

KACHEMAK BAY BROADCASTING, INC.

FINANCIAL STATEMENTS

June 30, 2019

**KACHEMAK BAY BROADCASTING, INC.
FINANCIAL STATEMENTS**

TABLE OF CONTENTS

Independent auditor's report	<u>Page</u> 1-2
Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-15



LAMBE, TUTER & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kachemak Bay Broadcasting, Inc.

We have audited the accompanying financial statements of Kachemak Bay Broadcasting, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Lambe Tutor & Associates

Soldotna, AK
December 19, 2019

KACHEMAK BAY BROADCASTING, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 415,073
Certificates of deposit	206,000
Receivable from Pickle Hill Public Broadcasting, Inc.	76,310
Underwriting receivable	11,441
Accounts receivable	1,564
Unconditional promises to give	110
Prepaid expenses	15,364
Total current assets	<u>725,862</u>
PROPERTY AND EQUIPMENT	1,211,530
Less accumulated depreciation	<u>(840,068)</u>
	<u>371,462</u>
COMPUTER SOFTWARE	20,935
Less accumulated amortization	<u>(20,935)</u>
	<u>-</u>
OTHER ASSETS	
Beneficial interest in the Homer Foundation	<u>34,579</u>
TOTAL ASSETS	<u><u>\$ 1,131,903</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 14,737
Underwriting deposits	15,701
Accrued expenses	17,939
Unearned grant revenue	2,455
Total current liabilities	<u>50,832</u>
NET ASSETS	
Without donor restrictions	1,046,492
With donor restrictions	<u>34,579</u>
Total net assets	<u>1,081,071</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,131,903</u></u>

See notes to financial statements.

KACHEMAK BAY BROADCASTING, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

CHANGES IN NET ASSETS WITHOUT DONOR
REVENUES AND OTHER SUPPORT

Underwriting	\$ 120,442
Membership dues	112,055
Service agreement	60,792
Donated services	44,070
Broadcasting income	11,550
Fundraising	7,451
Donations	5,580
Investment earnings	6,556
Total revenues and other support without donor restrictions	<u>368,496</u>

NET ASSETS RELEASED FROM RESTRICTIONS

Satisfaction of program restrictions	197,835
Expiration of time restrictions	1,216
Total revenues and other support	<u>567,547</u>

EXPENSES

Program	389,785
Management and general	199,555
Fundraising	77,606
TOTAL EXPENSES	<u>666,946</u>

CHANGE IN NET ASSETS WITHOUT DONOR
RESTRICTIONS

(99,399)

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS

Government grants	194,854
Other non-government grants	3,025
Increase in value of beneficial interest	1,758
	<u>199,637</u>

NET ASSETS RELEASED FROM RESTRICTIONS

Satisfaction of program restrictions	(197,835)
Expiration of time restrictions	(1,216)
	<u>(199,051)</u>

INCREASE IN NET ASSETS WITH DONOR
RESTRICTIONS

586

CHANGE IN NET ASSETS

(98,813)

NET ASSETS AT BEGINNING OF YEAR

1,179,884

NET ASSETS AT END OF YEAR

\$ 1,081,071

See notes to financial statements.

KACHEMAK BAY BROADCASTING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

				<u>Supporting activities</u>		
	<u>Programmin</u>	<u>Broadcastin</u>	<u>Total</u>	<u>Managemen</u>		
	<u>g and</u>	<u>g and</u>	<u>Program</u>	<u>t and</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Production</u>	<u>Technical</u>		<u>General</u>		
Personnel costs	\$ 241,278	\$ -	\$ 241,278	\$ 109,046	\$ 53,555	\$ 403,879
Technical support	-	39,230	39,230	-	-	39,230
Utilities	-	31,829	31,829	6,604	-	38,433
Programming and production costs	35,334	-	35,334	-	-	35,334
Depreciation	-	9,263	9,263	23,233	-	32,496
Supplies	-	12,899	12,899	11,598	5,799	30,296
Professional fees	-	-	-	12,700	-	12,700
Advertising	300	-	300	120	12,019	12,439
Insurance	-	-	-	11,967	-	11,967
Travel	1,267	550	1,817	6,909	-	8,726
Repairs/maintenance	158	4,993	5,151	2,954	-	8,105
Internet & digital services	-	5,025	5,025	-	-	5,025
Bank service charges	-	-	-	-	4,742	4,742
Bad debt	-	-	-	446	941	1,387
Other	1,238	6,421	7,659	13,978	550	22,187
	<u>\$ 279,575</u>	<u>\$ 110,210</u>	<u>\$ 389,785</u>	<u>\$ 199,555</u>	<u>\$ 77,606</u>	<u>\$ 666,946</u>

