

KVCR TV AND FM
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE SAN BERNARDINO
COMMUNITY COLLEGE DISTRICT)

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

KVCR TV AND FM

(A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE SAN BERNARDINO COMMUNITY COLLEGE DISTRICT)

June 30, 2018 and 2017

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
San Bernardino Community College District
KVCR TV and FM
San Bernardino, California

We have audited the accompanying consolidated financial statements of KVCR TV and FM (the Entity) (a public telecommunications entity operated by the San Bernardino Community College District) which comprise the consolidated Statements of Net Position as of June 30, 2018 and 2017, and the related consolidated Statements of Revenues, Expenses, and Changes in Net Position and consolidated Statements of Cash Flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the Entity as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Reporting to the Corporation for Public Broadcasting requires Management's Discussion and Analysis (MD&A) on pages 3 through 13 be presented to supplement the consolidated financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency to the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contract, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.



Rancho Cucamonga, California
November 19, 2018

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the combined financial activities and condition of KVCR TV and FM (the Stations), the KVCR Educational Foundation, Inc. (the Foundation), and KVCR FNX, as of June 30, 2018 and 2017. The report consists of three basic financial statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows and provides information about the Stations, the Foundation, and KVCR FNX as a whole. This section of the annual financial report presents our discussion and analysis of the Entity's consolidated financial performance for the fiscal years ending June 30, 2018 and 2017, and is best read in conjunction with the financial statements and the notes following this section.

FISCAL YEAR HIGHLIGHTS

The mission of the Entity is to be the cultural, educational, informational, and communication center of the Inland Empire. In pursuit of this mission, the Entity has sought to provide more diversity and local content in its programming, as well as undertaken new initiatives to address the needs of its diverse audiences. Additionally, the Stations, which are a wholly owned broadcasting affiliate of the San Bernardino Community College District (the District), have been working toward becoming solely donor-supported and fiscally independent from the District. The Foundation, as the fundraising arm of the Stations, has been aiding in this effort. Overall, the Stations, Foundation, and KVCR FNX's financial activity for fiscal years 2018 and 2017 is reflective of the efforts made toward the achievement of the aforementioned mission and goals.

The following are some of the highlights for fiscal year 2017-2018:

- KVCR-TV continued its evolution as the Empire Network, specifically branding on television as "Empire PBS". A change in General Manager during October 2017 signaled a broader shift to a more educational and public-service oriented original programming slate. Strategic planning efforts began conceptualizing Empire PBS and KVCR FM 91.9 as a more harmoniously connected aspect of the San Bernardino Community College District, specifically focused on economic development. In addition to a higher profile role in promoting the SBCCD through Empire PBS' interstitial series, *State of the Empire*, the channel began highlighting work performed with the Economic and Corporate Development Training (EDCT) branch of the SBCCD, especially with the Kaufman Foundation funded *1 Million Cups*, helping raise awareness for local entrepreneurs and innovators.

In May of 2018, the SBCCD Board of Trustees approved a proposal whereby KVCR would receive a portion of the \$157M allotted to the SBCCD as a result of the FCC Spectrum Auction in 2017. It was agreed to that KVCR would receive \$42M, allocated as follows: \$21M set aside for an Endowment for the future financial sustainability of the station; \$16M to cover both a comprehensive modernization and repurposing of KVCR's facilities into a cutting edge 4K / Ultra-High Definition digital studio as well as the construction of a new TV and Radio Tower that will enable KVCR to shift to VHF as per the terms of the FCC Spectrum repack; and \$5M for Operational Support for FY 2017-2018, FY 2018-2019 and FY 2019-2020.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Development for a new original programming slate for FY 2017-2018 included: *Hopefuls*, a Docu-series profiling local San Bernardino charity, Project Fighting Chance, as they train Junior Olympic hopefuls in the ring and in the classroom; *The Whistle: Are We Ready for the Big One*, exploring Southern California's readiness, economically, socially and technologically, for a significant earthquake; and *Uncovered in the Archives*, delving deep into local archives to unearth the entertaining and inspirational history of the Inland Empire.

- KVCR-TV/Empire PBS premiered a number of original programs in FY 2017-2018. Programs included: *Hidden Hikes* - a local series created in partnership with the U.S. Forestry Service guiding local fourth graders on some of the Inland Empire's most picturesque hikes; *From Scratch* - a cooking and do-it-yourself series featuring Eastvale residents, the Korcok family, as they demonstrate the aspirations and resourcefulness of IE families; *Civil Women* - In celebration of Women's History Month, KVCR produced a half hour special, *Civil Women*, which featured American Labor leader and Civil Rights activists Dolores Huerta, Rosa Parks and Frances Grice. Grice is a Redlands native who played a role in desegregation for San Bernardino school systems; *Expressions of Art* – funded by the California Arts Commission and the California Endowment for the Arts, the program showcases the arts in the city of San Bernardino and throughout the Inland Empire.
- KVCR FM 91.9 – 91.9 KVCR won in the "Public Service Campaign" category for "KVCR's Soundtrack of the Vietnam War," featuring the stories of local Vietnam Veterans along with music from the era. KVCR FM launched a brand new local program, *Lifestyles with Lillian Vasquez*, offering a fresh look at arts, culture and issues across our unique region. Local Arts program KVC_rts continued with guests such as Rob Reiner, Andy Vargas of Santana, Bill Medley of the Righteous Brothers and the legendary Barry Hansen—aka "Dr. Demento". NPR's Science correspondent, Joe Palca, visited KVCR FM, continuing Radio's support of strong STEM-related content for our region. Overall, ratings for Radio were up for FY 2017-2018, capitalizing on the heightened interest in political stories provided by NPR as well as the lead up to the 2018 mid-term elections.
- FNX premiered its original series, *First Nations Comedy Experience*, a series with exclusively Native American comedians from across the country. FNX continued its popular *Smoke Signals*, short segments that feature alternative interpretations of cultural events from an Indigenous point-of-view, covering topics like Thanksgiving and the controversial usage of Native American mascots for sporting teams such as the Washington *!#skins.

