



Financial Statements
June 30, 2017 and 2016
KBEM Radio Station

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Financial Statements

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Independent Auditor's Report

To the Honorable Members of the Board of Education of
Special School District No. 1
KBEM Radio Station
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of KBEM Radio Station (the Station), which comprise the statements of assets, liabilities and net assets (regulatory basis of accounting) as of June 30, 2017 and 2016, and the related statements of support and revenue, expenses and changes in net assets, and cash flows (regulatory basis of accounting) for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for these financial statements in accordance with the financial reporting provisions of Section 3 of the Financial Reporting Guidelines of the Corporation for Public Broadcasting. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Station'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 operations of KBEM Radio Station as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with the financial reporting provisions of Section 3 of the Financial Reporting Guidelines of the Corporation for Public Broadcasting described in Note 1 to the financial statements.

Emphasis of a Matter

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared on the basis of the financial reporting provisions of Section 3 of the Financial Reporting Guidelines of the Corporation for Public Broadcasting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Corporation for Public Broadcasting. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Corporation for Public Broadcasting and is not intended to be, and should not be, used by anyone other than these specified parties.

Handwritten signature of Erik Dally LLP in cursive script.

Minneapolis, Minnesota
January 11, 2018

KBEM Radio Station
 Statements of Assets, Liabilities and Net Assets – Regulatory Basis of Accounting
 June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 165,779	\$ 210,609
Receivables		
Grant	59,505	125,613
Membership	8,260	5,575
Other asset	35,890	36,027
Total current assets	269,434	377,824
Non-Current Assets		
Property and equipment	475,257	462,507
Less accumulated depreciation	(391,162)	(369,631)
Property and equipment, net	84,095	92,876
	\$ 353,529	\$ 470,700
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 26,768	\$ 29,801
Accrued expenses	71,438	73,857
Deferred revenue	35,890	36,027
Total current liabilities	134,096	139,685
Net Assets		
Unrestricted		
Invested in capital assets	84,095	92,876
Undesignated	135,338	238,139
Total unrestricted	219,433	331,015
	\$ 353,529	\$ 470,700

KBEM Radio Station

Statement of Support and Revenue, Expenses and Changes in Net Assets – Regulatory Basis of Accounting
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Program revenue - MnDOT	\$ 200,000	\$ -	\$ 200,000
Grant revenue	226,825	28,427	255,252
Contributions			
Members	538,603	-	538,603
Underwriting	92,059	-	92,059
Events	22,283	-	22,283
Matching	8,441	-	8,441
In-kind	53,520	-	53,520
In-kind sponsorships	87,217	-	87,217
Net assets released from restriction	28,427	(28,427)	-
Total support and revenue	<u>1,257,375</u>	<u>-</u>	<u>1,257,375</u>
Expenses			
Program services	1,106,901	-	1,106,901
Management and general	159,904	-	159,904
Fundraising and membership development	102,152	-	102,152
Total expenses	<u>1,368,957</u>	<u>-</u>	<u>1,368,957</u>
Change in Net Assets	(111,582)	-	(111,582)
Net Assets, Beginning of Year	<u>331,015</u>	<u>-</u>	<u>331,015</u>
Net Assets, End of Year	<u>\$ 219,433</u>	<u>\$ -</u>	<u>\$ 219,433</u>

KBEM Radio Station
Statement of Support and Revenue, Expenses and Changes in Net Assets – Regulatory Basis of Accounting
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Program revenue - MnDOT	\$ 200,000	\$ -	\$ 200,000
Grant revenue	237,151	30,214	267,365
Contributions			
Members	498,270	-	498,270
Underwriting	83,211	-	83,211
Events	11,040	-	11,040
Matching	7,775	-	7,775
Other	5,376	-	5,376
In-kind	55,378	-	55,378
In-kind sponsorships	60,923	-	60,923
Net assets released from restriction	30,214	(30,214)	-
Total support and revenue	<u>1,189,338</u>	<u>-</u>	<u>1,189,338</u>
Expenses			
Program services	1,044,901	-	1,044,901
Management and general	124,494	-	124,494
Fundraising and membership development	99,996	-	99,996
Total expenses	<u>1,269,391</u>	<u>-</u>	<u>1,269,391</u>
Change in Net Assets	(80,053)	-	(80,053)
Net Assets, Beginning of Year	<u>411,068</u>	<u>-</u>	<u>411,068</u>
Net Assets, End of Year	<u>\$ 331,015</u>	<u>\$ -</u>	<u>\$ 331,015</u>

