

KACV-TV
A PUBLIC TELECOMMUNICATIONS
OPERATION OF AMARILLO COLLEGE
Amarillo, Texas

FINANCIAL STATEMENTS
August 31, 2018 and 2017

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statements of Net Position.....	10
Statements of Revenue, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13

Independent Auditor's Report

The Board of Regents
Amarillo College
Amarillo, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of KACV-TV (the Station), a public telecommunications operation of Amarillo College (the College), which comprise the statements of net position as of August 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position and cash flow for the years 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 the financial reporting provisions of the Corporation for Public Broadcasting as described in Note 1. 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 audits 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 above present fairly, in all material respects, the financial position of the Station as of August 31, 2018 and 2017, and the respective changes in its financial position and cash flows for the years then ended in accordance with the provisions of the Corporation for Public Broadcasting described in Note 1.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, the changes in net position and cash flows of only the portion of the College's transactions that is attributable to the Station. They do not purport to, and do not, present fairly the financial position of the College, as of August 31, 2018 and 2017, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions 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 comply with the requirements of the Corporation for Public Broadcasting. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Restriction on use

This report is intended solely for the information and use of management, Board of Regents, and others within the Corporation for Public Broadcasting and is not intended to be and should not be used by anyone other than these specified parties.

Connor, McMillon, Mitchell & Sherrum, PLLC

Amarillo, Texas
January 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

KACV-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended August 31, 2018

INTRODUCTION

The following discussion and analysis is an overview of the financial position and activities of KACV-TV (the Station) for the year ended August 31, 2018. KACV-TV is a part of and is operated by Amarillo College (the College). Operations and activities relating to the Station officially began on September 1, 1987, and broadcasting began on August 29, 1988.

KACV-TV is the public television station serving the citizens of the Texas Panhandle. As a free, over-the-air service providing enlightening, intelligent, entertaining, educational, non-commercial programming, the Station serves the mostly rural 26 counties of the Texas Panhandle, covering approximately 26,000 square miles. KACV-TV reaches 140,000 television households or approximately 412,000 individuals.

KACV-TV is a department of Amarillo College in the division of Communication and Marketing, and the Amarillo College Board of Regents holds the license for the television station. The Board of Regents approves the Station's budget, which is also reviewed by the Station's community advisory council (discussed in more detail below). KACV-TV must also adhere to the Federal Communications Commission (FCC) guidelines as a licensed non-commercial, educational television station.

The Station is required by the Corporation for Public Broadcasting (CPB) to appoint a community advisory council from within its viewing area and to hold advisory council meetings at least quarterly. The advisory council provides a vehicle for effective community input to the Station's governing body and license holder and to Station management regarding programming, community service and outreach activities and policies that impact the specific needs of the community. The advisory council is comprised of not more than 20 members serving staggered three-year terms. Two Amarillo College Board of Regents' members and the College President serve in an ex-officio capacity on the council. Station senior staff interacts with council members on a regular basis in both formal and informal conversations.

BACKGROUND

KACV-TV began operation in August 1988 as the Panhandle's only PBS member station. Licensed to Amarillo College, the station extends the community college philosophy of improving the quality of life for all residents and also the College mission to enrich the lives of AC students and the entire Texas panhandle. The Station operates digital channels 2.1, 2.2 and 2.3 twenty-four hours a day, seven days a week.

In addition to providing quality PBS programming, the Station has a long history of producing local content that address timely concerns and celebrates the region. KACV-TV has been the recipient of numerous honors including the Edward R. Murrow and Barbara Jordan awards for outstanding documentary productions.

KACV-TV broadcasts on Channel 2.1 in digital high definition carrying PBS programming. Channel 2.2 carries PBS Kids 24/7 programming in standard definition, and channel 2.3 carries Create TV in standard definition, with cooking, travel, home improvement, gardening, arts and crafts and other lifestyle interest programming.

KACV-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended August 31, 2018

FINANCES AND FUNDRAISING

KACV-TV relies on three primary funding sources: Amarillo College, the CPB, and the community it serves. The College provides support through direct contribution and in-kind services. Funding from the CPB comes to the Station in the form of annual grants. Local community support includes individual Station membership and corporate/foundation underwriting support. The Station also receives a few project-specific grants annually.

