

KVIE, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
KVIE, Inc.
Sacramento, California**

We have audited the accompanying financial statements of KVIE, Inc. (the Station), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

To the Board of Directors of
KVIE, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KVIE, Inc. as of June 30, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Gilbert CPAs". The signature is written in a cursive, flowing style.

GILBERT CPAs
Sacramento, California

November 20, 2019

KVIE, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,325,094	\$ 2,064,672
Accounts receivable, net	128,382	239,383
Contributions and grants receivable, current portion	187,998	143,612
Inventory	66,927	27,493
Prepaid expenses and deposits	151,711	142,997
Other current assets	<u>22,689</u>	<u>31,108</u>
Total current assets	3,882,801	2,649,265
NONCURRENT ASSETS:		
Contributions and grants receivable, net	282,919	305,126
Other assets	13,760	10,974
Investments	9,761,310	8,112,584
Property and equipment, net	<u>7,988,009</u>	<u>8,446,134</u>
TOTAL ASSETS	<u>\$ 21,928,799</u>	<u>\$ 19,524,083</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 255,296	\$ 287,305
Accrued expenses	459,452	426,306
Deferred revenue	644,461	416,951
Current portion of long-term debt, net	<u>127,530</u>	<u>121,677</u>
Total current liabilities	1,486,739	1,252,239
LONG-TERM DEBT, Net	<u>3,792,625</u>	<u>3,910,394</u>
Total liabilities	<u>5,279,364</u>	<u>5,162,633</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	6,339,993	6,667,010
Board designated	9,428,752	6,837,429
With donor restrictions	<u>880,690</u>	<u>857,011</u>
Total net assets	<u>16,649,435</u>	<u>14,361,450</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,928,799</u>	<u>\$ 19,524,083</u>

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES AND SUPPORT:		
Membership contributions	\$ 7,203,921	\$ 6,618,880
Less: Direct benefit to donors	<u>(582,763)</u>	<u>(442,059)</u>
Membership contributions, net	6,621,158	6,176,821
Grants and other contributions	3,833,698	3,637,907
Sponsorships	1,553,995	1,638,772
Production	451,375	601,872
Rental income	359,621	461,051
Special events	239,081	234,485
Royalties	72,747	42,725
Video productions	1,683	38,095
Other revenue	13,958	23,884
Net assets released from restriction	<u>341,654</u>	<u>267,385</u>
Total revenues and support	<u>13,488,970</u>	<u>13,122,997</u>
EXPENSES:		
Program services:		
Programming and production	5,336,471	5,057,381
Broadcasting	1,622,519	1,517,643
Program information and promotion	<u>1,118,793</u>	<u>978,993</u>
Total program services	<u>8,077,783</u>	<u>7,554,017</u>
Supporting services:		
Fundraising and membership development	2,173,429	2,294,896
Management and general	<u>1,728,240</u>	<u>1,857,206</u>
Total supporting services	<u>3,901,669</u>	<u>4,152,102</u>
Total expenses	<u>11,979,452</u>	<u>11,706,119</u>
INCOME FROM OPERATIONS	1,509,518	1,416,878
Interest and investment income	<u>754,788</u>	<u>450,311</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,264,306</u>	<u>1,867,189</u>

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Grants and other contributions	\$ 365,333	\$ 331,243
Net assets released from restriction	<u>(341,654)</u>	<u>(267,385)</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>23,679</u>	<u>63,858</u>
INCREASE IN NET ASSETS	2,287,985	1,931,047
NET ASSETS, Beginning of Year	<u>14,361,450</u>	<u>12,430,403</u>
NET ASSETS, End of Year	<u>\$ 16,649,435</u>	<u>\$ 14,361,450</u>