FNX premiered the first episodes of its new series, *California Pow Wows*, a documentary series featuring the participants, vendors, and viewers from three of Southern California's Pow Wows. The series presents voices from every facet of the community to invite viewers to experience the emotional and dramatic underpinnings of what it means to be a Native American in this modern age.

Programs like *Studio 49* continued their production cycle, highlighting indigenous musicians and performers.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Table 1 - Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,020,263	\$ 757,026	\$ 1,555,823
Accounts receivable	8,987	5,944	418,493
Due from related party	31,302	106,660	4,000
Other assets	1,167,009	1,099,060	724,381
Total Current Assets	<u>2,227,561</u>	<u>1,968,690</u>	<u>2,702,697</u>
Noncurrent Assets			
Property and equipment (net)	956,783	1,156,412	792,719
TOTAL ASSETS	<u>\$ 3,184,344</u>	<u>\$ 3,125,102</u>	<u>\$ 3,495,416</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 363,707	\$ 686,769	\$ 264,015
Unearned revenue	366,821	467,792	1,313,022
Due to related party	63,113	149,526	440,545
Community service grant payable - current	-	109,374	109,374
Total Current Liabilities	<u>793,641</u>	<u>1,413,461</u>	<u>2,126,956</u>
Noncurrent Liabilities			
Community service grant payable - noncurrent portion	-	-	109,372
TOTAL LIABILITIES	<u>793,641</u>	<u>1,413,461</u>	<u>2,236,328</u>
NET POSITION			
Net investment in capital assets	1,047,038	1,156,412	792,791
Unrestricted	1,343,665	555,229	466,297
TOTAL NET POSITION	<u>\$ 2,390,703</u>	<u>\$ 1,711,641</u>	<u>\$ 1,259,088</u>

Financial Position

The Statements of Net Position above includes all assets and liabilities of the Entity as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statements of Net Position is a point-of-time financial statement whose purpose is to present to the readers a fiscal snapshot of the Entity as a whole. The Statements of Net Position primarily presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (total assets minus total liabilities). Net position is one way to measure the financial condition of the Entity as a whole.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

The following are explanatory remarks for the Statements of Net Position:

- Cash and cash equivalents consist of cash deposited into the County Treasurer's investment pool.
- Due-from related party and accounts receivable primarily consist of revenues from local and State sources from which the Entity had earnings, but which were not received as of the fiscal year-end date.
- Property and equipment consist of furniture and equipment, vehicles, and computer software. Net property and equipment is the historical value of equipment less accumulated depreciation. The decrease in the balance of net property and equipment is due to current year depreciation.
- Due-to related party and accounts payable consist of operating expenses which the Entity incurred, but for which payments were not issued as of year-end.
- Unearned revenue consists of amounts received in advance of required program expense being incurred. This revenue will become earned in the 2018-2019 fiscal year as program related expenses are incurred.
- The community service grant payable is for grant monies overpaid by the CPB which the Entity will repay through the reduction to future grants from the CPB.
- The net position is divided into two major categories. The first category, net investments in capital assets, represents total investments in capital assets, net of outstanding debt obligations related to those capital assets. The second category is unrestricted net position that is available to be used for any lawful purpose of the Entity.

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position are presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating revenues earned, whether received or not; the operating and nonoperating expense incurred, whether paid or not; and any other revenues, expenses, gains and/or losses earned or incurred. Thus, this statement presents the results of operation for the Entity as a whole.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Operating revenues are earned from public contributions, grants, underwriting, and other local sources. Other revenues include interest and dividend income, leasing and rental income, and a transfer for program support from the San Bernardino Community College District.

