, 2016

1. Nature of Operation

Kodiak Public Broadcasting Corporation (the Organization) own and operate KMXT-FM Radio, a public broadcasting station. The Organization is a nonprofit corporation located in Kodiak, Alaska. Significant amount of its support comes from the Alaska Public Broadcasting Commission, the Corporation for Public Broadcasting, from membership revenues and other contributions from businesses and Individuals in the Kodiak region.

2. Summary of Significant Accounting Policies

The summary of significant accounting policies of the financial statements of the Organization are presented to aid understanding the Organization's financial statements. The financial statements and notes are the representation of the Organization's management, which is responsible for their integrity and objectivity. These accounting principles conform to generally accepted accounting principles.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America.

Basis of Presentation

The accompanying financial statements follow the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification; the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets

Unrestricted net assets represent that portion of net assets of the Organization that are neither permanently nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets

Temporarily restricted net assets represent assets of the Organization whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions of the Organization. When the stipulated time restriction ends or action is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from program restrictions.

Permanently restricted net assets

Permanently restricted net assets represent the part of the net assets from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage or time, nor can be otherwise removed by actions of the Organization.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

Use of Estimate

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts, which at time may exceed federally insured limits of \$250,000 per institution covered through the Federal Deposit Insurance Corporation (FDIC) program. The Organization has not experienced any losses in such accounts and believe it is not exposed to any significant credit risk on cash and cash equivalents.

Fair Value Measurements

Financial instruments carried at fair value have been classified as Level 1, for disclosure purposes, based on the hierarchy defined by generally accepted accounting principles. Level 1 financial instruments have values that can be measured against unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement dates.

Program Services

The mission of Kodiak Public Broadcasting Corporation is to educate, entertain, enlighten, and empower the diverse people of the Kodiak region; to foster a deeper understanding of the events, ideas, and cultures in an open, vigorous, and responsible manner; to provide a communication and emergency link; and to encourage community participation in this mission. Throughout the year, the Organization has variety of programs related broadcasting and production activities.

Support Services

Administrative - Provide for the overall coordination and articulation of the Organization's mission and strategies through the General Manager, facilitates administrative function of the Board of Directors; arrange legal services necessary for program administration; and provides business and financial management for all the Organization's activities.

Fundraising - Encourages and secures financial support from individuals, foundations, and other organizations. Facilitates special events designed to raise funds for specific program purposes or in support of general operations.

Cash and Cash Equivalent

For the purpose of the financial statements presentation, cash and cash equivalent includes bank accounts and financial instruments with an original maturity of three months or less.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

Underwriting and other receivables

Accounts receivable consist primarily of amounts due from underwriting proceeds. Accounts receivable are stated at unpaid balances, less any allowance for doubtful accounts.

The Organization provides for losses on account receivable using the allowance method. The allowance is based on experience, third party contracts, and other circumstances, which may affect the ability of clients to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management believes all receivables are collectable; therefore, no allowance was established.

Prepaid Expenses

Prepaid expenses consist primarily of payments made to vendors for services that will benefit the period beyond June 30, 2016.

Investments

Investments in debt securities and equity security with readily determinable fair values are carried at fair value. The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than a forced liquidation sale. The fair value of a liability is the amount which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Investments in entity where the Organization can exercise control or influence is accounted for using the equity method of accounting. Here, income earned from the investment is reported on the Organization's income statement, and the reported value on the balance sheet is based on the Organization's share of the entity assets.

Property, Plant & Equipment

Property and equipment with expected useful lives in excess of one year are recorded at cost or, in the case of donated property, at estimated fair value. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, which range from 3 to 40 years. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time.

Revenue and Cost Recognition

As stated earlier, the Organization's financial statements are prepared on the accrual basis, recognizing revenues upon delivering of services. Selling, general and administrative costs are charged to expense as incurred.

Donated Services

Contributions of time and services are included in the financial statements if the services (1) would need to be purchased if not provided by donation, (2) require special skills and are provided by individuals who possess these skills, or (3) create or enhance non-financial assets.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued
Year Ended June 30, 2016

Support Revenue and Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Pledges

The Organization engages in fundraising campaigns manifested by offering special radio programs accompanied by on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Organization for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Uncollected pledges are not enforceable against contributors. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Organization.

Program and Production Underwriting

Revenue from program underwriting is recorded on a pro rate basis for the period covered, and for production underwriting on an estimated percentage-of-completion basis. Unearned underwriting revenues are reported as a liability in the statement of financial position.