This section of the Station's financial statements presents our discussion and analysis of the Station's financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the financial statements and notes to the financial statements that follow this letter. The independent auditor's report on the Station's financial statements can be found on page 1 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Station exceeded its liabilities by \$ 6,667,656 (net position). Of this amount, \$ 836,691 is invested in capital assets. The Station also has an endowment of \$ 1,500,000 and restricted funds of \$ 1,269,380. The remaining portion, \$ 3,061,585 is unrestricted.
- Total assets increased \$ 8,664 from the prior year. This was primarily a result of an increase in short-term investments of \$ 416,273 and a reduction of \$ 286,861 in net capital assets from depreciation exceeding new capital additions.
- Total liabilities decreased \$ 27,789 from the prior year. Two factors make up most of the decrease, accrued liabilities & accounts payable increased \$ 16,917, and unearned support and revenue decreased by \$ 44,706.
- Net position increased \$ 36,453 over the prior year, as compared to an increase of \$220,950 in the previous year. This was the result of a decrease of \$ 286,861 in net investment in capital assets and an increase of \$ 323,314 in restricted and unrestricted assets.
- CPB grant revenue decreased \$ 22,539 or 2.58% from the prior year. The majority of this decrease came from the Corporation for Public Broadcasting Community Service Grant decreasing from the prior year. Membership revenue increased \$ 5,298 while underwriting revenue increased by \$ 24,509 or 15.4% from the prior year. The underwriting increase was due to an increased focus on underwriting opportunities in the community.
- Total expenses increased by \$ 124,648 or 4.37% as compared to a decrease of \$ 73,148 or 2.5% in the previous year. This was due to expense increases in programming, program information, community engagement, and management. Expenses for broadcasting, fundraising and underwriting decreased due to a position reclassification and extended maintenance on equipment.

**KACV-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended August 31, 2018**

FINANCIAL HIGHLIGHTS (CONTINUED)

- Capital equipment acquisitions totaled \$27,192, for new studio set pieces and a small expansion of the Station's media server equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Station's financial statements. For financial reporting purposes, the Station is a public telecommunications operation of the College and information concerning it is included in the College's financial statements because of the College's oversight responsibility of the Station's activities.

The financial statements of the Station are comprised of two components: 1) financial statements and 2) notes to the financial statements. The financial statements can be found on pages 10 through 12 of this report, and the notes to the financial statements can be found on pages 13 through 25.

The financial statements of the Station have been prepared on the accrual basis of accounting in accordance with *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*, published by the CPB. The Statement of Net Position presents information on all of the Station's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Station is improving or deteriorating. The Statement of Revenue, Expenses, and Changes in Net Position presents information showing how the Station's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Statement of Cash Flows is next, which reports cash receipts, cash payments, and net changes in cash from the prior year broken down by operating, capital and related financing, and investing activities. Following the financial statements are the notes to the financial statements, which provide additional information pertaining to the Station's accounting policies, sources of revenue, changes in fixed assets, and other account detail.

FINANCIAL ANALYSIS

The following tables summarize the Station's net position and changes in net position for the most recent two years:

NET POSITION

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current assets	\$ 7,247,357	\$ 6,951,832	\$ 295,525
Capital assets	836,691	1,123,552	(286,861)
Total assets	<u>8,084,048</u>	<u>8,075,384</u>	<u>8,664</u>

**KACV-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended August 31, 2018**

FINANCIAL ANALYSIS (CONTINUED)

NET POSITION

(Continued)	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current liabilities	1,416,392	1,444,181	(27,789)
Total liabilities	<u>1,416,392</u>	<u>1,444,181</u>	<u>(27,789)</u>
Net investment in capital assets	836,691	1,123,552	(286,861)
Restricted	2,769,380	2,559,992	209,388
Unrestricted	<u>3,061,585</u>	<u>2,947,659</u>	<u>113,926</u>
Total net position	<u>\$ 6,667,656</u>	<u>\$ 6,631,203</u>	<u>\$ 36,453</u>

CHANGE IN NET POSITION

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenue			
Operating	\$ 2,555,856	\$ 2,638,746	\$ (82,890)
Nonoperating	<u>453,311</u>	<u>430,270</u>	<u>23,041</u>
Total revenue	<u>3,009,167</u>	<u>3,069,016</u>	<u>(59,849)</u>
Expenses			
Operating and nonoperating	<u>2,972,714</u>	<u>2,848,066</u>	<u>124,648</u>
Change in net position	36,453	220,950	(184,497)
Net position, beginning of year	<u>6,631,203</u>	<u>6,410,253</u>	<u>220,950</u>
Net position, end of year	<u>\$ 6,667,656</u>	<u>\$ 6,631,203</u>	<u>\$ 36,453</u>