See notes to financial statements.

KACHEMAK BAY BROADCASTING, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from members, contributors, and granting agencies	\$ 496,911
Cash paid to suppliers and employees	(564,176)
Interest received	6,556
Net cash used by operating activities	<u>(60,709)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from beneficial interest in the Homer Foundation	1,666
Proceeds from certificates of deposit	101,000
Purchase of certificates of deposit	(206,000)
Cash used for investing activities	<u>(103,334)</u>

NET DECREASE IN CASH AND
CASH EQUIVALENTS

(164,043)

CASH AND CASH EQUIVALENTS, beginning

579,116

CASH AND CASH EQUIVALENTS, ending

\$ 415,073

RECONCILIATION OF CHANGE IN NET ASSETS TO NET
CASH USED BY OPERATING ACTIVITIES:

CHANGE IN NET ASSETS

\$ (98,813)

ADJUSTMENTS TO RECONCILE CHANGE IN NET
ASSETS TO NET CASH USED BY OPERATING
ACTIVITIES

Depreciation and amortization	32,496
Decrease in underwriting receivables	2,554
Increase in unconditional promises to give	(50)
Increase in accounts receivable	(394)
Increase in prepaid expenses	(1,032)
Increase in receivable from Pickle Hill Public Broadcasting, Inc.	(3,793)
Increase in accounts payable	11,028
Decrease in accrued expenses	(8,401)
Increase in underwriting deposits	7,498
Decrease in unearned grant revenue	(44)
Non-cash investment earnings	(1,758)
Total adjustments	<u>38,104</u>
	<u>\$ (60,709)</u>

See notes to financial statements.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. ORGANIZATION

Kachemak Bay Broadcasting, Inc. (Corporation) is a public, nonprofit radio station incorporated in the State of Alaska with a mission to provide and promote news, information and entertainment to foster community engagement for the southern Kenai Peninsula.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

Kachemak Bay Broadcasting, Inc. reports information regarding its financial position and activities according to two classes of net assets as follows:

Net assets without donor restrictions are those amounts currently available at the discretion of the Board of Directors for use in Kachemak Bay Broadcasting, Inc.'s operations.

Net assets with donor restrictions are those amounts that are stipulated by donors or grantors for specific operating purposes. Revenue from grants and contracts are recognized as earned when the Corporation has incurred expenditures in compliance with the specific grant or contract. It also includes amounts for which the principal is stipulated by a donor or grantor to be invested in perpetuity.

Contributions

All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor or grantor. Amounts received that are designated for future periods or restricted by the donor or grantor for specific purposes are reported as donor support that increases net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

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

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by Kachemak Bay Broadcasting, Inc.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with maturities of three months or less.

Underwriting Receivable

Kachemak Bay Broadcasting, Inc. extends credit for services rendered to underwriting customers on open accounts and receives payments for services in cash and trades.

Underwriting receivables are stated at unpaid balances, less an allowance for doubtful accounts. The Corporation provides for losses on underwriting receivables using the allowance method. The allowance is based on experience, third-party contracts and other circumstances, which may affect the ability of underwriters to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Corporation's policy to charge-off uncollectible receivables when management determines the receivables will not be collected. No allowance for doubtful accounts is considered necessary at June 30, 2019.

Payments received in advance of services rendered are recorded as underwriting deposits.

Property and Equipment

All acquisitions of property and equipment in excess of \$2,000 and all expenditures for repairs, maintenance, renewals and betterments, that materially prolong the useful lives of assets, are capitalized.