Functional Expenses

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

Income Taxes

Kodiak Public Broadcasting Corporation was incorporated under the laws of the State of Alaska as a nonprofit corporation and is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. Tax returns are subject to examination by the Internal Revenue Service, generally for 3 years after they were filed.

Unrelated business income, of which the Organization had none for the years ended June 30, 2016, would be subject to federal income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

Prior year restatement

Certain accounts in the prior year audited financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements and to reflect the correction of an error. Further disclosure related to the restatement are included in note 16.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

3. Cash and Cash Equivalents

Bank balances are insured to \$250,000 per institution through the Federal Deposit Insurance Corporation (FDIC) programs. As of June 30, 2016, all bank balances are covered by FDIC programs.

4. Underwriting and Other Receivables

As of June 30, 2016, receivables consist of the following:

Underwriting Receivables	\$	51,788
Pledges Receivable		575
Gaming and Other		66
		<u>66</u>
	<u>\$</u>	<u>52,429</u>

5. Investments in Marketable Securities

The Company's investments, none of which are held for trading purposes, are presented in the financial statements at fair market value. Realized and unrealized gains or losses are reported as unrestricted gains or losses in the statement of activities. Investments and Investment returns for the year ended consist of the following:

	Cost	Unrealized		Market Value
		Gain	Loss	
Cash	\$ 380	\$ -	\$ -	(380)
Stocks	265,466	(47,409)	8,747	(226,804)
Mutual Funds	141,421	(13,169)	1,894	(130,146)
	<u>\$ 407,267</u>	<u>\$ (60,578)</u>	<u>\$ 10,641</u>	<u>\$ (357,330)</u>
Interest and Dividend Income				\$ 14,085
Unrealized Investment Gain/(Loss)				(23,042)
Investments Fees				<u>(4,695)</u>
Investment Income (Loss)				<u>\$ (13,652)</u>

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

6. Investment in Join Venture

The Company has an investment in SMS-KMXT General Partnership, a pull-tab joint venture with St. Mary's School. The partnership is operated in Kodiak, Alaska. The investment in the partnership is accounted for using the equity method. Investment in join venture as of June 30, 2016 consist of the following:

Investment in Join Venture - Beginning of the year	\$	21,200
Income (Loss) from Join Venture		73,851
Capital Contribution (Distribution)		<u>(72,890)</u>
Investment in Join Venture - End of the year	\$	<u>22,161</u>

7. Property and Equipment

Property and equipment are stated at cost and consist of the following as of June 30, 2016:

Studio and Broadcasting Equipment	\$	677,058
Building		500,919
Earth Stations and Tower		126,035
Office Furnishings and Equipment		<u>131,098</u>
		1,435,110
Less: Accumulated Depreciation		<u>(1,073,472)</u>
		<u>361,638</u>
Land		<u>60,000</u>
	\$	<u>421,638</u>

8. Accrued Expenses

Accrued expenses consist primarily of accrued payroll expenses not yet paid as of June 30, 2016.

9. Deferred Revenue

Deferred revenue consist of the following as of June 30, 2016:

Unearned Underwriting Revenue	\$	<u>26,470</u>
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The Organization records underwriting revenue for which the station has not fulfilled their portion of the underwriting agreement as deferred revenue.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued
Year Ended June 30, 2016

10. Pension

The Organization has a defined contribution Savings Incentive Match Plan for Employees (SIMPLE) pension plan under Internal Revenue Code Section 408(p). The Organization matches 100% of employee contribution up to 3% of compensation. For the years ended June 30, 2016, the Organization's contributions was \$6,286.

11. Significant Grants and Awards

Corporation for Public Broadcasting

The Corporation for Public Broadcasting (CPB) is a private, nonprofit organization and is the largest single source of funding for public radio, television, and related online and mobile services. CPB provides essential operational support for nearly 1,400 locally-owned and operated public television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities.

CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The Organization uses these funds for purposes relating primarily to production and acquisition of programming and other operating activities. Also, the Grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

CSGs are reported on the accompanying financial statements as unrestricted and temporarily restricted operating funds. Certain guidelines must be satisfied in connection with application for and use of the Grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting and licensee status with the Federal Communications Commission.

The year ended June 30, 2016 CPB CSG grant was \$130,756 with \$27,583 temporarily restricted. These funds were fully expended during the year ended.

State of Alaska

The State of Alaska, through the Alaska Public Broadcasting Commission, provided grant awards totaling \$112,771 for the year ending June 30, 2016. This award was unrestricted funds that were fully expended during the year ended June 30, 2016.