CAPITAL ASSET ACTIVITY

During the year ended August 31, 2018, the Station expended \$ 27,192 to acquire property. The acquisitions were for new studio set pieces and a small expansion of the Station's media server equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The city of Amarillo is located in both Potter and Randall Counties and is one of only two incorporated cities in the Amarillo Core Based Statistical Area (CBSA). The city of Amarillo proper

**KACV-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended August 31, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

has grown from 137,969 in 1960 to 190,695 in the 2010 census. The Amarillo CBSA, which includes both Potter and Randall Counties, has grown from 149,493 in 1960 to 249,881 in 2010.

As a result of this continued steady and manageable growth in Amarillo and the surrounding area, KACV-TV expects to experience similar economic viability. The Station continues to reach out for corporate support and grant acquisition for local productions and national PBS programming. In addition, the Station also encourages contributions from individual donors. The Station has made a concerted effort to encourage these individual donors to sustain their contributions by giving once a month, thereby providing a steady, reliable stream of income. Membership revenue has had an average annual growth rate of 2.85% over the past 3 years.

CONTACTING THE STATION'S MANAGEMENT

This financial report is designed to provide the community with a general overview of the Station's finances and to demonstrate the Station's accountability for the money it receives from charitable gifts, grants, and underwriting. If you have any questions regarding this report or would like additional information, please contact the Station at 2408 S. Jackson, Amarillo, Texas 79109 or call at 806-371-5222. Questions regarding the activities of the Station should be directed to the attention of Kevin Ball, CEO of Panhandle PBS.

FINANCIAL STATEMENTS

KACV-TV
A PUBLIC TELECOMMUNICATIONS
OPERATION OF AMARILLO COLLEGE
STATEMENTS OF NET POSITION
August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 235,532	\$ 362,752
Short-term investments	6,572,894	6,156,621
Accounts receivable, net	19,587	17,598
Costs incurred for programs not yet telecast	363,139	342,218
Prepaid expenses	<u>56,205</u>	<u>72,643</u>
Total current assets	7,247,357	6,951,832
NONCURRENT ASSETS		
Capital assets, net	<u>836,691</u>	<u>1,123,552</u>
TOTAL ASSETS	<u><u>\$ 8,084,048</u></u>	<u><u>\$ 8,075,384</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 8,050	\$ 1,438
Accrued liabilities	58,836	48,531
Unearned support and revenue	<u>1,349,506</u>	<u>1,394,212</u>
Total current liabilities	<u>1,416,392</u>	<u>1,444,181</u>
Total liabilities	<u>1,416,392</u>	<u>1,444,181</u>
NET POSITION		
Net investment in capital assets	836,691	1,123,552
Restricted for:		
Nonexpendable - endowment	1,500,000	1,500,000
Expendable - donor restrictions	1,269,380	1,059,992
Unrestricted	<u>3,061,585</u>	<u>2,947,659</u>
Total net position	<u>6,667,656</u>	<u>6,631,203</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 8,084,048</u></u>	<u><u>\$ 8,075,384</u></u>

The accompanying notes are an integral part of the financial statements.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
OPERATION OF AMARILLO COLLEGE
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Direct support from Amarillo College	\$ 381,746	\$ 389,552
State contributions to benefit plans	150,954	147,969
Donated support:		
Facilities and administrative support from		
Amarillo College	646,521	614,006
In-kind contributions	29,046	20,283
Non-cash contributions	520	100
Other contributions	-	60,795
Grants from Corporation for Public Broadcasting:		
Community service grant	699,494	721,783
Interconnection grant	13,347	13,649
Universal service support grant	137,177	137,125
Other grants	68,933	156,431
Underwriting	183,638	159,129
Memberships	208,940	203,642
Production	29,650	10,000
Other income	5,890	4,282
	<hr/>	<hr/>
Total operating revenues	2,555,856	2,638,746
OPERATING EXPENSES		
Programming and productions	1,210,478	1,014,116
Broadcasting and engineering	554,926	680,236
Program information and promotion	283,655	272,165
Community engagement	168,394	131,268
Fundraising and membership development	204,073	216,707
Underwriting and grant solicitation	73,701	73,858
Management and general	477,487	459,716
	<hr/>	<hr/>
Total operating expenses	2,972,714	2,848,066
Operating income (loss)	<hr/>	<hr/>
	(416,858)	(209,320)
NONOPERATING REVENUE (EXPENSES)		
Net increase (decrease) in fair value of investments	327,085	355,321
Investment income, net of investment expenses	126,226	74,949
	<hr/>	<hr/>
Net nonoperating revenue (expenses)	453,311	430,270
	<hr/>	<hr/>
Decrease (increase) in net position	36,453	220,950
NET POSITION, BEGINNING OF YEAR	<hr/>	<hr/>
	6,631,203	6,410,253
NET POSITION, END OF YEAR	<hr/>	<hr/>
	\$ 6,667,656	\$ 6,631,203