KVIE, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019

	Program services			Supporting services		Total
	Programming and production	Broadcasting	Program information and promotion	Fundraising and membership development	Management and general	
Personnel costs	\$ 1,760,306	\$ 208,322	\$ 407,284	\$ 782,096	\$ 1,186,705	\$ 4,344,713
Program acquisition and development	2,481,385			525		2,481,910
Depreciation	438,911	480,037	24,112	70,563	59,368	1,072,991
Professional services	225,994	86,460	200,544	305,994	135,460	954,452
Occupancy	110,483	473,022	18,387	55,945	46,873	704,710
Advertising and community relations	8,411		230,155	158,208	19,251	416,025
Direct mail campaign				412,907		412,907
Repairs and maintenance	138,620	124,763	22,544	65,972	49,263	401,162
Bank charges and interest	90,427	45,931	14,811	204,893	32,369	388,431
Postage, shipping, printing, and supplies	16,136	6,184	184,303	54,641	14,760	276,024
Loss on disposal of equipment		168,060				168,060
Insurance, fees, and permits	39,658	22,984	6,489	20,385	21,378	110,894
Dues and subscriptions	608		21	2,515	83,785	86,929
Conferences, trainings, and travel	24,867	6,756	7,855	16,503	20,135	76,116
Miscellaneous	665		2,288	22,282	58,893	84,128
Total expenses	<u>\$ 5,336,471</u>	<u>\$ 1,622,519</u>	<u>\$ 1,118,793</u>	<u>\$ 2,173,429</u>	<u>\$ 1,728,240</u>	<u>\$ 11,979,452</u>

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

KVIE, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	Program services			Supporting services		<u>Total</u>
	<u>Programming and production</u>	<u>Broadcasting</u>	<u>Program information and promotion</u>	<u>Fundraising and membership development</u>	<u>Management and general</u>	
Personnel costs	\$ 1,723,406	\$ 142,338	\$ 398,532	\$ 843,728	\$ 1,228,887	\$ 4,336,891
Program acquisition and development	2,230,268		50	554		2,230,872
Depreciation	476,195	529,003	25,685	75,170	62,808	1,168,861
Professional services	231,386	84,346	141,401	333,285	177,328	967,746
Occupancy	108,000	492,302	17,831	54,537	46,576	719,246
Advertising and community relations	2,803		177,112	162,183	20,895	362,993
Direct mail campaign				439,245		439,245
Repairs and maintenance	97,596	105,106	15,640	46,058	40,803	305,203
Bank charges and interest	90,921	46,198	14,908	232,308	32,552	416,887
Postage, shipping, printing, and supplies	14,309	7,278	170,868	47,303	17,937	257,695
Loss on disposal of equipment		74,131				74,131
Insurance, fees, and permits	55,433	30,957	9,090	27,246	27,251	149,977
Dues and subscriptions	508	1,387	21	2,545	73,274	77,735
Conferences, trainings, and travel	25,103	4,564	6,549	15,679	37,953	89,848
Miscellaneous	1,453	33	1,306	15,055	90,942	108,789
Total expenses	<u>\$ 5,057,381</u>	<u>\$ 1,517,643</u>	<u>\$ 978,993</u>	<u>\$ 2,294,896</u>	<u>\$ 1,857,206</u>	<u>\$ 11,706,119</u>

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

KVIE, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,287,985	\$ 1,931,047
Reconciliation to net cash and cash equivalents provided by operating activities:		
Depreciation	1,072,991	1,168,861
Net realized and unrealized gain on investments	(591,989)	(324,794)
Receipt of donated investments	(19,092)	
Loss on disposal of property and equipment	168,060	74,131
Amortization of deferred financing costs	22,437	22,845
Permanently restricted contributions	1,500	
Changes in:		
Accounts receivable	111,001	(79,197)
Contributions and grants receivable	(22,179)	(73,858)
Inventory	(39,434)	(14,346)
Prepaid expenses and deposits	(8,714)	54,782
Other assets	5,633	80,977
Accounts payable	(32,009)	112,830
Accrued expenses	33,146	48,466
Deferred revenue	227,510	118,607
Net cash and cash equivalents provided by operating activities	<u>3,216,846</u>	<u>3,120,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,968,209)	(5,859,326)
Proceeds from sale of investments	3,930,564	4,216,323
Purchases of property and equipment	<u>(782,926)</u>	<u>(1,044,632)</u>
Net cash and cash equivalents used by investing activities	<u>(1,820,571)</u>	<u>(2,687,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	(1,500)	
Repayment of long-term debt	<u>(134,353)</u>	<u>(129,020)</u>
Net cash and cash equivalents used by financing activities	<u>(135,853)</u>	<u>(129,020)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,260,422	303,696
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,064,672</u>	<u>1,760,976</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 3,325,094</u>	<u>\$ 2,064,672</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 188,798</u>	<u>\$ 194,605</u>