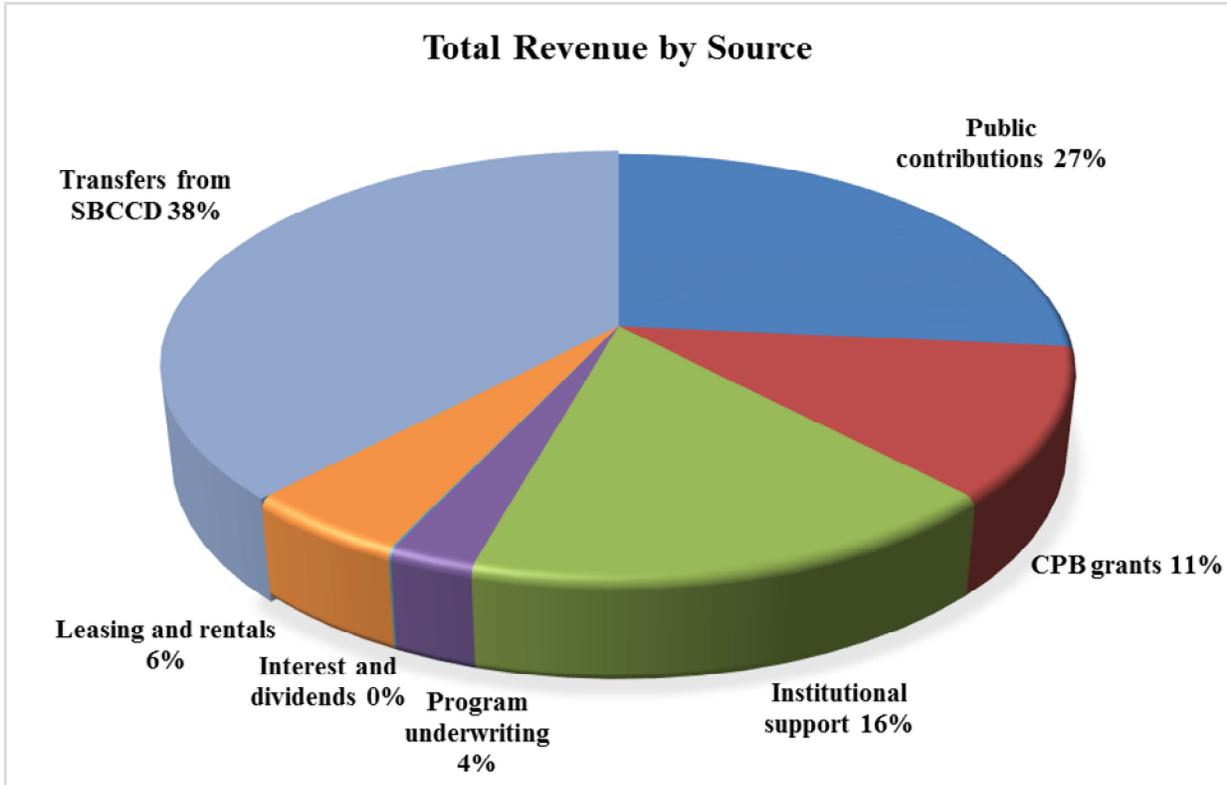
Table 2 - Statements of Revenues, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Public contributions	\$ 2,858,999	\$ 3,875,373	\$ 3,009,727
Institutional support	1,768,076	1,545,883	2,509,573
CPB grants	1,223,576	1,130,598	964,520
Program underwriting	280,043	356,489	467,450
Other local income	218,003	317,275	117,850
Total Operating Revenues	<u>6,348,697</u>	<u>7,225,618</u>	<u>7,069,120</u>
Operating Expenses			
Program services	8,216,400	6,357,415	6,716,108
Management and general	401,410	527,638	1,597,283
Fundraising	834,935	791,625	840,950
Total Operating Expenses	<u>9,452,745</u>	<u>7,676,678</u>	<u>9,154,341</u>
Total Operating Loss	<u>(3,104,048)</u>	<u>(451,060)</u>	<u>(2,085,221)</u>
Other Revenues			
Interest and dividends	7,454	10,147	6,678
Leasing and rentals	545,656	534,906	556,741
Transfers in from related party	3,230,000	358,560	1,431,015
Total Other Revenues	<u>3,783,110</u>	<u>903,613</u>	<u>1,994,434</u>
Change in Net Position	679,062	452,553	(90,787)
Net Position, Beginning of Year	<u>1,711,641</u>	<u>1,259,088</u>	<u>1,349,875</u>
Net Position, End of Year	<u>\$ 2,390,703</u>	<u>\$ 1,711,641</u>	<u>\$ 1,259,088</u>

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Below is an illustration of total revenues by source:



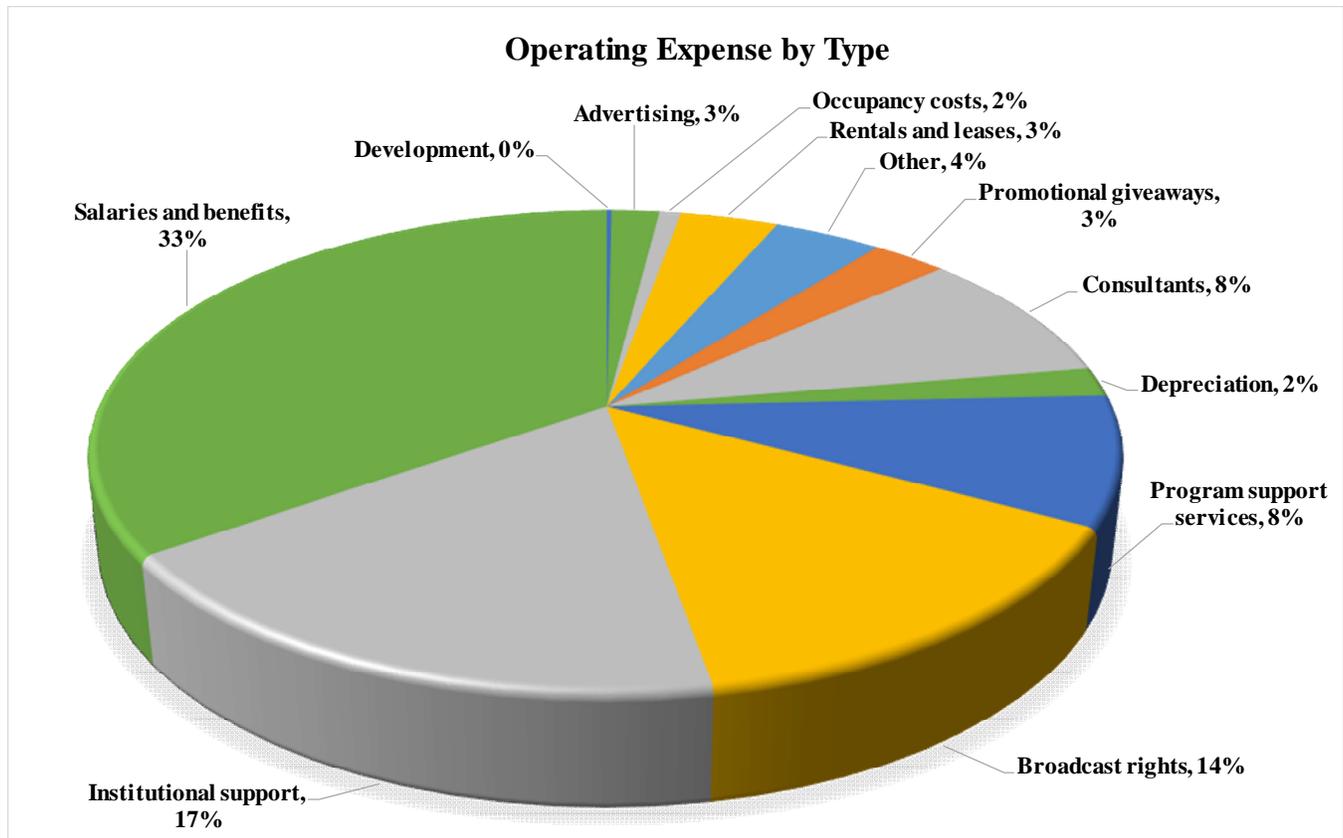
The following are explanatory remarks for the Statements of Revenues, Expenses, and Changes in Net Position:

- Total operating revenues decreased by \$876,921 from the prior year. This decrease was primarily driven by shortages in public contributions and underwriting revenue received in the 2017-2018 fiscal year.
- Total operating expenses increased by \$1,776,067 from the prior year due for the most part to additional staffing to create original programming, as well as fundraising expenses.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Below is an illustration of total operating expense by type:



The Entity's operating expenses are shown below (with explanatory remarks):

- Program services:
 - Programming and production expenses incurred to purchase, schedule, and produce and prepare programs for broadcast.
 - Broadcasting expenses incurred to prepare, store, check quality, verify automation asset management, play out, and monitor program streams, as well as installation and maintenance of equipment necessary for technical operations of the Stations, and transmission costs such as rents and utilities.
 - Program information and promotions expenses incurred to maintain the Stations' website, and design and procure promotional materials.
- Management and general: Expenses incurred for management services such as general manager, accounting, administrative, and legal services.
- Fundraising: All costs for pledge premiums, membership administrative services, database management costs, and expenses incurred for underwriting, grant, and other solicitations to support the Stations.

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

- Depreciation of capital assets is computed and recorded using the straight-line method. A capitalization threshold of \$5,000 is maintained for computer software and furniture and equipment. Useful lives of assets are estimated as follows:
 - 3 to 20 years for furniture and equipment
 - 8 years for computer software

Statements of Cash Flows

The Statements of Cash Flows shown below provides information about cash receipts and cash payments during the fiscal year. The statement also assists readers in understanding the Entity's ability to generate net cash flows, and its ability to meet obligations as they come due, or the need for assistance via external financing. The Entity has adopted the indirect cash flow method which shows a reconciliation from reported change in net position to cash provided by operating, financing, and investing activities.

Additional explanatory information for the statement is as follows:

- The main cash receipts from operating activities consist of CPB grant funding, subscription and membership, royalties, and District support.
- Cash outlays include payment of salaries, benefits, programming, production, and other operating expenses.
- The financing activity during the fiscal year 2017-2018 refers to the community service grant payable which will be repaid through the reduction to future grants from the CPB.

Table 3 - Statements of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash Flows Provided By (Used In)			
Operating activities	\$ 365,309	\$ (216,360)	\$ (98,669)
Financing activities	<u>(102,072)</u>	<u>(582,437)</u>	<u>(109,374)</u>
Net Change in Cash and Cash Equivalents	263,237	(798,797)	(208,043)
Cash and Cash Equivalents, Beginning of Year	<u>757,026</u>	<u>1,555,823</u>	<u>1,763,866</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,020,263</u></u>	<u><u>\$ 757,026</u></u>	<u><u>\$ 1,555,823</u></u>

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

NATURAL CLASSIFICATION OF EXPENSES

	2018				2017		
	Program Activities				Management and General Activities		
	KVCR Radio	KVCR TV	FNX-TV	Total	KVCR Radio	KVCR TV	Total
Salaries and benefits	\$ 585,563	\$ 1,651,522	\$ 1,224,092	\$ 3,461,177	\$ 61,321	\$ 88,242	\$ 149,563
Administrative	1,406	80,353	54,176	135,935	-	-	-
Advertising	31,175	31,175	8,000	70,350	-	8,542	8,542
Broadcast rights	317,994	738,426	305,135	1,361,555	-	-	-
Consultants	19,763	367,099	339,507	726,369	-	-	-
Depreciation expense	-	-	-	-	16,153	176,174	192,327
Development	-	-	-	-	13,450	4,314	17,764
Dues and memberships	27,546	5,563	1,805	34,914	-	-	-
Maintenance and operations	878	11,728	4,048	16,654	1,200	1,200	2,400
Noncash institutional support	668,320	1,099,756	-	1,768,076	-	-	-
Postage and freight	-	2,561	2,174	4,735	-	-	-
Professional fees	3,690	33,075	-	36,765	2,686	3,865	6,551
Promotional giveaways	-	-	5,045	5,045	-	-	-
Rentals and leases	20,205	124,254	186,347	330,806	-	-	-
Supplies	1,839	17,535	17,745	37,119	-	1,920	1,920
Travel	3,204	23,289	25,370	51,863	-	-	-
Telephone/Electricity	1,289	131,215	42,533	175,037	-	-	-
Loss on sale of equipment	-	-	-	-	-	22,343	22,343
Total Expenses	\$ 1,682,872	\$ 4,317,551	\$ 2,215,977	\$ 8,216,400	\$ 94,810	\$ 306,600	\$ 401,410