Property and equipment is recorded at cost, or in the case of donated property, at its estimated fair value as of the date of the contribution. Depreciation is provided using the straight-line method over the estimated useful life of the property, which ranges from three to thirty-five years. Expenditures for repairs and maintenance are charged against operations as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Functional Expense Allocation

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the Corporation have been summarized on a natural classification basis. Accordingly, certain costs have been allocated among the program and supporting activities benefited.

Directly identifiable expenses are charged to functional expense classes for programming and production, management and general, broadcasting and technical, and fundraising expenses. Expenses related to more than one function are charged to each function on the basis of time studies and management estimates based upon prior experience. Management and general expenses include those expenses that are not directly chargeable to any other specific function but provide for the overall support and direction of the Corporation.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The Corporation files its form 990 in the U.S. federal jurisdiction for the State of Alaska. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2014.

Recently Issued Accounting Standards

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Corporation adopted the provisions of this new standard during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding the liquidity and availability of resources (Note 15) and net asset allocations (Notes 13 and 14). As a result of the new update, the expense allocation disclosure (Note 2) has been expanded.

A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanent net assets are now reported as net assets with donor restrictions.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Recently Issued Accounting Standards (Cont.)

Due to the recent update, there were adjustments made to both permanently and temporarily restricted assets as follows:

Permanently restricted net assets 6/30/2018	\$ 34,037
Temporary restricted net assets 6/30/2018	13,184
Change to adjust net assets with donor restrictions	<u>(13,184)</u>
Net assets with donor restrictions at 6/30/2018, as adjusted	<u>\$ 34,037</u>

3. CONCENTRATION

Financial Instruments

The Corporation maintains deposits in one financial institution that, at times, exceeds the insured amounts of \$250,000 provided by the US Federal Deposit Insurance Corporation (FDIC).

Contributions

The Corporation receives a substantial portion of their annual funding through grants. The Corporation received \$74,335 from the State of Alaska and \$120,519 from the Corporation for Public Broadcasting during the year ended June 30, 2019. This represents 13% and 21% for the year ended June 30, 2019, respectively, of the Corporation's total support and revenues.

4. CERTIFICATES OF DEPOSIT

Certificates of deposit in the amount of \$206,000 at June 30, 2019, are classified as follows:

<u>Bank</u>	<u>Bearing interest at (%)</u>	<u>Maturity value</u>	<u>Maturity date</u>
US Bk Natl Assn Minneapolis	2.40	\$ 105,000	5/8/2020
BMO Harris Bk Natl Assn	2.60	54,000	11/1/2019
Wells Fargo BK NA Sioux Falls	2.55	47,000	10/28/2019
		<u>\$ 206,000</u>	

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019:

Buildings	\$ 642,577
Broadcast equipment	381,300
Land	163,566
Furniture and fixtures	24,087
	<u>1,211,530</u>
Less accumulated depreciation	<u>(840,068)</u>
	<u>\$ 371,462</u>

Depreciation expense was \$32,496 and is allocated appropriately on the statement of functional expenses.

6. LINE OF CREDIT

The Corporation has an approved line of credit based on the value of its investment account with Edward Jones. The available credit line at June 30, 2019 is \$199,710 at 6.75% interest on outstanding draws. No draws have been made on the line of credit.

7. BENEFICIAL INTEREST IN HOMER FOUNDATION

Kachemak Bay Broadcasting, Inc. has an agreement with the Homer Foundation, a community foundation, whereby the foundation invests the donor restricted funds of the Corporation. Kachemak Bay Broadcasting, Inc. earns income on its endowment funds, which it may choose to receive or reinvest in the endowment funds. A summary of the Endowment's contributions and investment income for the year ended June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Foundation balance, beginning of the year	\$ 450	\$ 34,037	\$ 34,487
Net investment gains (losses)	-	1,758	1,758
Contributions	-	-	-
Amounts released for expenditures	1,216	(1,216)	-
Distributions from the Foundation	<u>(1,666)</u>	<u>-</u>	<u>(1,666)</u>
Foundation balance, end of the year	<u>\$ -</u>	<u>\$ 34,579</u>	<u>\$ 34,579</u>

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

8. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- Level 1- Quoted market prices in active markets for identical assets or liabilities
- Level 2- Observable market based inputs or unobservable inputs corroborated by market data.
- Level 3- Unobservable inputs reflecting the reporting entity's own assumptions.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques followed need to maximize the use of the observable inputs and minimize the use of unobservable inputs.