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

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. ORGANIZATION AND PROGRAMS

KVIE, Inc. (the Station) is a nonprofit corporation which was incorporated in 1955 under the laws of the State of California and made its first television broadcast in 1959, becoming the second non-commercial station to debut in the state. Its purpose is to provide educational television programming and related services to the Sacramento-Stockton-Modesto television market, the nation's 20th largest. Following is a description of the Station's primary programs:

- **Programming and production** consists of the selection of programs to be aired by the Station and the production of video by the Station to be aired locally, nationally on other Public Broadcasting Service (PBS) stations, and internationally.
- **Program information and promotion** relates to providing viewers with information about the Station's programming, local productions, events, and other mission-related services that include educational workshops and trainings that help preschoolers, students, teachers, and families.
- **Broadcasting** is related to the transmission of the Station's content to viewers through various media, including over-the-air broadcasting, cable, satellite, and the internet.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Station reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Station. These net assets may be used at the discretion of management.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contribution revenues are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statement of activities as net assets released from restrictions, when the time restrictions expire, or the contributions are used for the restricted purposes. Net assets with donor restrictions whose restrictions are met in the same reporting period are shown as net assets without donor restrictions. Net assets with donor restrictions whose restrictions are permanent in nature are those net assets whose use by the Station is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Station and consist of contributions to the Station's endowment fund.

Membership revenues are recognized in full when received.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Production revenues consist of sponsorship revenue for production cost of programs produced by the Station. These revenues are recorded as exchange transactions, with revenue being recognized based on percentage of production completion of the program sponsored.

Sponsorship revenues relate to station sponsorships where the donor is recognized adjacent to programming on the Station. These revenues are recorded as conditional contributions, with revenue recognized over the life of the underwriting contract as conditions are met.

Government grant revenue is recognized when qualifying expenses are incurred.

Video productions revenue consists of fees for production services provided by the Station to outside parties. These revenues are recorded as services are performed.

Donations of materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Cash and cash equivalents – For financial statement purposes, the Station considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes. The Station minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Station has not experienced any losses in such accounts and management believes the Station is not exposed to any significant credit risk related to cash. Cash balances in excess of the federally insured limits at June 30, 2019 and 2018 were \$2,655,469 and \$1,284,378, respectively.

Accounts receivable are stated at the amount management expects to collect from outstanding balances and collectible within one year. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2019 and 2018 was \$17,563 and \$6,093, respectively.

Investments are stated at fair value and held for long-term purposes.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Station capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from one to forty years.

Equipment purchased with grant funds from the National Telecommunications and Information Administration may revert to that agency if the Station wishes to dispose of the equipment within 10 years from the date of the grant. Such equipment is capitalized and included in property and equipment.

Inventory consists of supplies and membership inducement premiums. Inventory is stated at the lower of cost or market under the first-in, first-out method of valuation.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Functional allocation of expenses – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated based on usage include depreciation and telephone services. Expenses that are allocated based on occupancy percentage of each functional area include bank charges, insurance, interest expense, utilities, facilities supplies, and teambuilding costs. Certain personnel costs are allocated based on estimated time and effort. All of costs are allocated based on direct usage.

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

Income taxes – The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Station has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same; to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- | | |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly. |
| Level 3 Inputs | Unobservable inputs for the assets or liabilities. |

Recent accounting pronouncements – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Station has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented, with the exception of the liquidity disclosures, which have not been applied for the year ended June 30, 2018 as allowed by the transition guidance of this ASU.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Future accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending June 30, 2020. The Station is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. Application of this statement is effective for transactions in which the entity serves as the resource recipient for the year ending June 30, 2020. For transactions in which the entity serves as the resource provider, the statement is effective for the year ending June 30, 2020. The Station is currently evaluating the impact this pronouncement will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending June 30, 2022. The Station is currently evaluating the impact this pronouncement will have on the financial statements.