The accompanying notes are an integral part of the financial statements.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
STATEMENTS OF CASH FLOWS
Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of grants and contracts	\$ 1,254,002	\$ 1,520,252
Receipts from underwriting	183,638	159,129
Receipts from memberships	208,940	203,642
Receipts from production	29,650	10,000
Other receipts	5,890	4,282
Payments for payroll and suppliers of goods and services	(1,819,186)	(1,731,051)
Net cash provided (used) by operating activities	<u>(137,066)</u>	<u>166,254</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets, net	(27,192)	(97,394)
Net cash used by capital and related financing activities	<u>(27,192)</u>	<u>(97,394)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on the sale of investments	3,080,182	2,483,247
Purchases of investments	(3,169,370)	(2,654,808)
Investment earnings	126,226	74,949
Net cash provided (used) by investing activities	<u>37,038</u>	<u>(96,612)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(127,220)	(27,752)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	362,752	390,504
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 235,532</u>	<u>\$ 362,752</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (416,858)	\$ (209,320)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	314,053	332,653
Change in assets and liabilities:		
Accounts receivable, net	(1,989)	(8,164)
Prepaid expenses	16,438	(13,271)
Costs incurred for programs not yet telecast	(20,921)	9,978
Accounts payable	6,612	(2,049)
Accrued liabilities	10,305	7,348
Unearned support and revenue	(44,706)	49,079
Net cash provided (used) by operating activities	<u>\$ (137,066)</u>	<u>\$ 166,254</u>
Noncash:		
Change in fair value of investments	\$ 161,900	\$ 344,540
In-kind contributions	29,566	20,383

The accompanying notes are an integral part of the financial statements.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 1 - GENERAL

KACV-TV (the Station) is part of and is operated by Amarillo College (the College). Operations and activities relating to the Station officially began on September 1, 1987 and broadcasting began on August 29, 1988. The accompanying financial statements have been prepared in accordance with the Corporation for Public Broadcasting (CPB) guidelines which are a regulatory basis of accounting and not U.S. generally accepted accounting principles (U.S. GAAP). The CPB follows the governmental accounting standard guidelines with the exception of the implementation of Governmental Accounting Standards Board (GASB) 68 and 75 which have not been presented as required by the CPB. The financial statements of the Station are intended to present the net position and changes in net position of only that portion of the financial reporting entity of the College that is attributable to transactions of the Station. Financial statements of the entire operations of the College have been separately issued.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Station's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments and Investment Income

The Station follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments generally are reported at fair value, and all investment income, including changes in the fair value of investments, is recognized as nonoperating revenue (expenses) in the statements of revenue, expenses and changes in net position.

Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. The specific identification method of determining cost is used to calculate realized gain or loss. Donated investment securities are recorded at fair value at the date of receipt.

Investments are classified as short-term if they have maturities of less than one year at the balance sheet date or have longer maturity dates and the Station plans to sell the investment during the next fiscal year. Investments are classified as long-term if they have maturity dates more than one year past the balance sheet date or if management intends to hold the investments for long-term investment purposes.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB. The Station had no items classified as deferred inflows as of August 31, 2018 and 2017.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt. The Station had no items classified as deferred outflows as of August 31, 2018 and 2017.