	2018				2017		
	Program Activities				Management and General Activities		
	KVCR Radio	KVCR TV	FNX-TV	Total	KVCR Radio	KVCR TV	Total
Salaries and benefits	\$ 520,610	\$ 1,032,064	\$ 843,369	\$ 2,396,043	\$ 104,041	\$ 149,718	\$ 253,759
Administrative	-	54,746	-	54,746	-	-	-
Advertising	65,809	60,871	30,374	157,054	-	-	-
Broadcast rights	250,398	764,386	249,070	1,263,854	-	-	-
Consultants	11,439	18,829	15,266	45,534	-	-	-
Depreciation expense	16,316	93,054	-	109,370	-	-	-
Development	-	-	-	-	108,966	156,805	265,771
Dues and memberships	26,419	1,209	410	28,038	-	-	-
Maintenance and operations	808	8,052	7,383	16,243	1,080	1,200	2,280
Noncash institutional support	427,470	1,118,413	-	1,545,883	-	-	-
Postage and freight	(266)	3,073	4,298	7,105	-	-	-
Professional fees	2,583	7,454	-	10,037	2,389	3,439	5,828
Program support services	-	-	109,375	109,375	-	-	-
Promotional giveaways	-	-	23,909	23,909	-	-	-
Rentals and leases	21,353	156,694	192,820	370,867	-	-	-
Supplies	1,471	10,747	11,302	23,520	-	-	-
Travel	2,221	4,346	35,675	42,242	-	-	-
Telephone/Electricity	1,369	121,239	30,987	153,595	-	-	-
Total Expenses	\$ 1,348,000	\$ 3,455,177	\$ 1,554,238	\$ 6,357,415	\$ 216,476	\$ 311,162	\$ 527,638

Fundraising Activities			Total
KVCR Radio	KVCR TV	Total	Expenses
\$ 129,098	\$ 185,775	\$ 314,873	\$ 3,925,613
-	-	-	135,935
-	-	-	78,892
-	37,765	37,765	1,399,320
24,417	121,372	145,789	872,158
-	-	-	192,327
-	-	-	17,764
-	-	-	34,914
-	-	-	19,054
-	-	-	1,768,076
6,931	21,994	28,925	33,660
-	-	-	43,316
15,513	254,503	270,016	275,061
10,239	17,535	27,774	358,580
1,138	7,519	8,657	47,696
-	1,136	1,136	52,999
-	-	-	175,037
-	-	-	22,343
<u>\$ 187,336</u>	<u>\$ 647,599</u>	<u>\$ 834,935</u>	<u>\$ 9,452,745</u>

Fundraising Activities			Total
KVCR Radio	KVCR TV	Total	Expenses
\$ 104,206	\$ 149,955	\$ 254,161	\$ 2,903,963
-	-	-	54,746
-	-	-	157,054
-	35,033	35,033	1,298,887
19,996	107,203	127,199	172,733
-	-	-	109,370
-	-	-	265,771
720	2,159	2,879	30,917
-	-	-	18,523
-	-	-	1,545,883
9,920	21,837	31,757	38,862
-	-	-	15,865
-	-	-	109,375
50,041	260,386	310,427	334,336
5,690	16,171	21,861	392,728
1,057	4,371	5,428	28,948
867	2,013	2,880	45,122
-	-	-	153,595
<u>\$ 192,497</u>	<u>\$ 599,128</u>	<u>\$ 791,625</u>	<u>\$ 7,676,678</u>

KVCR TV AND FM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

ECONOMIC FACTORS AFFECTING THE FUTURE OF KVCR TV AND FM

The greatest challenges to public television and radio mirror many of the same challenges that affects media outlets and content producers or providers nationally. The surplus of entertainment content available along with the increasing fragmentation of viewer behavior into a hybrid of traditional linear, time-based viewing and on-demand consumption are considerable financial challenges to KVCR. With a reduction in the number of subscribers to Cable and Satellite television, there is a compensatory increase in the use of streaming media platforms such as Netflix, Amazon and Hulu. Combined with broadcast television channels moving away from legacy Multiple System Operators ("MSO's") to smaller streaming packages, termed "skinny bundles" (ex. DirectNow, YouTube TV) public media faces a threat due to audiences migrating to platforms and distribution methods where PBS doesn't have a local presence on many such offerings. Radio suffers a similar challenge with the proliferation of subscription streaming services such as Apple Music, Spotify, Google Play and others. The accessibility of a vast library of music with no commercials, along with the growing popularity of extended engagement with Podcasts, all prove viable threats to NPR member stations like KVCR and radio as a whole.