Reclassification – Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation.

Subsequent events have been reviewed through November 20, 2019, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2019, that require recognition or disclosure in such financial statements.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Station's financial assets available within one year of the statement of financial position date for general expenditure are as follows, as of June 30, 2019:

Cash and cash equivalents	\$ 3,325,094
Investments	9,761,310
Contributions, grants, and accounts receivable, net of allowance	<u>599,299</u>
Total financial assets	13,685,703
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Board designated funds	(9,428,752)
Restriction by donors for time or purpose	<u>(880,690)</u>
Total financial assets available for general expenditure within one year	<u>\$ 3,376,261</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The Station has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which in total, on average, is approximately \$2,830,000.

The Station has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Station invests excess operating cash in short-term investments, including certificates of deposit. The Station also has a \$1,000,000 line of credit, which it could draw upon in the event of an unanticipated liquidity needs.

4. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following, as of June 30:

	<u>2019</u>	<u>2018</u>
Contributions and grants	\$ 535,463	\$ 498,598
Less: Allowance for doubtful accounts	<u>(64,546)</u>	<u>(49,860)</u>
Total	<u>\$ 470,917</u>	<u>\$ 448,738</u>

Contributions and grants receivable will be collected as follows, as of June 30:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 196,920	\$ 143,612
One to five years	323,543	333,141
More than five years	15,000	21,845
Less: Allowance for doubtful accounts	<u>(64,546)</u>	<u>(49,860)</u>
Total	<u>\$ 470,917</u>	<u>\$ 448,738</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. INVESTMENTS

The Station's investments, excluding certificates of deposit, are included in Level 1 of the fair value hierarchy as they are based on quoted prices in active markets. Certificates of deposit are stated at cost. Investments consist of the following, as of June 30:

	<u>2019</u>	<u>2018</u>
Level 1 Investments:		
Cash and equivalents	\$ 98,569	\$ 3,592
Stock funds:		
Information technology	866,209	732,780
Communication services	857,929	92,856
Others	815,131	651,018
Healthcare	757,833	474,239
Consumer staples	634,673	412,932
Industrial	542,979	307,178
Financial	506,447	330,167
Consumer discretionary	500,090	431,958
Utilities	234,557	98,351
Energy	231,354	149,495
Materials	45,204	48,250
Fixed income:		
Ultra-short-term	1,752,369	1,383,243
Short-term	1,331,319	1,365,363
US fixed income taxable	271,654	565,346
Inflation linked	124,152	121,335
High yield fixed income		49,287
Alternatives:		
Precious metals	144,522	133,481
Real estate	46,319	10,181
Level 1 Investment total	9,761,310	7,361,055
Certificates of deposit		751,529
Total	\$ 9,761,310	\$ 8,112,584

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following, as of June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,392,502	\$ 2,392,502
Buildings	9,330,426	9,267,376
Broadcast equipment	7,059,882	6,895,651
Production equipment	2,905,053	2,771,731
Office and production furniture and equipment	1,312,697	1,211,502
Leasehold improvements	427,713	427,713
Vehicles and related equipment	161,349	161,349
Construction in process		367,913
Total	<u>23,589,622</u>	<u>23,495,737</u>
Less: Accumulated depreciation and amortization	<u>(15,601,613)</u>	<u>(15,049,603)</u>
Total	<u>\$ 7,988,009</u>	<u>\$ 8,446,134</u>

7. LINE OF CREDIT

The Station has a \$1,000,000 revolving line of credit with a bank, secured by property, with interest payable monthly at 4.00% per annum and principal due in one installment upon maturity at December 31, 2019. There were no amounts outstanding on this line of credit at June 30, 2019 and 2018.

