

KBEM Radio Station
Audited Financial Statements
June 30, 2019 and 2018

bergankDV

**KBEM Radio Station
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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

We have audited the accompanying financial statements of KBEM Radio Station (the Station), which comprise the statement of assets, liabilities and net assets (regulatory basis of accounting) as of June 30, 2019, and the related statements of support and revenue, expenses and changes in net assets, functional expenses, and cash flows (regulatory basis of accounting) for the year then ended, and the related notes to 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 the financial reporting provisions of Section 3 of the Financial Reporting Guidelines of the Corporation for Public Broadcasting; 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 required 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 Station'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 in the first paragraph present fairly, in all material respects, the operations of KBEM Radio Station, as of June 30, 2019 and 2018 and the changes in its net assets and its cash flows for the year then ended in conformity 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.

Other Matters

Emphasis of Matter – Basis of Accounting

We also 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.

Emphasis of Matter – Prior Year Financial Statements

The financial statements of the Station for the year ended June 30, 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on November 14, 2018.

Emphasis of Matter – Adoption of Accounting Standard

As discussed in Note 1 to the financial statements, in 2019, the Station adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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.

BergankDV, Ltd.

St. Cloud, Minnesota
January 27, 2020

FINANCIAL STATEMENTS

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KBEM Radio Station
Statement of Assets, Liabilities, and Net Assets - Regulatory Basis of Accounting
As of June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 26,168	\$ 103,830
Accounts receivable	-	8,710
Grants receivable	74,559	70,719
Total current assets	100,727	183,259
Property and equipment, net	63,359	76,478
Total assets	\$ 164,086	\$ 259,737
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 8,783	\$ 21,914
Accrued expenses	87,889	74,908
Total current liabilities	96,672	96,822
Net assets		
Without donor restrictions	67,414	156,613
With donor restrictions	-	6,302
Total net assets	67,414	162,915
Total liabilities and net assets	\$ 164,086	\$ 259,737

KBEM Radio Station
Statement of Support and Revenue, Expenses and Change
in Net Assets - Regulatory Basis of Accounting
Year Ended June 30, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Public Support and Revenue			
Grant revenue	\$ 214,863	\$ 30,407	\$ 245,270
Contributions			
Members	554,826	-	554,826
Underwriting	74,495	-	74,495
Other	7,316	-	7,316
In-kind	38,793	-	38,793
In-kind sponsorships	60,438	-	60,438
Program revenue - MnDOT	200,000	-	200,000
Net assets released from restriction	36,709	(36,709)	-
Total public support and revenue	<u>1,187,440</u>	<u>(6,302)</u>	<u>1,181,138</u>
Expenses			
Program services	998,283	-	998,283
Supporting services			
Management and general	184,551	-	184,551
Fundraising	93,805	-	93,805
Total expenses	<u>1,276,639</u>	<u>-</u>	<u>1,276,639</u>
Change in net assets	(89,199)	(6,302)	(95,501)
Net Assets			
Beginning of year	<u>156,613</u>	<u>6,302</u>	<u>162,915</u>
End of year	<u>\$ 67,414</u>	<u>\$ -</u>	<u>\$ 67,414</u>

KBEM Radio Station
Statement of Support and Revenue, Expenses and Change
in Net Assets - Regulatory Basis of Accounting
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Grant revenue	\$ 237,577	\$ 29,579	\$ 267,156
Contributions			
Members	548,068	-	548,068
Underwriting	91,153	-	91,153
Other	12,169	-	12,169
In-kind	35,639	-	35,639
In-kind sponsorships	67,181	-	67,181
Program revenue - MnDOT	200,000	-	200,000
Net assets released from restriction	23,277	(23,277)	-
Total public support and revenue	1,215,064	6,302	1,221,366
Expenses			
Program services	1,046,671	-	1,046,671
Supporting services			
Management and general	137,597	-	137,597
Fundraising	93,616	-	93,616
Total expenses	1,277,884	-	1,277,884
Change in net assets	(62,820)	6,302	(56,518)
Net Assets			
Beginning of year	219,433	-	219,433
End of year	\$ 156,613	\$ 6,302	\$ 162,915

KBEM Radio Station
Statement of Functional Expenses - Regulatory Basis of Accounting
Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Taxes and Benefits				
Salaries	\$ 552,929	\$ 55,503	\$ 71,827	\$ 680,259
Payroll taxes and benefits	<u>117,465</u>	<u>17,228</u>	<u>21,978</u>	<u>156,671</u>
Total salaries and related taxes and benefits	670,394	72,731	93,805	836,930
Expenses				
Consulting fees	181,201	-	-	181,201
Telephone	-	965	-	965
Postage and express	-	5,646	-	5,646
Workshop, registration, and mileage	-	195	-	195
Printing	-	456	-	456
Rentals	-	51,505	-	51,505
General supplies	-	30,026	-	30,026
Membership dues and licensing	54,380	-	-	54,380
In-kind sponsorships	60,438	-	-	60,438
Donated space	6,000	23,027	-	29,027
Donated materials	<u>9,766</u>	<u>-</u>	<u>-</u>	<u>9,766</u>
Total expenses before depreciation	982,179	184,551	93,805	1,260,535
Depreciation	<u>16,104</u>	<u>-</u>	<u>-</u>	<u>16,104</u>
Total expenses by function	<u>\$ 998,283</u>	<u>\$ 184,551</u>	<u>\$ 93,805</u>	<u>\$ 1,276,639</u>

