

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

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**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTARY INFORMATION**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**

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**JUNE 30, 2015**

**KVCR FM AND TV**

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

**June 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of KVCR FM and TV (a public telecommunications entity operated by the San Bernardino County Community College District) which comprise the consolidated statement of net assets as of June 30, 2015, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 assets of KVCR FM and TV as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Supplementary Information

Reporting to the Corporation for Public Broadcasting requires the inclusion of Management's Discussion and Analysis (MD&A) on pages 3 through 11. This information is not a required part of the basic financial statements. We have applied certain limited procedures to the MD&A 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 MD&A because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 January 6, 2016, on our consideration of KVCR FM and TV'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 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 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 KVCR FM and TV's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warrick Fine, Day & Co. LLP*

Rancho Cucamonga, California  
January 6, 2016

## KVCR FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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#### *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 FM and TV (the Stations) and the KVCR Educational Foundation (the Foundation) as of June 30, 2015. The report consists of three basic financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows and provides information about the Stations and the Foundation as a whole. This section of the annual financial report presents our discussion and analysis of the Stations' and Foundation's combined financial performance for the fiscal year ending June 30, 2015, and is best read in conjunction with the financial statements and the notes following this section.

#### *FISCAL YEAR HIGHLIGHTS*

The mission of the Stations is to be the cultural, educational, informational, and communication center of the Inland Empire. In pursuit of this mission, the Stations have 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' and Foundation's financial activity for fiscal year 2014-2015 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 2014-2015:

- KVCR-TV's ongoing TV segment *KVCR NOW*, which features events and stories occurring in the Inland Empire, was nominated for a national *2014 Imagen Award*, given by the Imagen Foundation, for positive portrayals of Latinos in the media.
- KVCR-TV was awarded another \$6.0 million charitable gift from the San Manuel Band of Mission Indians to fund the continued operation and expansion of the First Nations Experience (FNX), which is a TV network featuring Native American and Indigenous programming. FNX was created through a collaboration by the San Manuel Band of Mission Indians and KVCR-TV. The Station received \$1.0 million as a first installment during fiscal year 2014-2015, and the remaining \$5.0 million will be distributed over the next three years.
- FNX, which launched in Southern California in 2011, reached another historic milestone in November 2014 as it officially launched as a full-time channel on the Public Television Satellite System. FNX is now available to hundreds of public TV and community stations across the United States. As a result of this new venture, the Stations incurred additional expense to produce new content for FNX and to purchase uplink services for the channel.
- FNX received two Native Media Awards from the Native American Journalists Association for its community news and engagement series *FNX NOW*. FNX won first and third place in the award category of "Best Feature Story – TV" for its feature stories titled *FNX NOW: Special Report from Torres Martinez* and *FNX NOW: Anahucalmecac*, respectively.

## **KVCR FM AND TV**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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- KVCR-TV received a \$1.167 million community service grant from the Corporation for Public Broadcasting (CPB). The grant, which accounted for 17 percent of the Stations' total revenue in 2014-2015, has been a tremendous support as it has allowed KVCR-TV to continue to invest in national programming while increasing the production of more local, mission-oriented content.
- KVCR-FM greatly increased local content including local news coverage. Changes to national content structure in November 2014, along with reallocation of duties among radio staff, facilitated a two-fold volume increase of local content in KVCR-FM's daily schedule. This has allowed KVCR to go from nine local news casts per day to 21. As a result of increased local content, management has seen an instant boost in listener loyalty and increased success in fundraising.
- As part of a revenue-generating initiative, the Stations increased efforts to raise funds on various fronts. The result was significant increases in revenue generated through membership, online giving, underwriting, and vehicle donations. For example, total membership revenue increased from \$945 thousand in the prior year to \$1.7 million in fiscal year 2015. Additionally, new and existing underwriters generated a 20 percent increase in underwriting revenue.
- The Stations also continue efforts to diversify its revenue stream by working with several outside companies to lease studio space for the production of independent projects. Rental income increased 8.1 percent from the prior year.
- All in all, revenues increased from the prior year, and are expected to rise in the coming year as the economy continues to recover and the Stations and Foundation put forth additional efforts to raise funds.