Programs Not Yet Telecast

Costs incurred for programs not yet telecast relate to programs that will be broadcast principally in the next fiscal year. Grants and contributions relating to programs not yet telecast are included as deferred support and revenue. As the programs are telecast, the costs incurred are included in operating expenses and the deferred revenue is included in operating revenues.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The capitalization policy includes items valued at \$5,000 or more and a useful life of greater than two years. Renovations of \$100,000 or more to buildings, infrastructures, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings	50 years
Facilities and other improvements	20 years
Furniture, machinery, vehicles and other equipment	10 years
Telecommunications and peripheral equipment	5 years

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions and grants are recorded as revenue in the statements of revenue, expenses and changes in net position when received unless deferred as discussed elsewhere. Pledges are generally not legally enforceable and are recognized as revenue when collected. Legally enforceable installment pledges are recorded as revenue and receivables at the time the pledge is made. No significant pledges were outstanding at August 31, 2018 and 2017. An allowance for uncollectible pledges is recorded when considered appropriate. Underwriting for programming is recorded as deferred revenue and recognized as revenue ratably over the term of the underwriting agreement.

Contributions and grants restricted by the donor or grantor for particular operating purposes or for plant acquisitions are deemed to be earned and reported as operating revenues or as capital additions, respectively, when the Station has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as unearned amounts.

When both restricted and unrestricted resources are available for use it is the Station's practice to use restricted resources first and then unrestricted resources as they are needed.

Operating and Nonoperating Revenue and Expense Policy

The Station distinguishes operating revenues and expenses from nonoperating items. The Station reports as a business-type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the Station's principal ongoing operations. The principal operating revenues are grants, contributions, underwriting, and membership income. The major nonoperating revenue is investment income. Operating expenses include programming and broadcasting expenses, administrative expenses, and depreciation on capital assets.

In-kind Contributions

During 2018 and 2017 donated personal services of volunteers were not significant.

Other in-kind donated items are also recorded as operating revenues and operating expenses in the accompanying statements of revenue, expenses and changes in net position at estimated fair value. Other donated items included in revenues amounted to \$29,566 and \$20,383 for 2018 and 2017, respectively. These amounts were recorded in operating expenses as follows:

	<u>2018</u>	<u>2017</u>
Broadcasting	\$ 6,900	\$ -
Production and promotion	-	2,750
Management and underwriting	1,200	-
Outreach	20,233	17,533

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind Contributions (Continued)

	<u>2018</u>	<u>2017</u>
Membership	713	-
Engagement	<u>520</u>	<u>100</u>
Total	<u>\$ 29,566</u>	<u>\$ 20,383</u>

Donated facilities from the College consist of office and studio space and are recorded in revenue and expense at estimated fair values. Related occupancy costs are recorded at actual allocable costs. Administrative support from the College consists of allocated departmental costs and certain other expenses incurred by the College on behalf of the Station.

Income Taxes

The Station, as part of the College, which is a political subdivision of the State of Texas, is exempt from paying federal income taxes under Code Section 115 of the Internal Revenue Code (IRC) except to the extent it has unrelated business taxable income.

Estimates

The preparation of financial statements requires management 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, expenses and other changes during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash and cash equivalents included on the Statements of Net Position, consist of the items reported below:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents		
Demand deposits	\$ (544,282)	\$ (417,979)
TexPool	<u>779,814</u>	<u>780,731</u>
Total cash and cash equivalents	<u>\$ 235,532</u>	<u>\$ 362,752</u>

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The following represents a reconciliation of deposits and investments:

<u>Type of Security</u>	<u>Market Value</u>	
	<u>2018</u>	<u>2017</u>
Mutual funds/money market	\$ 5,174,073	\$ 4,748,902
Certificates of deposit	<u>1,398,821</u>	<u>1,407,719</u>
Total investments	6,572,894	6,156,621
Cash and cash equivalents	<u>235,532</u>	<u>362,752</u>
Total deposits and investments	<u>\$ 6,808,426</u>	<u>\$ 6,519,373</u>

As of August 31, 2018, the Station had the following investments and maturities:

<u>Investment type</u>	<u>Market Value</u>	<u>Investment Maturities (Years)</u>	<u>Security Rating</u>
Endowed mutual funds/ money market	\$ 5,174,073	Less than 1 year	Unrated - BBB
Certificates of deposit	<u>1,398,821</u>	Less than 1 year	-
Total market value	<u>\$ 6,572,894</u>		

Interest Rate Risk - Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. In accordance with state law and Board policy, the Station does not purchase any investments with maturities greater than one year except for endowed funds which can be invested to a maximum of five years. The Station uses the specific identification method to disclose interest rate risk.

