KVIE, INC.

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2018 AND 2017

Gilbert Associates, Inc.
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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, 2018 and 2017, and the related statements of activities and of 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.

2880 GATEWAY OAKS DRIVE, SUITE 100, SACRAMENTO, CA 95833 • 101 PARKSHORE DRIVE, SUITE 100, FOLSOM, CA 95630
PHONE:916.646.6464 • FAX:916.929.6836 • GilbertCPA.com

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, 2018 and 2017, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 7, 2018

KVIE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,064,672	$ 1,760,976
Accounts receivable, net	239,383	160,186
Contributions and grants receivable, current portion	143,612	107,546
Inventory	27,493	13,147
Prepaid expenses and deposits	142,997	197,779
Other current assets	31,108	115,897
Total current assets	2,649,265	2,355,531
NONCURRENT ASSETS:		
Contributions and grants receivable, net	305,126	267,334
Other assets	10,974	7,162
Investments	8,112,584	6,144,787
Property and equipment, net	8,446,134	8,644,494
TOTAL ASSETS	$ 19,524,083	$ 17,419,308
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 287,305	$ 174,475
Accrued expenses	426,306	377,840
Deferred revenue	416,951	298,344
Current portion of long-term debt, net	121,677	115,898
Total current liabilities	1,252,239	966,557
LONG-TERM DEBT, Net	3,910,394	4,022,348
Total liabilities	5,162,633	4,988,905
NET ASSETS:		
Unrestricted:		
Undesignated	7,115,748	6,951,923
Board designated	6,837,429	5,060,207
Temporarily restricted		10,000
Permanently restricted	408,273	408,273
Total net assets	14,361,450	12,430,403
TOTAL LIABILITIES AND NET ASSETS	$ 19,524,083	$ 17,419,308

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 1 of 2)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Membership contributions	$ 6,618,880	$ 6,461,460
Less: Direct benefit to donors	(442,059)	(436,514)
Membership contributions, net	6,176,821	6,024,946
Grants and other contributions	3,969,150	4,486,866
Sponsorships	1,638,772	1,403,169
Production	601,872	419,602
Rental income	461,051	455,798
Special events	234,485	245,496
Royalties	42,725	55,801
Video productions	38,095	65,518
Other revenue	23,884	36,644
Net assets released from restriction	10,000	45,703
Total revenues and support	13,196,855	13,239,543
EXPENSES:		
Program services:		
Programming and production	5,057,381	4,876,707
Broadcasting	1,517,643	1,588,823
Program information and promotion	978,993	933,328
Total program services	7,554,017	7,398,858
Supporting services:		
Fundraising and membership development	2,294,896	2,303,486
Management and general	1,857,206	1,643,655
Total supporting services	4,152,102	3,947,141
Total expenses	11,706,119	11,345,999
INCOME FROM OPERATIONS	1,490,736	1,893,544
Interest and investment income	450,311	412,170
INCREASE IN UNRESTRICTED NET ASSETS	1,941,047	2,305,714

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and other contributions	$ -	$ 10,000
Net assets released from restriction	(10,000)	(45,703)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(10,000)	(35,703)
INCREASE IN NET ASSETS	1,931,047	2,270,011
NET ASSETS, Beginning of Year	12,430,403	10,160,392
NET ASSETS, End of Year	$ 14,361,450	$ 12,430,403

KVIE, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 1,931,047	$ 2,270,011
Reconciliation to net cash and cash equivalents provided by operating activities:		
Depreciation	1,168,861	1,221,018
Net realized and unrealized gain on investments	(324,794)	(292,584)
Loss on disposal of property and equipment	74,131	437
Amortization of deferred financing costs	22,845	27,353
Changes in:		
Accounts receivable	(79,197)	(24,777)
Contributions and grants receivable	(73,858)	(166,170)
Inventory	(14,346)	(1,842)
Prepaid expenses and deposits	54,782	(155,838)
Other assets	80,977	98,660
Accounts payable	112,830	61,395
Accrued expenses	48,466	61,265
Deferred revenue	118,607	40,085
Net cash and cash equivalents provided by operating activities	3,120,351	3,139,013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,859,326)	(7,487,073)
Proceeds from sale of investments	4,216,323	5,266,749
Purchases of property and equipment	(1,044,632)	(688,742)
Net cash and cash equivalents used by investing activities	(2,687,635)	(2,909,066)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(129,020)	(124,086)
INCREASE IN CASH AND CASH EQUIVALENTS	303,696	105,861
CASH AND CASH EQUIVALENTS, Beginning of Year	1,760,976	1,655,115
CASH AND CASH EQUIVALENTS, End of Year	$ 2,064,672	$ 1,760,976
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 194,623	$ 201,066

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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 temporarily or permanently restricted net assets. Temporarily restricted net assets 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. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted. Permanently restricted net assets 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.