## KVCR FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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**Table 1 - Statement of Net Assets**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,663,866	\$ 1,209,766
Accounts receivable	34,644	389,457
Due from related party	60,452	-
Other assets	178,273	45,636
<b>Total Current Assets</b>	<u>1,937,235</u>	<u>1,644,859</u>
<b>Noncurrent Assets</b>		
Property and equipment (net)	934,838	1,446,428
<b>TOTAL ASSETS</b>	<u>2,872,073</u>	<u>3,091,287</u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	363,483	238,060
Unearned revenue	706,646	474,475
Due to related party	123,951	24,896
Community service grant payable - current	109,374	-
<b>Total Current Liabilities</b>	<u>1,303,454</u>	<u>737,431</u>
<b>Noncurrent Liabilities</b>		
Community service grant payable - noncurrent portion	218,746	-
<b>TOTAL LIABILITIES</b>	<u>1,522,200</u>	<u>737,431</u>
 <b>NET ASSETS</b>		
Net investment in capital assets	934,838	1,446,428
Unrestricted	415,035	907,428
<b>TOTAL NET ASSETS</b>	<u>\$ 1,349,873</u>	<u>\$ 2,353,856</u>

#### **Financial Position**

The Statement of Net Assets above includes all assets and liabilities of the Stations and the Foundation 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 Statement of Net Assets is a point-of-time financial statement whose purpose is to present to the readers a fiscal snapshot of the Stations and the Foundation as a whole. The Statement of Net Assets 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 Stations and the Foundation as a whole.

## **KVCR FM AND TV**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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The following are explanatory remarks for the Statement of Net Assets:

- 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 Stations 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 Stations 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 2015-2016 fiscal year as program related expenses are incurred.
- The community service grant payable is for grant monies overpaid by the CPB which the Stations 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 Stations.

#### **Statement of Revenues, Expenses, and Changes in Net Assets**

Changes in total net position are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. 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 Stations and the Foundation as a whole.

## KVCR FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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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 - Statement of Revenues, Expenses, and Changes in Net Assets**

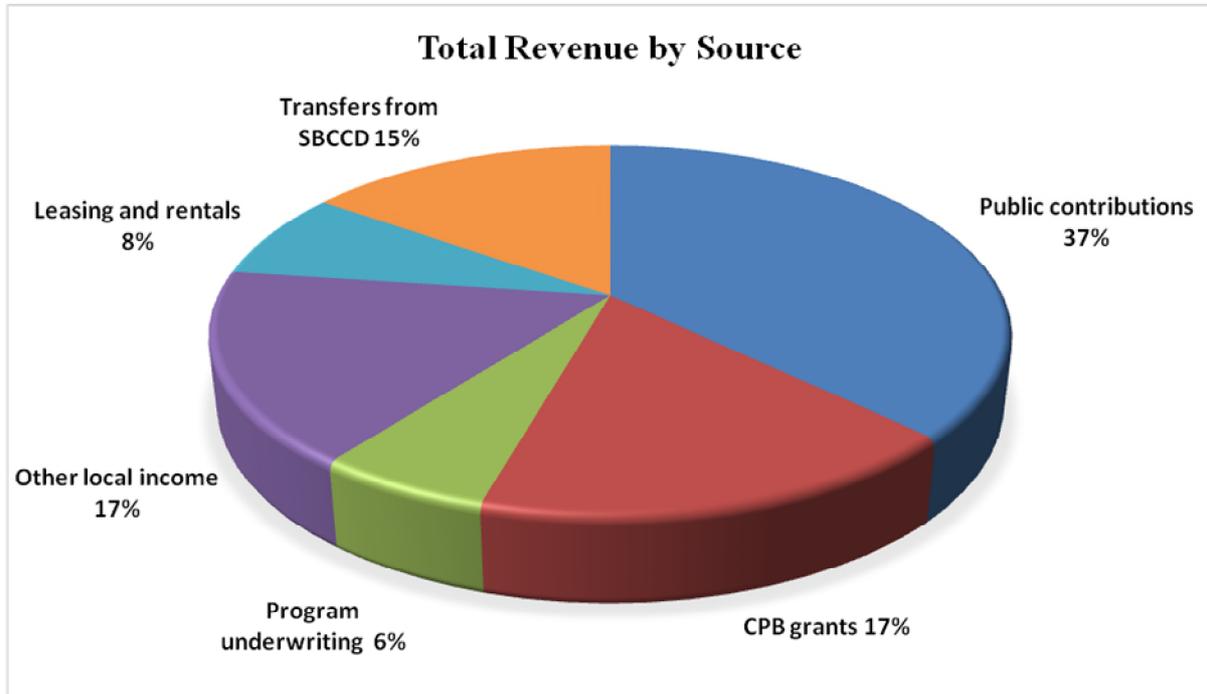
	<u>2015</u>	<u>2014</u>
<b>Operating Revenues</b>		
Public contributions	\$ 2,551,242	\$ 1,478,627
CPB grants	1,167,195	1,092,542
Program underwriting	410,397	343,040
Other local income	1,149,238	176,157
Sales	-	2,596
<b>Total Operating Revenues</b>	<u>5,278,072</u>	<u>3,092,962</u>
<b>Operating Expenses</b>		
Program services	6,348,582	4,369,595
Management and general	294,898	613,783
Fundraising	1,203,802	963,555
<b>Total Operating Expenses</b>	<u>7,847,282</u>	<u>5,946,933</u>
<b>Total Operating Loss</b>	<u>(2,569,210)</u>	<u>(2,853,971)</u>
<b>Other Revenues</b>		
Interest and dividends	4,753	4,949
Leasing and rentals	524,480	485,100
Transfers in from related party	1,036,000	699,997
<b>Total Other Revenues</b>	<u>1,565,233</u>	<u>1,190,046</u>
<b>Change in Net Assets</b>	(1,003,977)	(1,663,925)
<b>Net Assets, Beginning of Year</b>	<u>2,353,856</u>	<u>4,017,781</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,349,879</u>	<u>\$ 2,353,856</u>