8. LONG-TERM DEBT

The Station has a promissory note with River City Bank secured by the Station's building and payable in monthly installments of \$25,022 including interest at 4.00% per annum, with a final payment of \$3,394,266 due October 15, 2023. The outstanding loan balance as of June 30, 2019 and 2018 was \$4,017,380 and \$4,151,733, respectively. In connection with the promissory note, the Station incurred a prepayment penalty fee that was financed and incorporated into the outstanding principal amount. In accordance with professional standards, this fee has been capitalized as deferred financing costs and will be amortized over the term of the note. The unamortized balance of deferred financing costs as of June 30, 2019 and 2018 was \$97,225 and \$119,662, respectively.

Total interest expense was \$188,344 and \$194,169 for 2019 and 2018, respectively.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Maturities on the note are as follows:

Year ending June 30:

2020	\$ 139,792
2021	145,571
2022	151,590
2023	157,856
2024	<u>3,422,571</u>
Total	<u>\$ 4,017,380</u>

9. NET ASSETS

Net assets without donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
Board designated reserve	\$ 9,428,752	\$ 6,837,729
Undesignated	<u>6,339,993</u>	<u>6,837,429</u>
Total net assets without donor restrictions	<u>\$ 15,768,745</u>	<u>\$ 13,504,439</u>

Net assets with donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
Time restricted contributions receivable	\$ 470,917	\$ 448,738
Perpetual endowment fund	<u>409,773</u>	<u>408,273</u>
Total net assets with donor restrictions	<u>\$ 880,690</u>	<u>\$ 857,011</u>

The donor-restricted endowment funds comprise net assets with donor restrictions restricted into perpetuity, which are to be used to support the ongoing operations of the Station. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Station classifies as net assets with perpetual donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) 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. Perpetually restricted net assets as of June 30, 2019 and 2018 consist of one endowment fund that is invested in perpetuity with interest and dividends to be used for operating purposes. The Station received perpetually restricted contributions to the endowment of \$1,500 in 2019. No perpetually restricted contributions were received in 2018. The endowment investment policy, approved by the Board of Directors, emphasizes preservation of the principal balance as its primary objective and growth and income as secondary objectives.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Board-restricted net assets have been designated to provide reserves to assure the ability of the Station to meet operating needs on an as-needed basis and do not represent a Board endowment fund.

10. DONATED SERVICES AND FACILITIES

The Station received the following donated services and facilities, for the years ending June 30:

	<u>2019</u>	<u>2018</u>
Tower facilities	\$ 360,000	\$ 360,000
Goods and supplies	<u>184,730</u>	<u>125,288</u>
Total donated services and facilities	<u>\$ 544,730</u>	<u>\$ 485,288</u>

11. RENTAL INCOME

The Station leases office spaces under non-cancelable operating leases expiring through 2020. One agreement includes an option to extend for two additional five year periods. Revenue from these agreements will be recognized on the straight-line basis in accordance with professional standards.

Minimum future lease payments to be received under this agreement are as follows, for the years ending June 30:

Year ending June 30:

2020	\$ 296,025
2021	<u>7,307</u>
Total	<u>\$ 303,322</u>

12. COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, nonprofit, and grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations in order to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The grants are reported on the accompanying financial statements as unrestricted operating revenue; however, 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.

13. RETIREMENT PLAN

The Station sponsors a 401(k) retirement plan with an effective date of July 1, 2014. Regular full-time and part-time employees over the age of 21 are eligible to participate in the plan. Under the provisions of the plan, the Station's matching contribution is at the rate of 100% of the first 1% of qualified wages and 50% of contributions that exceed 1% of qualified wages up to a maximum total of 6% of qualified wages. Non-safe harbor matching and nonelective contribution accounts are subject to a 3 year cliff vesting schedule, and safe harbor matching contribution accounts are subject to a 2 year cliff vesting schedule. Employer contributions totaled \$145,562 and \$139,981 for the years ended June 30, 2019 and 2018, respectively.

14. INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by the Video Production Department, which provides video production facilities and services, as well as magazine advertising income and debt-financed income are all taxable as unrelated business income.