Credit Risk - In accordance with state law and the Station's investment policy, with the exception of endowed investments, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A.

Custodial Credit Risk - For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Station will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Station is not exposed to custodial credit risk for its deposits and investments as all are insured, registered and held by the Station or by its agent in the Station's name.

Participation in External Investment Pools

As of August 31, 2018 and 2017, the carrying amount of amounts invested in investment pools was \$779,814 and \$780,731, respectively. Investment pools are recorded at cost, which

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

approximated market value at August 31, 2018 and 2017. All investment pools are uninsured and are not registered with the Securities and Exchange Commission. Investment pools are not subject to custodial credit risk, as they are not evidenced by securities that exist in physical or book entry form.

The Station's investment in investment pools is TexPool Participant Services. TexPool Participant Services' regulatory oversight agent is the Texas Treasury Safekeeping Trust Company and their credit risk rating is AAAM. Their financial reports may be obtained by writing Federated Investors Management Company, 1001 Texas Avenue, Suite 1400, Houston, Texas, 77002.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Station follows GASB Statement No. 72 *Fair Value Measurement and Applications*, as guidance on fair value measurements. The standard established a three-level valuation hierarchy for disclosure based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset's fair value measurement level within the hierarchy is based on the lowest level of input that is significant to the valuation.

The three levels are defined as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Station uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Station measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
August 31, 2018:				
Money market mutual funds	\$ 68,046	\$ 68,046	\$ -	\$ -
Certificates of deposit	1,398,821	-	1,398,821	-
Mutual funds	<u>5,106,027</u>	<u>5,106,027</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,572,894</u>	<u>\$ 5,174,073</u>	<u>\$ 1,398,821</u>	<u>\$ -</u>
August 31, 2017:				
Money market mutual funds	\$ 59,998	\$ 59,998	\$ -	\$ -
Certificates of deposit	1,407,719	-	1,407,719	-
Mutual funds	<u>4,688,904</u>	<u>4,688,904</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,156,621</u>	<u>\$ 4,748,902</u>	<u>\$ 1,407,719</u>	<u>\$ -</u>

For the valuation of money market funds and mutual funds, at August 31, 2018 and 2017, the Station used quoted prices in principal active markets for identical assets as of the valuation date (Level 1). For the valuation of Certificates of Deposit at August 31, 2018 and 2017, the Station used significant other observable inputs as of the valuation date, particularly dealer market price for comparable investments as of the valuation date (Level 2).

A summary of investments classified according to any restrictions at August 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted investments	\$ 3,572,894	\$ 3,156,621
Restricted investments:		
Temporarily restricted	1,500,000	1,500,000
Permanently restricted	<u>1,500,000</u>	<u>1,500,000</u>
Total restricted investments	<u>3,000,000</u>	<u>3,000,000</u>
Total investments	<u>\$ 6,572,894</u>	<u>\$ 6,156,621</u>

There were no fair values of assets and liabilities measured on a nonrecurring basis at August 31, 2018 and 2017.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2018 was as follows:

	<u>Balance</u> <u>September 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31, 2018</u>
Capital assets:				
Production and broadcasting equipment	\$ 3,145,290	\$ 27,192	\$ -	\$ 3,172,482
Transmitter and antenna equipment	2,560,911	-	-	2,560,911
Furniture and fixtures	211,505	-	-	211,505
Vehicles	42,734	-	-	42,734
Membership software	<u>44,980</u>	<u>-</u>	<u>-</u>	<u>44,980</u>
Total capital assets	<u>6,005,420</u>	<u>27,192</u>	<u>-</u>	<u>6,032,612</u>
Accumulated depreciation	<u>4,881,868</u>	<u>314,053</u>	<u>-</u>	<u>5,195,921</u>
Capital assets, net	<u>\$ 1,123,552</u>			<u>\$ 836,691</u>

Capital assets activity for the year ended August 31, 2017 was as follows:

	<u>Balance</u> <u>September 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31, 2017</u>
Capital assets:				
Production and broadcasting equipment	\$ 3,047,896	\$ 97,394	\$ -	\$ 3,145,290
Transmitter and antenna equipment	2,560,911	-	-	2,560,911
Furniture and fixtures	211,505	-	-	211,505
Vehicles	42,734	-	-	42,734
Membership software	<u>44,980</u>	<u>-</u>	<u>-</u>	<u>44,980</u>
Total capital assets	<u>5,908,026</u>	<u>97,394</u>	<u>-</u>	<u>6,005,420</u>
Accumulated depreciation	<u>4,549,215</u>	<u>332,653</u>	<u>-</u>	<u>4,881,868</u>
Capital assets, net	<u>\$ 1,358,811</u>			<u>\$ 1,123,552</u>