## KVCR FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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Below is an illustration of total revenues by source:



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

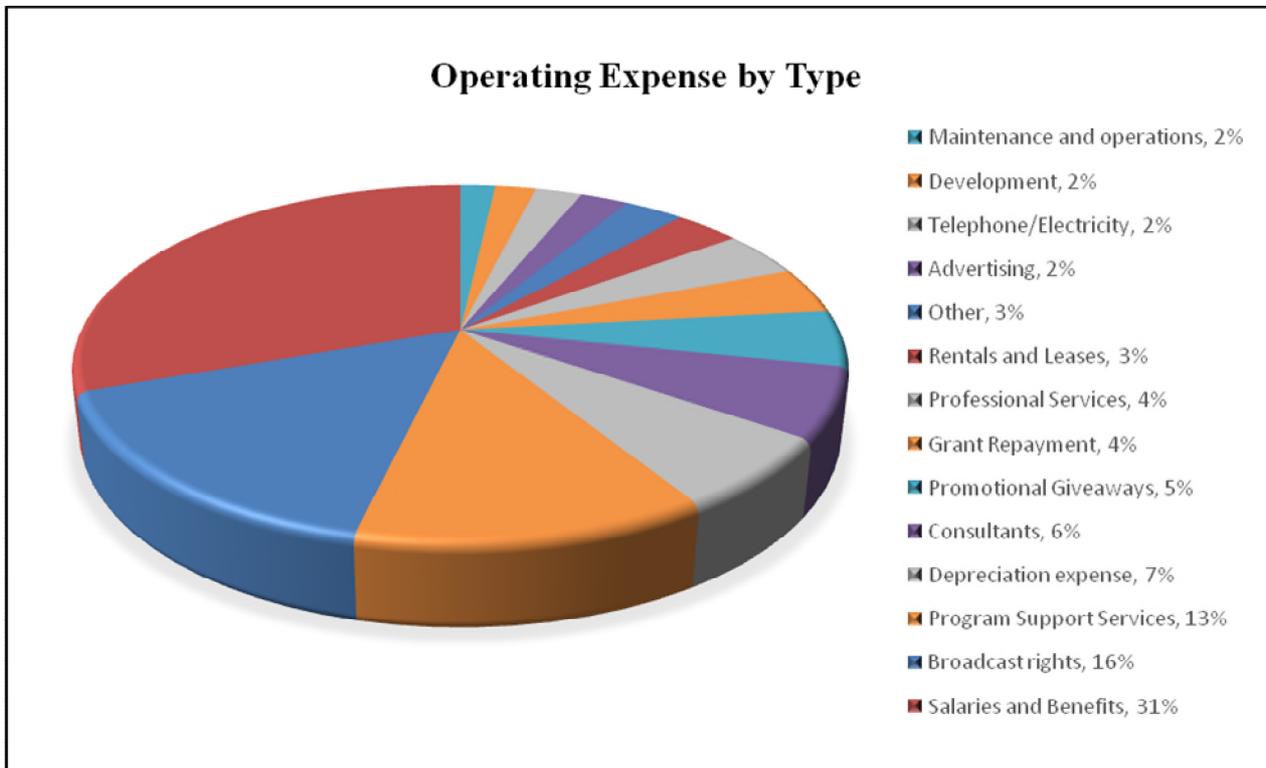
- Total operating revenues increased by 71 percent from the prior year. This increase was primarily driven by the \$1.07 million increase in public contributions.
- Total operating expenses increased by 32 percent from the prior year due for the most part to increases in program services expense, as well as fundraising expense.