The Organization also received direct in-kind support from the State of Alaska through, Alaska Public Broadcasting Commission, Alaska Public Broadcasting Inc., and the Satellite Interconnection Project. The amount of the in-kind support for the years ending June 30, 2016 was \$45,222 and \$51,253.

Local

The Organization received a total of \$23,100 in grants from the Borough and City of Kodiak for the years ending June 30, 2016. The awards were unrestricted and fully expended during the year ended.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

12. In-Kind Contributions

The values of non-cash contributions included in the financial statements are as follows:

Engineering and Technical Services	\$ (32,227)
Fundraising Support	(1,280)
Administrative Support	<u>(11,715)</u>
	<u>\$ (45,222)</u>

The Organization also benefited from volunteer services and other donations that were not recognized in the financial statements because they did not meet the criteria for recognition.

13. Concentrations

A significant amount of the Organization's funding comes from operating grants awarded by the State of Alaska and the Corporation for Public Broadcasting. The Organization receives approximately 46% of its direct funding from the Corporation for Public Broadcasting and the State of Alaska. Both funding sources are subject to budgetary pressures. A significant decline in funding from these sources could have a material impact on the Organization's operations.

14. Income Tax

The Organization remains subject to examination in the United States and the State of Alaska for the year ended June 30, 2016, 2015, and 2014.

15. Contingencies

The Organization's grantors require the fulfillment of certain conditions as set forth in funding agreements and by law and regulation. Failure to fulfill these conditions can result in the return of the funds to the grantors. Also, amounts reflected in the financial statements and expenses in prior periods have generally not been audited by grantor agencies. Accordingly, adjustments of amounts received could result if the awards were audited by such agencies. Management believes the material provisions of the grant awards have been accommodated and that no significant liability will result from the foregoing matters. Except for the amount included in Accrued Expenses (Note 8), no liabilities for amounts which may be payable have been recorded in the accompanying financial statements.

National Public Radio, Inc. (NPR) operates the Public Radio Satellite System on behalf of all interconnected public radio stations and other public telecommunications entities. Excess capacity is leased to commercial entities. NPR reports this activity on its own tax returns. The IRS has declined to rule that reporting by NPR is appropriate and not separate reporting by the various 362 public radio and telecommunications entities. Kodiak Public Broadcasting Corporation does not include any Public Radio Satellite System information in its tax returns.

Kodiak Public Broadcasting Corporation

Notes to Financial Statements, continued

Year Ended June 30, 2016

Figures from the investment in joint venture (SMS-KMXT General Partnership) was stated based on the entity unaudited financial statements. The partnership year end is December 31 of every year, and the entity's books are audited every year. Accordingly, adjustments of amount stated on the financial statements could result upon completion of the audit. As of the date of the issuance of the financial statements, management is not aware of any adjustment that need to be made to the Investment in Joint Venture account.

In November 2015, the Organization brought a declaratory action against the City of Kodiak after the city refused to comply with Public Records Act. The Organization prevailed and the court entered a declaratory judgement granting the relief Kodiak Public Broadcasting Corporation requested. On December 25, 2016, the court awarded the Organization fees and costs in the amount of \$24,827.50. The City of Kodiak has the right to appeal to the Alaska Supreme Court, however, there is no indication whether or not the City of Kodiak will pursue an appeal. Due to the incertitude on whether or not there will be an appeal on the decision as of the date of the release of the financial statements, no recording has been made in the financial statements.

16. Prior Year Restatement

Net assets as of June 30, 2015 was adjusted to reflect the allocation of unrestricted net asset based on their designation. Additionally, there was a correction of an error in accounts payable balance as of June 30, 2015. Prior year restated balances are as follows:

	<u>As Previously Stated</u>	<u>Correction and Reclassification</u>	<u>Reclassified</u>
Unrestricted Net Assets	\$ 1,002,172	\$ (1,002,172)	\$ -
Unrestricted Net Assets designated for operation	-	561,125	561,125
Unrestricted Net Assets designated for PE	-	491,047	491,047
<small>PE = Property and equipment</small>			
Total Net Assets	<u>\$ 1,002,172</u>	<u>\$ 50,000</u>	<u>\$ 1,052,172</u>
Accounts Payable	<u>\$ 9,772</u>	<u>(5,000)</u>	<u>4,772</u>

17. Subsequent Events

The State of Alaska, the City of Kodiak, and the Kodiak Island Borough through their respective program as disclosed earlier (note 11) have provided awarded grants in the amount of \$79,164, \$15,000, and \$7,123, respectively for the year ending June 30, 2017.

Subsequent events have been evaluated by management through January 13, 2017, which is the date the financial statements were issued.