This change in viewer and listener options and habits have a broader impact on revenue from supporter contributions for stations such as KVCR. As a result, total revenue generated through membership, online giving, underwriting, and vehicle donations decreased once more for this reporting period. The performance of Pledge shows on television continues to suffer as many gifts that were the core of such program (gifts such as DVDs and CDs) contributions are losing relevance in a digital landscape. The Pledge system based on such "Thank You" gifts will need to evolve to reflect the preferences of the current marketplace.

A specific area that impacts the future of KVCR economically is the status of its Foundation. In June of 2018 the SBCCD Board of Trustees voted to dissolve the KVCR Educational Foundation. This Foundation had underperformed for several years and it had been almost a decade since the last successful fundraising initiative was executed--a Capital Campaign timed to the digital transition of 2009. The dissolution of KVCR's fundraising vessel disrupted the 3-Year strategic planning envisioned in FY 2016-2017. A new plan is being drafted centered on KVCR becoming a part of a newly formed, District-wide Foundation that will potentially help target larger grants, corporate support and major gifts.

CONTACTING KVCR MANAGEMENT

This financial report is designed to provide our donors, taxpayers, investors, and creditors with a general overview of the Entity's finances and to show the District's accountability for funding received. Questions or concerns about this report or requests for additional financial information should be addressed to Keith Birkfeld, General Manager, by phone at 909-384-4336 or by e-mail at kbirkfeld@sbccd.cc.ca.us.

KVCR TV AND FM

CONSOLIDATED STATEMENTS OF NET POSITION JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,020,263	\$ 757,026
Accounts receivable	8,987	5,944
Due from related party	31,302	106,660
Other assets	1,167,009	1,099,060
Total Current Assets	<u>2,227,561</u>	<u>1,968,690</u>
NONCURRENT ASSETS		
Property and equipment (net)	956,783	1,156,412
TOTAL ASSETS	<u>\$ 3,184,344</u>	<u>\$ 3,125,102</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 363,707	\$ 686,769
Unearned revenue	366,821	467,792
Due to related party	63,113	149,526
Community service grant payable - current portion	-	109,374
TOTAL LIABILITIES	<u>793,641</u>	<u>1,413,461</u>
NET POSITION		
Net investment in capital assets	1,047,038	1,156,412
Unrestricted	1,343,665	555,229
TOTAL NET POSITION	<u>2,390,703</u>	<u>1,711,641</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,184,344</u>	<u>\$ 3,125,102</u>

See the accompanying notes to financial statements.

KVCR TV AND FM

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues		
Public contributions - FM Station	\$ 644,962	\$ 636,053
Public contributions - TV Station	2,214,037	3,239,320
Non cash institutional support from San Bernardino Community College District - FM	668,320	427,470
Non cash institutional support from San Bernardino Community College District - TV	1,099,756	1,118,413
CPB grants - TV Station	1,223,576	1,130,598
Program underwriting - FM Station	180,774	272,977
Program underwriting - TV Station	99,269	83,512
Other local income - FM Station	25,316	171,370
Other local income - TV Station	192,687	145,905
Total Operating Revenues	<u>6,348,697</u>	<u>7,225,618</u>
Operating Expenses		
Program services - FM Station	1,682,872	1,348,000
Program services - TV Station	6,533,528	5,009,415
Management and general - FM Station	94,810	216,476
Management and general - TV Station	306,600	311,162
Fundraising - FM Station	187,336	192,497
Fundraising - TV Station	647,599	599,128
Total Operating Expenses	<u>9,452,745</u>	<u>7,676,678</u>
Total Operating Loss	<u>(3,104,048)</u>	<u>(451,060)</u>
Other Revenues		
Interest and dividends - FM Station	3,727	5,073
Interest and dividends - TV Station	3,727	5,074
Leasing and rentals - TV Station	545,656	534,906
Transfers in from related party - FM Station	340,000	83,672
Transfers in from related party - TV Station	2,890,000	274,888
Total Other Revenues	<u>3,783,110</u>	<u>903,613</u>
CHANGE IN NET POSITION	679,062	452,553
NET POSITION, BEGINNING OF YEAR	<u>1,711,641</u>	<u>1,259,088</u>
NET POSITION, END OF YEAR	<u>\$ 2,390,703</u>	<u>\$ 1,711,641</u>

See the accompanying notes to financial statements.

KVCR TV AND FM

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 679,062	\$ 452,553
Adjustments to Reconcile Change in Net Position to Net Cash From Operating Activities		
Depreciation	192,327	109,370
Changes in Assets and Liabilities related to:		
Accounts receivable	(3,043)	412,549
Due from related party	75,358	(102,660)
Other assets	(67,949)	(374,679)
Accounts payable	(323,062)	422,756
Due to related party	(86,413)	(291,019)
Unearned revenue	(100,971)	(845,230)
Net Cash Flows From Operating Activities	<u>365,309</u>	<u>(216,360)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of capital assets	(15,041)	(473,063)
Repayment of community service grant payable	(109,374)	(109,374)
Loss on retirement of assets	22,343	-
Net Cash Flows From Financing Activities	<u>(102,072)</u>	<u>(582,437)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	263,237	(798,797)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>757,026</u>	<u>1,555,823</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,020,263</u>	<u>\$ 757,026</u>

See the accompanying notes to financial statements.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KVCR TV and FM is comprised of the following activities:

KVCR TV and FM is a public telecommunications entity owned and operated by the San Bernardino Community College District (the District), which provides public radio and television station broadcasts to the Inland Empire area of Southern California. These stations provide the public with a variety of musical, informational, and educational programming.