## KVCR FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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Below is an illustration of total operating expense by type:



The Stations' 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 FM AND TV

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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- 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

#### Cash Flows

The Statement 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 Stations' 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 Stations have 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 2014-2105 refers to the community service grant payable in the amount of \$328,120 which will be repaid through the reduction to future grants from the CPB.

**Table 3 - Statement of Cash Flows**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows Provided By (Used In)</b>		
Operating activities	\$ 125,980	\$ (1,602,689)
Financing activities	<u>328,120</u>	<u>(11,992)</u>
<b>Net Change in Cash and Cash Equivalents</b>	454,100	(1,614,681)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,209,766</u>	<u>2,824,447</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,663,866</u></u>	<u><u>\$ 1,209,766</u></u>

## **KVCR FM AND TV**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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#### ***ECONOMIC FACTORS AFFECTING THE FUTURE OF KVCR FM AND TV***

The funding culture of the Stations is in transition. For most of its history, the Stations have been heavily subsidized by the District. The desire of the District now is for the Stations to become completely self-sufficient. To accomplish this, the District has put KVCR on a path to zero funding. For fiscal year 2015-2016, the District's cash subsidy allocation to the Stations was reduced by 57 percent from the prior year – a reduction of \$400 thousand. This budgeting reality has required the Stations to go into an expense-cutting mode. Realizing that the membership model used in public media for so many years cannot last forever, over the past year, the Stations designed a Three-Year Development Plan (the Plan) focused primarily on soliciting grants, planned giving, and major gifts. To execute the Plan, the Stations are currently recruiting for the position of Executive Director of Development to oversee and spearhead this new development model. While management feels that the Stations are certainly capable of becoming self-sustaining over time, it is clear that the Stations are not in a position yet to be completely cut loose from District funding. We are preparing an appeal to the District's Board of Trustees for additional funding that will include a timeline, goals, and steps that need to be taken for the Stations to achieve self-sufficiency. Possible factors that could influence the Board's decision to reinstate funding include increased service and integration with the District, and college and student services that the Stations could provide to justify continued funding.

The future of the Stations may also be influenced by the upcoming Federal Communications Commission Incentive Spectrum Auction, which is scheduled to take place in the Spring of 2016. This auction could allow the Stations to maintain its service to the community and build an endowment that could potentially sustain it well into the future.

Taken together, these factors – District funding, membership contributions, a new development model, and the future of the spectrum auction – will greatly impact how the Stations fare in the future.

#### ***CONTACTING KVCR MANAGEMENT***

This financial report is designed to provide our donors, taxpayers, investors, and creditors with a general overview of the Stations' 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 Alfredo Cruz, General Manager, by phone at 909-384-4332 or by e-mail at [acruz@sbccd.cc.ca.us](mailto:acruz@sbccd.cc.ca.us).

## KVCR FM AND TV

### STATEMENT OF NET ASSETS JUNE 30, 2015

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#### ASSETS

##### CURRENT ASSETS

Cash and cash equivalents	\$ 1,663,866
Accounts receivable	34,644
Due from related party	60,452
Other assets	178,273
<b>Total Current Assets</b>	<b><u>1,937,235</u></b>

##### NONCURRENT ASSETS

Property and equipment (net)	934,838
<b>Total Noncurrent Assets</b>	<b><u>934,838</u></b>
<b>TOTAL ASSETS</b>	<b><u>2,872,073</u></b>

#### LIABILITIES

##### CURRENT LIABILITIES

Accounts payable and accrued expenses	363,483
Unearned revenue	706,646
Due to related party	123,951
Community service grant payable - current portion	109,374
<b>Total Current Liabilities</b>	<b><u>1,303,454</u></b>

##### NONCURRENT LIABILITIES

Community service grant payable - noncurrent portion	218,746
<b>Total Noncurrent Liabilities</b>	<b><u>218,746</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>1,522,200</u></b>

#### NET ASSETS

Net investment in capital assets	934,838
Unrestricted	415,037
<b>TOTAL NET ASSETS</b>	<b><u>\$ 1,349,875</u></b>

See the accompanying notes to financial statements.