Fair values of assets measured on a recurring basis at June 30, 2019 are the following:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in Homer Foundation	\$ 34,579	\$ -	\$ -	\$ 34,579
	<u>\$ 34,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,579</u>

The Corporation considers the measurement of its beneficial interest in the Homer Foundation to be a Level 3 measurement within the fair value measurement hierarchy because, even though that measurement is based on the fair value of Foundation assets reported by the trustee, the Corporation will never receive those assets or have the ability to direct the Foundation to redeem them.

There were no changes in methods or assumptions during the year ended June 30, 2019.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. DONATED SERVICES

The value of donated services included as contributions in the financial statements and the corresponding schedule for the year ended June 30, 2019 are as follows:

	Management and General	Broadcasting and Technical	Total
Expenses:			
Technical support	\$ -	\$ 33,734	\$ 33,734
Supplies	6,274	-	6,274
Repairs and maintenance	2,852	-	2,852
Other expenses	-	1,210	1,210
	<u>\$ 9,126</u>	<u>\$ 34,944</u>	<u>\$ 44,070</u>
Revenue and other support:			
Donated services			<u>\$ 44,070</u>

Numerous volunteers have donated significant amounts of time to Kachemak Bay Broadcasting, Inc.'s program services and fund-raising efforts. No amounts have been reflected in the accompanying financial statements for the fair value of these services.

10. ADVERTISING

Kachemak Bay Broadcasting, Inc. uses advertising to promote their programs among the audience they serve. The production costs of advertising are expensed as incurred. Advertising costs totaled \$12,439 for the year ended June 30, 2019.

11. SERVICE AGREEMENT

Pickle Hill Public Broadcasting, Inc. operates under a vendor agreement with Kachemak Bay Broadcasting, Inc. Under the terms of the agreement, the Corporation provides programming and manages all aspects of the operation of Pickle Hill Public Broadcasting, Inc. Revenue earned under the agreement was \$60,792 for the year ended June 30, 2019.

12. COMMITMENTS AND CONTINGENCIES

Kachemak Bay Broadcasting, Inc. receives grants that are subject to audit and adjustment by the grantor agencies. Any expenditures disallowed as a result of such audit and for which the grant monies had been expended would become a liability of the Corporation. As of June 30, 2019, no such audits were pending.

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

13. NET ASSETS WITHOUT DONOR RESTRICTION

As of June 30, 2019, the Corporation's Board of Directors has placed the following limitations on net assets without donor restrictions:

Undesignated	\$ 675,030
Net investment in property and equipment	<u>371,462</u>
Total net assets without donor restrictions	<u><u>\$ 1,046,492</u></u>

14. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2019, the Corporation's Board of Directors has placed the following limitations on net assets with donor restrictions:

Subject to restriction in perpetuity	
Beneficial interest investment held by others	<u>\$ 34,579</u>
Total net assets with donor restrictions	<u><u>\$ 34,579</u></u>

KACHEMAK BAY BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

15. LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Corporation's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board-designated endowments. These Board designations could be drawn upon if the Board approves that action.

The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial Assets

Cash and cash equivalents	\$ 415,073
Certificates of deposit	206,000
Receivable from Pickle Hill Public Broadcasting, Inc.	76,310
Underwriting receivable	11,441
Accounts receivable	1,564
Unconditional promises to give	110
Financial assets, at year end	<u>\$ 710,498</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 710,498</u>

16. SUBSEQUENT EVENTS

December 19, 2019 is the date the subsequent events have been evaluated to and the date the financial statements were available to be issued.