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.

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, 2018 and 2017 was $6,093 and $2,847, 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.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the usage of resources.

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.

Subsequent events have been reviewed through November 7, 2018, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2018, that require recognition or disclosure in such financial statements.

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following:

	2018	2017
Contributions and grants	$ 498,598	$ 416,533
Less: Allowance for doubtful accounts	(49,860)	(41,653)
Total	$ 448,738	$ 374,880

Contributions and grants receivable will be collected as follows:

	2018	2017
Within one year	$ 143,612	$ 107,546
One to five years	333,141	280,001
More than five years	21,845	28,986
Less: Allowance for doubtful accounts	(49,860)	(41,653)
Total	$ 448,738	$ 374,880

4. 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:

	2018	2017
Level 1 Investments:		
Cash and equivalents	$ 3,592	$ 9,023
Stock funds:		
Technology	592,677	389,685
Services	534,283	314,393
Financial	457,803	369,329
Consumer goods	456,161	295,253
Healthcare	382,794	335,372
Industrial goods	378,945	172,636
Commodities precious metals	133,481	132,773
Major oil & gas	112,764	37,232
Utilities	98,351	49,322
Basic materials	62,812	79,568
Precision products		36,426
Mutual funds – equity:		
Large blend	354,689	369,600
Medium value	93,891	80,859
Medium growth	67,205	41,187
Small growth	48,345	36,433
Small value	47,527	39,946
Large growth	39,362	26,970
Medium blend	10,181	10,404
Mutual funds – fixed income:		
Government securities	2,271,816	1,459,557
Corporate bonds	1,093,041	981,752
Inflation protected bond	121,335	76,565
Level 1 Investment total	7,344,962	5,344,285
Certificates of deposit	751,529	800,502
Total	$ 8,112,584	$ 6,144,787

Interest and investment income consists of:

	2018	2017
Interest and dividend income	$ 125,517	$ 119,586
Net realized and unrealized gain	324,794	292,584
Total	$ 450,311	$ 412,170

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Land	$ 2,392,502	$ 2,392,502
Buildings	9,267,376	8,962,878
Broadcast equipment	6,895,651	7,358,591
Production equipment	2,771,731	2,596,000
Office and production furniture and equipment	1,211,502	1,155,647
Leasehold improvements	427,713	427,713
Construction in process	367,913	97,438
Vehicles and related equipment	161,349	130,468
Total	23,495,737	23,121,237
Less: Accumulated depreciation and amortization	(15,049,603)	(14,476,743)
Total	$ 8,446,134	$ 8,644,494

6. 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, 2018. There were no amounts outstanding on this line of credit at June 30, 2018 and 2017.

7. 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, 2018 and 2017 was $4,151,733 and $4,280,753, 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, 2018 and 2017 was $119,662 and $142,507, respectively.

Total interest expense was $194,169 and $200,628 for 2018 and 2017, respectively.

Maturities on the note are as follows:

Year ending June 30:	
2019	$ 134,424
2020	139,792
2021	145,571
2022	151,590
2023	157,856
Thereafter	3,422,500
Total	$ 4,151,733

8. NET ASSETS

The Station had no temporarily restricted net assets as of June 30, 2018. Temporarily restricted net assets as of June 30, 2017 were available for outreach purposes.

Permanently restricted net assets are comprised of donor-restricted endowment funds 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 permanently restricted net assets (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. Permanently restricted net assets as of June 30, 2018 and 2017 consist of one endowment fund that is invested in perpetuity with interest and dividends to be used for operating purposes. 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. There were no restricted contributions made to the fund in 2018 or 2017. There were no restricted investment earnings or distributions made from the fund in 2018 and 2017.

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.

9. DONATED SERVICES AND FACILITIES

The Station received the following donated services and facilities:

	2018	2017
Tower facilities	$ 360,000	$ 360,000
Goods and supplies	125,288	95,627
Total donated services and facilities	$ 485,288	$ 455,627

10. RENTAL INCOME

The Station leases office spaces under non-cancelable operating leases expiring through 2019. 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:

Year ending June 30:	
2019	$ 285,068
2020	280,644
Total	$ 565,712

11. 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.

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.

12. 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 $139,981 and $137,915 for the years ended June 30, 2018 and 2017, respectively.

13. 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.