## KVCR FM AND TV

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2015

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	<u>Unrestricted</u>
<b>Operating Revenues</b>	
Public contributions - FM Station	\$ 541,596
Public contributions - TV Station	2,009,646
CPB grants - TV Station	1,167,195
Program underwriting - FM Station	286,658
Program underwriting - TV Station	123,736
Other local income - FM Station	392,982
Other local income - TV Station	756,256
<b>Total Operating Revenues</b>	<u>5,278,069</u>
<b>Operating Expenses</b>	
Program services - FM Station	1,315,536
Program services - TV Station	5,033,046
Management and general - FM Station	83,681
Management and general - TV Station	211,217
Fundraising - FM Station	257,110
Fundraising - TV Station	946,692
<b>Total Operating Expenses</b>	<u>7,847,282</u>
<b>Total Operating Loss</b>	<u>(2,569,213)</u>
<b>Other Revenues</b>	
Interest and dividends - FM Station	2,376
Interest and dividends - TV Station	2,376
Leasing and rentals - TV Station	524,480
Transfers in from related party - FM Station	186,480
Transfers in from related party - TV Station	849,520
<b>Total Other Revenues</b>	<u>1,565,232</u>
<b>CHANGE IN NET ASSETS</b>	(1,003,981)
<b>NET ASSETS, BEGINNING OF YEAR</b>	2,353,856
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,349,875</u>

See the accompanying notes to financial statements.

## **KVCR FM AND TV**

### **STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (1,003,981)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities	
Depreciation	511,590
Changes in Assets and Liabilities	
Decrease in accounts receivable	354,813
Increase in amounts due from related party	(60,452)
Increase in other assets	(132,637)
Increase in accounts payable	125,423
Increase in amounts due to related party	99,054
Increase in unearned revenue	232,170
Net Cash Flows From Operating Activities	<u>125,980</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Increase in community service grant payable	<u>328,120</u>
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	
	454,100
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	
	<u>1,209,766</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,663,866</u></u>

See the accompanying notes to financial statements.

## **KVCR FM AND TV**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015**

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#### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

##### **Organization**

KVCR FM and TV is comprised of the following activities:

KVCR FM and TV 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 FM and TV. It is a separate nonprofit 501(c)(3) corporation that is an auxiliary organization of the District.

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 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 KVCR FM and TV 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 assets, 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 two separate funds, which include separate self-balancing accounts and separate Board approved budgets for the activities of KVCR FM and TV and the Foundation. The activities of the Foundation have been consolidated with KVCR FM and TV activities.

##### **Contributions and Promises to Give**

Contributions are recognized when the donor makes a promise to give to support the activities of the KVCR FM and TV programming that are, in substance, unconditional.

KVCR FM and TV uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has evaluated the contributions receivable and determined all are fully collectable at June 30, 2015.

## **KVCR FM AND TV**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015**

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#### **Property and Equipment**

KVCR FM and TV 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 \$511,590.

#### **Donated Services, Goods, and Facilities**

A substantial number of volunteers have donated their time and experience to KVCR FM and TV'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.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, KVCR FM and TV considers all investments with a maturity of six months or less to be cash equivalents.

#### **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.

#### **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 fundraising activities benefited. Note 9 provides the detail of functional expenses.

#### **Income Taxes**

KVCR FM and TV is a program 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.

## **KVCR FM AND TV**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015**

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

#### ***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 District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District'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, 2015

#### 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, 2015, consisted of the following:

KVCR FM and TV	\$ 987,061
KVCR Educational Foundation, Inc.	676,805
Total Deposits and Investments	<u>\$ 1,663,866</u>
Cash in the San Bernardino County Treasury	\$ 1,386,612
Cash awaiting deposit	277,254
Total Deposits and Investments	<u>\$ 1,663,866</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 District manages its exposure to interest rate risk by investing in the County pool.