NOTE 6 - OPERATING LEASE

The Station leased broadcast tower space for the Station-owned analog antenna and microwave equipment, as well as building space for transmitter equipment under a ten-year lease agreement, which expired in 1998. The lease had two consecutive ten-year renewal options expiring on December 31, 2008. The renewal option was not renewed and the Station paid month-to-month until the Station's digital signal including the Station-owned digital antenna and microwave equipment, digital transmitter and associated equipment was moved to the site and a lease amendment was secured in June 2011 allowing for modification of Station equipment at the site and adding two additional ten-year renewal options. In March, 2018, an amendment to the lease was signed extending the lease to December 31, 2027 and added three additional five year renewal terms. Additionally, the lease is subject to a 3% increase the first of each year. All other terms and provisions of the agreement remain in full force and effect. Rental payments in 2018 and 2017 were \$25,000 for each year.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 6 - OPERATING LEASE (CONTINUED)

The following is a schedule by years of minimum future rentals to be paid from such noncancelable operating leases as of August 31, 2018:

Year Ending <u>August 31</u>	
2019	\$ 27,197
2020	28,013
2021	28,854
2022	29,719
2023	<u>10,004</u>
	<u>\$ 123,787</u>

NOTE 7 - RESTRICTED NET POSITION AND FUNDS HELD BY OTHERS

Amarillo College Foundation, Incorporated

The Amarillo College Foundation, Incorporated (the Foundation) is a nonprofit organization with the primary purpose of supporting the educational and other activities of various entities including the College. As such, the Foundation has provided financial support to the Station since the mid-1980s and has designated various endowments and funds for the benefit of the Station.

The Foundation's Board of Directors designated a portion of the Endowment Challenge Grant funds received in 1992 and 1994 to benefit the Station. The portion of the fund designated for the Station's benefit was approximately \$1,092,000 and \$1,021,000 at August 31, 2018 and 2017, respectively. Because the assets are owned and controlled by the Foundation, and not the Station, they are not included in the accompanying financial statements. No income distributions were made to the Station during 2018 or 2017.

The Foundation has also designated certain funds to supplement the operating expenses of the Station. At August 31, 2018 and 2017, the fund balance was approximately \$1,084,000 and \$1,012,000, respectively. Because these assets are owned and controlled by the Foundation, and not the Station, they are not included in the accompanying financial statements. KACV received \$2,150 and \$182,070 in distributions from this fund during 2018 and 2017, respectively.

During 2007, the Foundation received a gift of \$1,000,000, which was specified as an endowment for the benefit of the Station. At August 31, 2018 and 2017, the opera fund balance was approximately \$1,217,000 and \$1,189,000, respectively. The endowment earnings were designated to the benefit of the Station in broadcasting opera programs. Because the assets of this endowment are controlled by the Foundation and not the Station, they are not included in the accompanying financial statements.

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 7 - RESTRICTED NET POSITION AND FUNDS HELD BY OTHERS (CONTINUED)

Amarillo Area Foundation

In 1989 the Amarillo Area Foundation (AAF) established a permanent endowment fund for the College for the benefit of the Station in the amount of \$275,000. Because the assets of this endowment are controlled by AAF, and not the Station, they are not included in the accompanying financial statements. The endowment agreement also specifies that realized gains and losses from investing activities will be added to or deducted from the original principal. Investment income on the endowment fund is available for distribution for use by the Station. No amounts were distributed during 2018 and 2017.

Other

In 1999, the Station received a \$2,500,000 gift from the Sybil B. Harrington Living Trust, of which \$1,000,000 was specified as endowment and \$1,500,000 was restricted for purchases of digital broadcasting equipment. In 2003, the Station received an additional \$1,500,000 gift from an anonymous donor that was restricted for purchase of digital broadcasting equipment. Endowment earnings are unrestricted. In 2005, the Station received an additional \$500,000 gift from an anonymous donor that was to be held as an endowment. At August 31, 2018 and 2017, designated endowment gains (losses) of approximately \$166,000 and \$180,000 were included in the Station's unrestricted net position. As of August 31, 2018 and 2017, approximately \$2.3 million of the principal and earnings restricted for purchases of equipment had been expended. The remaining principal amounts have been reflected as deferred support and revenue.