KBEM Radio Station
Statements of Cash Flows - Regulatory Basis of Accounting
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows - Operating Activities		
Change in net assets	\$ (95,501)	\$ (56,518)
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	16,104	18,762
Change in operating assets and liabilities:		
Receivables	4,870	(11,664)
Other asset	-	35,890
Accounts payable	(13,131)	(4,854)
Accrued expenses	12,981	3,470
Deferred revenues	-	(35,890)
Total adjustments	20,824	5,714
Net cash flows - operating activities	(74,677)	(50,804)
 Cash Flows - Investing Activities		
Purchases of equipment	(2,985)	(11,145)
Net cash flows - investing activities	(2,985)	(11,145)
 Net change in cash and cash equivalents	(77,662)	(61,949)
 Cash and Cash Equivalents		
Beginning of year	103,830	165,779
End of year	\$ 26,168	\$ 103,830

See notes to financial statements.

KBEM Radio Station
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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 prescribed 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 prescribed 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, functional expenses, 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.

Use of Estimates

Management may be required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 these estimates.

Cash and Cash Equivalents

The Station considers cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

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.

KBEM Radio Station
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables consist primarily of noninterest-bearing amounts due from grants. The Station determines the allowance for uncollectable receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectable. At June 30, 2019 and 2018, 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 life of the assets.

Furniture and fixtures	10 years
Computers and software	10 years

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has determined that no impairment existed at June 30, 2019 and 2018.

Net Assets

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

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

KBEM Radio Station
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions and 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. Contributed goods and use of long-lived assets (facilities and tower space) 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 commensurate value of services to be exchanged. In-kind sponsorships are recognized when earned.

Functional Allocation of Expenses

The costs of providing the program and supporting services 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 program and supporting services benefited. The expenses that are allocated include salaries and employee benefits which are allocated on the basis of estimates of time and effort.

Tax Status

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.

Subsequent Events

The Station has evaluated subsequent events through January 27, 2020, the date which the financial statements were available to be issued.

KBEM Radio Station
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-For-Profit Entities

The Station adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958). This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions; expands disclosures about liquidity; and requires expenses to be reported by their function and natural classification. The ASU has been adopted retrospectively except for liquidity and the reporting of expenses by function and natural classification, which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Station's financial statements.

Recently Issued Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect organizations that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Station is currently evaluating the impact this standard will have on its consolidated financial statements.

Clarifying Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This update clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. Early adoption is permitted. This update is effective for annual reporting periods beginning after December 15, 2018. The Station is currently evaluating the impact of the adoption of this guidance on its financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the statement of financial position. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. In November 2019, the FASB issued ASU No. 2019-10 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Station is currently evaluating the impact this standard will have on its financial statements.

KBEM Radio Station
Notes to Financial Statements

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise of the following:

	2019
Cash and cash equivalents	\$ 26,168
Grants receivable	74,559
Total financial assets available for general expenditures	\$ 100,727

The Station does not have a formal policy, however it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Station would invest cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

NOTE 3 – PROPERTY AND EQUIPMENT

	2019	2018
Radio and sound equipment	\$ 489,387	\$ 486,402
Less accumulated depreciation	(426,028)	(409,924)
Property and equipment, net	\$ 63,359	\$ 76,478

Depreciation expense was \$16,104 and \$18,762 for the years ended 2019 and 2018, respectively.

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

	2019	2018
Restricted for purpose - radio programming	\$ -	\$ 6,302
	2019	2018
Net assets released from restriction - radio programming	\$ 36,709	\$ 23,277

KBEM Radio Station
Notes to Financial Statements

NOTE 5 – 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). 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 with donor restrictions activity on the statement of support and revenue, expenses, and changes in net assets – regulatory basis of accounting. Certain 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.

Grants consisted of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Community Service grants (CPB)	\$ 30,407	\$ 43,115
Arts and Culture Heritage Fund grant	102,228	89,215
Community Service and Equipment grant	82,923	105,294
Bluegrass/NEA grant	<u>29,712</u>	<u>29,532</u>
Total grant revenue	<u>\$ 245,270</u>	<u>\$ 267,156</u>

NOTE 6 – 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 within 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, 2019, runs from July 1, 2018 through June 30, 2020. The Station recognized contract revenue of \$200,000 during each of the years ended June 30, 2019 and 2018.

KBEM Radio Station
Notes to Financial Statements

NOTE 7 – RELATED PARTY TRANSACTIONS

The Station receives administrative support from the District. Administrative support provided by the District is valued based on square footage occupied by the Station and the cost charged to third parties to lease similar space from the District. In-kind contributions from the District totaled \$23,027 and \$22,153 for 2019 and 2018, respectively.

Cash balances of the Station are pooled with cash balances of the District. All cash and cash equivalents of \$26,168 and \$103,831 were pooled with the District's cash balances at June 30, 2019 and 2018, respectively.

NOTE 8 – 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 \$36,103 and \$33,670 at June 30, 2019 and 2018, respectively and is included in accrued expenses on the statements of assets, liabilities, and changes in net assets – regulatory basis of accounting.

NOTE 9 – RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation used in the current year financial statements.