**KVCR FM AND TV**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Specific Identification**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District'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>\$ 1,386,612</u>	<u>\$ 1,387,500</u>	344

**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 District's investment in the County pool is not required to be rated.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, KVCR FM and TV's deposits may not be returned to it. KVCR FM and TV does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts due to KVCR FM and TV as follows:

Contributions	<u>\$ 34,644</u>
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## KVCR FM AND TV

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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#### **NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2015, consisted of the following:

Furniture and equipment	\$ 7,449,173
Computer	6,192
Vehicles	55,591
Subtotal	<u>7,510,956</u>
Accumulated depreciation	<u>(6,576,118)</u>
Total Property and Equipment	<u><u>\$ 934,838</u></u>

Depreciation expense for the year ended June 30, 2015, was \$511,590.

#### **NOTE 5 - ACCOUNTS PAYABLE**

At June 30, 2015, accounts payable consisted of the following:

Salaries payable	\$ 15,674
Vendors payable	347,807
Total	<u><u>\$ 363,481</u></u>

#### **NOTE 6 - RELATED PARTY TRANSACTIONS**

During the year, certain transactions for services are paid by the District on behalf of KVCR FM and TV. At June 30, 2015, the District owed KVCR FM and TV \$60,452 for amounts collected on their behalf. KVCR FM and TV owed the District \$123,951 for services and supply costs incurred.

#### **NOTE 7 - COMMUNITY SERVICE GRANT PAYABLE**

During the 2014-2015 fiscal year, the Corporation for Public Broadcasting (CPB) reviewed claims for reimbursement submitted during the 2013-2014 fiscal year. As a result of the review, the CPB disallowed certain expenses for reimbursement in the amount of \$328,120. This amount will be repaid to the CPB in accordance with the following schedule as a reduction in future funding.

2016	\$ 109,374
2017	109,373
2018	109,373
Total	<u><u>\$ 328,120</u></u>

**KVCR FM AND TV**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 8 - UNEARNED REVENUE**

At June 30, 2015, unearned revenue represents amounts received in advance of required program expense being incurred. This amount will be used for program related expenses in the 2015-2016 fiscal year.

**NOTE 9 - NATURAL CLASSIFICATION OF EXPENSES**

	Program Services			Total Program Expenses	Supporting Services	Fundraising	Total Expenses
	KVCR Radio	KVCR TV	FNX-TV		Management and General	Fundraising	
Salaries and benefits	\$ 411,644	\$ 1,127,212	\$ 785,414	\$ 2,324,270	\$ 67,315	\$ -	\$ 2,391,585
Administrative	16,792	31,640	12,765	61,197	-	-	61,197
Advertising	84,773	86,132	20,695	191,600	-	-	191,600
Broadcast rights	292,637	826,881	71,035	1,190,553	-	49,497	1,240,050
Consultants	7,020	8,284	15,586	30,890	-	467,140	498,030
Depreciation expense	38,898	472,692	-	511,590	-	-	511,590
Development	-	-	-	-	161,043	-	161,043
Dues and memberships	25,929	6,287	436	32,652	-	-	32,652
Grant repayment	-	328,120	-	328,120	-	-	328,120
Maintenance and operations	7,971	87,915	39,016	134,902	2,760	-	137,662
Postage and freight	7,937	7,913	-	15,850	-	54,220	70,070
Professional fees	7,519	27,098	-	34,617	59,213	229,450	323,280
Program support services	400,177	579,210	-	979,387	1,254	-	980,641
Promotional giveaways	-	-	-	-	-	398,557	398,557
Rentals and leases	9,170	115,268	129,570	254,008	1,856	3,028	258,892
Supplies	1,817	17,961	3,816	23,594	1,080	1,910	26,584
Travel	1,662	21,510	27,494	50,666	377	-	51,043
Telephone/Electricity	1,590	183,096	-	184,686	-	-	184,686
<b>Total Expenses</b>	<b>\$ 1,315,536</b>	<b>\$ 3,927,219</b>	<b>\$ 1,105,827</b>	<b>\$ 6,348,582</b>	<b>\$ 294,898</b>	<b>\$ 1,203,802</b>	<b>\$ 7,847,282</b>

**NOTE 10 - INSTITUTIONAL SUPPORT**

During the 2014-2015 year, the District provided non cash institutional support to the KVCR FM and TV Stations. This non cash support is not recognized within the financial statements as the expenses are accounted for within other District funds and are not specifically transferred to KVCR FM and TV. The District provided a total of \$1,036,000 in cash to support the programming of both the FM Radio and TV Stations.