KBEM Radio Station
 Statements of Cash Flows – Regulatory Basis of Accounting
 Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (111,582)	\$ (80,053)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	21,532	22,311
Changes in operating assets and liabilities		
Receivables	63,423	(73,919)
Other asset	137	(36,027)
Accounts payable	(3,033)	17,184
Accrued expenses	(2,419)	(25,615)
Deferred revenue	(137)	36,027
	(32,079)	(140,092)
Net Cash from (used for) Operating Activities		
Cash Flow used in Investing Activity		
Purchase of property and equipment	(12,751)	-
	(44,830)	(140,092)
Net Change in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	210,609	350,701
Cash and Cash Equivalents, End of Year	\$ 165,779	\$ 210,609

Note 1 - Nature of Activities and Reporting Entity

Nature of Activities

KBEM Radio Station (the Station) was founded in 1970 as a sub department of Special School District No. 1 (the District) and is considered to be a special purpose government engaged primarily in business-type-activities (BTA) to establish non-commercial community radio as an alternative to other Twin Cities stations, to fill the voids in music and news left by traditional broadcasters, to provide access to airwaves for the public at large and to empower community members to use radio broadcasting.

The individuals that work for the Station are all employees of the District.

Basis of Accounting

The Station is a special purpose government of the District that would normally follow the accounting standards proscribed by the Government Auditing Standards Board (GASB). However, the Station is regulated by the Corporation for Public Broadcasting (CPB) who has instructed the Station to follow the accounting standards proscribed by the Financial Accounting Standards Board (FASB), because the Station's primary source of revenue is from contributions (not from government grants or taxes). In accordance with this direction, the Station has prepared the accompanying financial statements in accordance with FASB and considers the financial statements to be prepared in accordance with the regulatory basis of accounting.

The Station's financial statements are intended to present the assets, liabilities, net assets, support and revenue, expenses and changes in net assets, and cash flows of only that portion of the funds of the District that are attributable to the transactions of the Station. The financial statements of the Station have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

The Station considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Station are excluded from this definition.

Cash balances of the Station are pooled with cash balances of the District. Amounts owed to the Station are reported as cash and cash equivalents. All of the cash allocated to the Station in the District's pooled cash balances have original maturities of three months or less.

Receivables and Credit Policies

Receivables consist primarily of noninterest-bearing amounts due from grants received or membership. The Station determines the allowance for uncollectable receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivable are written off when deemed uncollectable. At June 30, 2017 and 2016, no allowance for uncollectable receivables is deemed necessary.

Property and Equipment

Capital assets with a value in excess of \$500 are capitalized. Capital assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets.

Furniture and fixtures	10 years
Computers and software	10 years

The Station reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2017 and 2016, respectively.

Deferred Revenue

Revenue is recognized when earned. Grant revenue under cost-reimbursable or exchange contracts received in advance are deferred to the applicable period in which related services are performed or expenditures are incurred, respectively. As of June 30, 2017 and 2016, the amount of deferred revenue recognized is \$35,890 and \$36,027, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted net assets invested in capital assets consist of capital assets, net of accumulated depreciation.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Station and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Station's Board of Directors.

The Station reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Station had temporarily restricted net assets of \$0 as of June 30, 2017 and 2016, respectively.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Station. The restrictions stipulate that resources be maintained permanently but permit the Station to expend the income generated in accordance with the provisions of the agreements.