KVCR Educational Foundation, Inc. (the Foundation) was established in 1999 for the purpose of raising, holding, and investing funds for the benefit of KVCR TV and FM. It is a separate nonprofit 501(c)(3) corporation that is an auxiliary organization of the District.

KVCR FNX, First Nations Experience is a broadcast television network owned and operated by the studios of KVCR. The network originated through a partnership of the San Manuel Band of Mission Indians and the San Bernardino Community College District with the mission to illustrate the lives and cultures of native people around the world.

These financial statements are not intended to, and do not purport to, present fairly the financial position and the changes in financial position of the District in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The activity of the Entity is presented in an Enterprise format which includes a statement of cash flows. The Enterprise format accounts for activities similar to those in the private sector, where the proper matching of revenues and costs is important, and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its statement of net position, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when incurred.

For internal operating purposes, the District's Board of Trustees has established three separate funds, which include separate self-balancing accounts and separate Board approved budgets for the activities of KVCR TV and FM, KVCR Educational Foundation, Inc, and KVCR FNX. The activities of the Foundation and KVCR FNX have been consolidated with KVCR TV and FM activities.

Fair Value Measurements

The fair value of equity and debt securities with readily determinable fair values approximates their respective quoted market prices. Because of the inherent uncertainty of valuation methods, those estimated values might differ significantly from those used had a market existed. All other financial instruments' fair values approximate their carrying amounts due to the short maturities of these instruments.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to support the activities of the Entity's programming that are, in substance, unconditional.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Entity's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

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. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Entity considers all investments with a maturity of six months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of interest and donations receivable. Bad debts are accounted for by the direct write-off method. Management has deemed all amounts as collectable; therefore, no allowance for doubtful accounts is considered necessary.

Property and Equipment

The Entity capitalizes property and equipment purchased or donated with a unit cost over \$5,000. Lesser amounts are expensed when purchased. Donations of property and equipment are recorded as contributions at their estimated fair value, if known. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method based on the assets' estimated useful lives ranging from three to thirty years. Current year depreciation expense was \$192,327.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2018, was \$78,892.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and management and general activities benefited. A detail of functional expenses is included within the MD&A.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Comparative Financial Statements

Certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Income Taxes

KVCR TV and FM and KNX fund are programs of the San Bernardino Community College District. The District is a public education institution and is considered a political subdivision of the State of California and is, therefore, tax exempt and not subject to filing informational returns.

The Foundation is a non-profit public benefit corporation that is exempt for income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified by the Internal Revenue Service (IRS) as other than a private organization. Contributions received qualify as tax deductible gifts as provided in Section 170(b)(1)(A)(iv). The Foundation is also exempt from California State Franchise and income tax under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The Foundation's Federal Form 990, *Return of Organization Exempt from Income Tax*, and State Form 109, *California Exempt Organization Business Income Tax Return*, are subject to examination by the IRS for three years and the State Franchise Tax Board for four years after they are filed. The Foundation is not aware of any such examinations at this time.

Separate financial statements for the Foundation may be obtained from the Foundation office.

New Accounting Pronouncements

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

NOTE 2 - CASH AND CASH EQUIVALENTS

Policies and Practices

Cash and cash equivalents are maintained in accordance with the District's policies and procedures. The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with the San Bernardino County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the Entity's investment in the pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, consisted of the following:

KVCR FM and TV	\$ 475,519
KVCR Educational Foundation, Inc.	583,884
KVCR FNX	(39,140)
Total Deposits and Investments	<u>\$ 1,020,263</u>
San Bernardino County Investment Pool	<u>\$ 1,020,263</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Entity manages its exposure to interest rate risk by investing in the San Bernardino County Investment Pool.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Specific Identification

Information about the sensitivity of the fair values of the Entity's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the Entity's investment by maturity:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
San Bernardino County Investment Pool	<u>\$ 1,020,263</u>	<u>\$ 1,015,357</u>	353

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Entity's investment in the San Bernardino County Investment Pool is rated at AAAs/S1 by Fitch Rating agency.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Entity categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the Entity has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Entity's own data. The Entity should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the Entity are not available to other market participants.

Uncategorized - Investments in the San Bernardino County Investment Pool are not measured using the input levels above because the Entity's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The Entity's fair value measurements are as follows at June 30,:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
San Bernardino County Investment Pool	<u>\$ 1,015,357</u>	<u>\$ 1,015,357</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due to Entity as follows at June 30,:

	<u>2018</u>	<u>2017</u>
Contributions	<u>\$ 8,987</u>	<u>\$ 5,944</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	<u>\$ 7,795,521</u>	<u>\$ 7,915,771</u>
Computer	<u>6,192</u>	<u>6,192</u>
Vehicles	<u>25,368</u>	<u>55,519</u>
Subtotal	<u>7,827,081</u>	<u>7,977,482</u>
Accumulated depreciation	<u>(6,870,298)</u>	<u>(6,821,070)</u>
Total Property and Equipment	<u>\$ 956,783</u>	<u>\$ 1,156,412</u>

Depreciation expense for the years ended 2018 and 2017, was \$192,327 and \$109,370, respectively.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30,:

	<u>2018</u>	<u>2017</u>
Vendors payable	<u>\$ 363,707</u>	<u>\$ 686,769</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue represents amounts received in advance of required program expenses being incurred. This amount will be used for program related expenses in the subsequent fiscal year. As of June 30, 2018 and 2017, unearned revenues totaled \$366,821 and \$467,792, respectively.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

NOTE 8 - RELATED PARTY TRANSACTIONS

During the year, certain transactions for services are paid by the District on behalf of the Entity. At June 30, 2018 and 2017, the District owed the Entity \$31,302 and \$106,660, respectively, for amounts collected on their behalf. The Entity owed the District \$63,113 and \$149,526 for services and supply costs incurred.