## KVCR FM AND TV

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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#### *NOTE 11 - 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 station and are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

##### **Operating Leases**

The District leases land on Box Springs Mountain for KVCR FM and TV's broadcasting equipment. The lease term expires on October 31, 2032.

The District leases land in the City of Desert Hot Springs for additional broadcasting equipment. The five-year lease agreement was renewed for an additional five years commencing on January 1, 2011. The terms of the lease provide for quarterly payments of rent.

Year Ending June 30,	Lease Payment
2016	\$ 64,704
2017	56,093
2018	26,599
2019	20,441
2020	20,441
Thereafter	73,664
Total	<u>\$ 261,942</u>

Lease expense for the year ended June 30, 2015, amounted to \$249,722. Revenue received under subleases amounted to \$524,480.

#### *NOTE 12 - SUBSEQUENT EVENTS*

KVCR FM and TV's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through January 6, 2016, 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.

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***SUPPLEMENTARY INFORMATION***

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## KVCR FM AND TV

### COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2015

	KVCR Radio	KVCR TV	KVCR Educational Foundation, Inc.	Total
<b>Operating Revenues</b>				
Public contributions - FM Station	\$ -	\$ -	\$ 541,596	\$ 541,596
Public contributions - TV Station	-	1,020,590	989,056	2,009,646
CPB grants - TV Station	-	1,167,195	-	1,167,195
Program underwriting - FM Station	-	-	286,658	286,658
Program underwriting - TV Station	-	8,245	115,491	123,736
Other local income - FM Station	389,812	-	3,170	392,982
Other local income - TV Station	-	658,472	97,784	756,256
<b>Total Operating Revenues</b>	<u>389,812</u>	<u>2,854,502</u>	<u>2,033,755</u>	<u>5,278,069</u>
<b>Operating Expenses</b>				
Program services - FM Station	821,565	-	493,971	1,315,536
Program services - TV Station	-	3,243,617	683,602	3,927,219
Program services - FNX TV Station	-	1,105,827	-	1,105,827
Management and general - FM Station	49,934	-	33,747	83,681
Management and general - TV Station	-	151,053	60,164	211,217
Fundraising - FM Station	-	-	257,110	257,110
Fundraising - TV Station	-	-	946,692	946,692
<b>Total Operating Expenses</b>	<u>871,499</u>	<u>4,500,497</u>	<u>2,475,286</u>	<u>7,847,282</u>
<b>Total Operating Loss</b>	<u>(481,687)</u>	<u>(1,645,995)</u>	<u>(441,531)</u>	<u>(2,569,213)</u>
<b>Non Operating Revenues</b>				
Interest and dividends - FM Station	1,923	-	453	2,376
Interest and dividends - TV Station	-	1,924	452	2,376
Leasing and rentals - TV Station	-	524,480	-	524,480
Transfers in from related party - FM Station	186,480	-	-	186,480
Transfers in from related party - TV Station	-	849,520	-	849,520
<b>Total Other Revenues</b>	<u>188,403</u>	<u>1,375,924</u>	<u>905</u>	<u>1,565,232</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (293,284)</u>	<u>\$ (270,071)</u>	<u>\$ (440,626)</u>	<u>\$ (1,003,981)</u>

See the accompanying note to supplementary information.

## **KVCR FM AND TV**

### **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015**

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#### ***NOTE 1 - PURPOSE OF SCHEDULE***

##### **Combining Schedule of Revenues, Expenses, and Changes in Net Assets**

This schedule is prepared on the accrual basis of accounting and provides a detail of activity for the programs accounted for within KVCR FM and TV. 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**

Board of Directors  
San Bernardino Community College District  
KVCR FM and TV  
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 FM and TV as of and for the year ended June 30, 2015, and have issued our report thereon dated January 6, 2016.

As discussed in Note 1, the financial statements present only KVCR FM and TV, 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KVCR FM and TV'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 KVCR FM and TV's internal control. Accordingly, we do not express an opinion on the effectiveness of KVCR FM and TV'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 KVCR FM and TV'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 over financial reporting that might be material weaknesses or significant deficiencies and, therefore, significant deficiencies or material weaknesses may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether KVCR FM and TV'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 KVCR FM and TV's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KVCR FM and TV's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vauriek Dine, Day & Co. LLP*

Rancho Cucamonga, California  
January 6, 2016