The Station did not have permanently restricted net assets as of June 30, 2017 and 2016.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions and certain grant revenue is recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Donated Services, In-Kind Contributions, and In-Kind Sponsorships

Volunteers contribute significant amounts of time to the Station's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. Donated sponsorships are recorded at the respective fair values of the services received, which is equal to the services to be exchanged.

Income Taxes

Because the Station is a department of Special School District No. 1, the Station is exempt from income taxes as a part of the District under Internal Revenue Service Code Section 115. Accordingly, the financial statements do not reflect a provision for income taxes.

Estimates

Management may be required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Credit Risk

Credit risk associated with cash, receivables and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from members, governmental agencies, and foundations supportive of the Station's mission.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of support and revenue, expenses and changes in net assets – regulatory basis of accounting. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The Station has evaluated subsequent events through January 11, 2018, the date which the financial statements were available to be issued.

Note 2 - Property and Equipment

Capital assets for the years ended June 30, 2017 and 2016, were as follows:

	2017	2016
Capital assets being depreciated for radio and sound equipment	\$ 475,257	\$ 462,507
Less accumulated depreciation for radio and sound equipment	391,162	369,631
Capital assets being depreciated (net)	\$ 84,095	\$ 92,876

Depreciation expense was \$21,532 and \$22,311 for the years ended June 30, 2017 and 2016, respectively.

Note 3 - Grants

The Station received Community Service Grants (CSG) from the Corporation for Public Broadcasting (CPB). CPB is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual CSGs to qualifying public broadcasting entities. CSGs are used to supplement the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two years as described in the Communication Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization. A portion of the CSG grant from CPB in each of the last two years, was considered to be restricted and has been accounted for within the temporarily restricted net asset activity on the statement of activities. The grant restrictions were met during the year, resulting in the grant being released from restrictions.

The Station also receives grants from the State of Minnesota for equipment and other expenses.

For the years ended June 30, 2017 and 2016, grants consisted of the following:

	2017	2016
Community Service grants (CPB)	\$ 109,870	\$ 116,520
Arts and Culture Heritage Fund grant	93,190	97,157
Community Service and Equipment grant	31,732	47,438
Bluegrass/NEA grant	10,000	6,250
Other	10,460	-
	\$ 255,252	\$ 267,365

Note 4 - Program Revenue

The Station broadcasts traffic information pursuant to a contract with the Minnesota Department of Transportation (MnDOT). The contract may be terminated by the Station or MnDOT by written notification with a minimum of 90 days' notice to the other party. If sufficient funding is not provided by the State of Minnesota or other funding source, MnDOT has the authority to immediately terminate the contract. The contract in place during the year ended June 30, 2017, runs from July 1, 2015, through June 30, 2017. The Station recognized contract revenue of \$200,000 during each of the years ended June 30, 2017 and 2016.

Note 5 - Related Party Transactions

The Station receives administrative support from the District. Additionally, cash balances of the Station are pooled with cash balances of the District. Administrative support provided by the District is valued based on the square footage occupied by the Station and the cost charged to third parties to lease similar space from the District. The statement of assets, liabilities, and net assets – regulatory basis of accounting, and the statement of support and revenue, expenses and changes in net assets – regulatory basis of accounting, include the following related party transactions for the years ended June 30, 2017 and 2016:

<u>Related Party Transactions</u>	<u>Statement Line Item</u>	<u>2017</u>	<u>2016</u>
In-kind contribution	In-kind contributions	<u>\$ 22,085</u>	<u>\$ 22,474</u>
Pooled cash	Cash and cash equivalents	<u>\$ 165,779</u>	<u>\$ 210,609</u>

Note 6 - Compensated Absences

The individuals that work for the Station are employees of the District. As such, the Station has recorded the portion of compensated absences it is responsible for. The District employees receive severance pay and employees receive this severance pay upon any separation, except for discharge with cause, at a rate equal to 50% of the employee's accumulated unused sick leave balance, not to exceed 900 hours. Employees also receive 100% of their accrued vacation balance up to 26 days upon separation. The total amount of accrued sick and vacation pay was \$26,092 and \$31,820 at June 30, 2017 and 2016, respectively.