NOTE 8 - CHANGES IN UNEARNED SUPPORT AND REVENUE

The following is a summary of activity of unearned support and revenue for the years ended August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,394,212	\$ 1,345,133
Increase (decrease) in contributions and grants deferred	(44,706)	49,079
Increase (decrease) in contributions and grants due to release of deferral	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,349,506</u>	<u>\$ 1,394,212</u>

NOTE 9 - COMPENSATED ABSENCES

Full-time employees earn annual leave from eight to twelve hours per month depending on the number of years employed with the College. The College's policy is that an employee may carry

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 9 - COMPENSATED ABSENCES (CONTINUED)

his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 160 for those employees with less than five years of service, up to 200 hours for those employees with more than five years but under ten years of service, and up to 240 hours for those employees with more than ten years of service. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The Station recognized the accrued liability for the unpaid annual leave in the amount of approximately \$58,800 and \$48,500 at August 31, 2018 and 2017, respectively. Sick leave, which can be accumulated up to 120 days, is earned at the rate of eight hours per month; however, sick leave is not paid at termination. The College's policy is to recognize the cost of sick leave when utilized by employees.

NOTE 10 - STATE CONTRIBUTIONS TO BENEFIT PLANS

The State of Texas (the State) requires all employees of the College employed for one-half or more of the standard workload to participate in either the Teacher Retirement System of Texas (TRS) or an Optional Retirement Plan (ORP). Both plans provide for retirement income. State law under TRS provides for a member contribution rate of 7.7% for fiscal years 2018 and 2017, and a state contribution rate of 6.8% for fiscal years 2018 and 2017. Under ORP the percentage of participant salaries currently contributed by the State and each participant are 6.65% for both 2018 and 2017. The College contributes 1.31% for employees who were participating in the ORP prior to September 1, 1995. These contributions made directly by the State on behalf of the College for Station employees are recorded as operating revenues and operating expenses in the accompanying financial statements. State contributions to these plans for Station employees for the years ended August 31, 2018 and 2017 were \$42,223 and \$40,000, respectively. The College implemented GASB 68 during the year ended August 31, 2015. However, the Station's financial statements do not reflect this implementation due to the CPB requirements.

College employees are covered under a State-sponsored health plan. During 2018 and 2017, the State contributed \$108,731 and \$107,969, respectively, to the plan on behalf of the College for Station employees. These contributions are included as operating revenues and operating expenses in the accompanying financial statements. No direct contributions are required by the College. The College implemented GASB 75 during the year ended August 31, 2018. However, the Station's financial statements do not reflect this implementation due to CPB requirements.

For more information regarding these benefit plans, refer to the separate audited financial statements of the College.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Station receives grants from various sources. These grants are given with certain restrictions placed on their use. Management believes the Station has expended these funds in accordance

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

with the terms of the grants; however, these expenditures are subject to audit by various agencies and may be required to be refunded if found to have been expended inappropriately.

NOTE 12 – RELATED PARTY TRANSACTIONS

As mentioned in Note 1 the Station is part of Amarillo College (the College). The College provides direct and indirect support to the Station. The direct support to the Station was \$381,746 and \$389,552 in the years ended August 31, 2018 and 2017, respectively. The indirect support to the Station for facilities and administrative support was \$646,521 and \$614,006 in the years ended August 31, 2018 and 2017, respectively.

NOTE 13 - NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued several new pronouncements that the Station has reviewed for application to their accounting and reporting.

Recently Issued Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, the objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Station is currently evaluating the effect of this statement on their financial statements.

GASB Statement No. 85, *Omnibus 2017*, the objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Station has implemented this pronouncement in the current year.

GASB Statement No. 87, *Leases*, the objective of this statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were

KACV-TV
A PUBLIC TELECOMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2018 and 2017

NOTE 13 - NEW GASB PRONOUNCEMENTS (CONTINUED)

classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Station is currently evaluating the effect of this statement on their financial statements.

NOTE 14 - SUBSEQUENT EVENTS

As of December 31, 2018, the Station's investments have declined approximately \$518,000. It is management's position that this decline is temporary.

The Station has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to January 28, 2019, the date the financial statements were issued.

This information is an integral part of the accompanying financial statements.