NOTE 9 - INSTITUTIONAL SUPPORT

The District provides non cash institutional support to the KVCR TV and FM Stations related to instructional services, occupancy, supplies, and other administrative costs. The District applies an indirect rate that is in compliance with the CPB's guidance. For the year ended June 30, 2018, the indirect rate was computed as 1.86 percent applied to the FM Radio Station's costs and 2.67 percent applied to the TV Station's costs. The calculated institutional support totaled \$1,768,076 and \$1,545,883 for the 2018 and 2017 years, respectively. This non cash support for the KVCR TV and FM Stations is included within the Statements of Revenues, Expenses, and Changes in Net Position as both a source of funding and a use of funding and does not have an effect on the ending balance. Additionally, the KVCR Foundation and the District provided a total of \$4,080,000 and \$1,240,330 in cash to support the programming of both the FM Radio and TV Stations for the 2018 and 2017 years, respectively. The cash support provided by the KVCR Foundation to the KVCR TV and FM Stations has been eliminated for consolidation purposes for both fiscal years 2018 and 2017.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants

KVCR TV is funded in part through grants from the CPB, which are paid through the District as the broadcasting licensee. Funds from the CPB are designated for the purpose of operating the TV Station and are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement would not be material.

KVCR FM AND TV

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Operating Leases

The District leases land on behalf of the Entity on Box Springs Mountain for the Entity's broadcasting equipment. The lease term expires on October 31, 2032.

Year Ending June 30,	Lease Payment
2019	\$ 15,600
2020	15,600
2021	15,600
2022	15,600
2023	15,600
Thereafter	145,600
Total	<u>\$ 223,600</u>

Lease expense for the year ended June 30, 2018, amounted to \$358,580. Revenue received under sublease agreements amounted to \$483,674.

NOTE 11 - SUBSEQUENT EVENTS

The Entity's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from June 30, 2018 through November 19, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

KVCR TV AND FM

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	KVCR Radio	KVCR TV	KVCR Educational Foundation, Inc.	KVCR FNX	Total
Operating Revenues					
Public contributions - FM Station	\$ -	\$ -	\$ 644,962	\$ -	\$ 644,962
Public contributions - TV Station	-	-	713,772	1,500,265	2,214,037
Institutional Support from San Bernardino Community College District - FM	668,320	-	-	-	668,320
Institutional Support from San Bernardino Community College District - TV	-	1,099,756	-	-	1,099,756
CPB grants - TV Station	-	1,223,576	-	-	1,223,576
Program underwriting - FM Station	-	-	180,774	-	180,774
Program underwriting - TV Station	-	-	99,269	-	99,269
Other local income - FM Station	13,734	-	11,582	-	25,316
Other local income - TV Station	-	2,268	169,357	21,062	192,687
Total Operating Revenues	682,054	2,325,600	1,819,716	1,521,327	6,348,697
Operating Expenses					
Program services - FM Station	1,197,149	-	485,723	-	1,682,872
Program services - TV Station	-	3,815,659	501,892	-	4,317,551
Program services - FNX TV Station	-	-	-	2,215,977	2,215,977
Management and general - FM Station	43,308	-	51,502	-	94,810
Management and general - TV Station	-	233,015	73,585	-	306,600
Fundraising - FM Station	-	-	187,336	-	187,336
Fundraising - TV Station	-	-	647,599	-	647,599
Total Operating Expenses	1,240,457	4,048,674	1,947,637	2,215,977	9,452,745
Total Operating Loss	(558,403)	(1,723,074)	(127,921)	(694,650)	(3,104,048)
Nonoperating Revenues					
Interest and dividends - TV Station	-	2,881	4,573	-	7,454
Leasing and rentals - TV Station	-	545,656	-	-	545,656
Transfers in from related party - FM Station	340,000	-	-	-	340,000
Transfers in from related party - TV Station	-	2,890,000	-	-	2,890,000
Total Nonoperating Revenues	340,000	3,438,537	4,573	-	3,783,110
CHANGE IN NET POSITION	\$ (218,403)	\$ 1,715,463	\$ (123,348)	\$ (694,650)	\$ 679,062

See the accompanying note to supplementary information.

KVCR TV AND FM

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018 AND 2017

NOTE 1 - PURPOSE OF SCHEDULE

Combining Schedule of Revenues, Expenses, and Changes in Net Position

This schedule is prepared on the accrual basis of accounting and provides a detail of activity for the programs accounted for within the Entity. This information has been provided at the request of management to assist in the reporting required by the Corporation for Public Broadcasting and is not a required part of the financial statements.



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

The Board of Directors
San Bernardino Community College District
KVCR TV and FM
San Bernardino, California

We have audited, in accordance with the 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, the accompanying consolidated financial statements of KVCR TV and FM (the Entity) (a public telecommunications entity operated by the San Bernardino Community College District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2018.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Entity, and are not intended to present fairly the financial position and changes in financial position of the San Bernardino Community College District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavinek Tume Day & Co. LLP

Rancho Cucamonga, California
November 19, 2018