

**BATES TECHNICAL COLLEGE,
KBTC-TV**

Audited Financial Statements and
Supplementary Information

June 30, 2018 and 2017

BATES TECHNICAL COLLEGE, KBTC-TV

Audited Financial Statements and
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Independent Auditor's Report

Board of Trustees
Bates Technical College, KBTC-TV
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Bates Technical College, KBTC-TV ("KBTC"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As described in Note 6 to the financial statements, management has not implemented GASB No. 68 *Accounting and Financial Reporting for Pensions* and GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB") as of and for the years ended June 30, 2018 and 2017. Accounting principles generally accepted in the United

Basis for Qualified Opinion (Continued)

States of America require that KBTC record its proportionate share of net pension liability and OPEB liability, which would increase the liabilities and decrease net position and increase expenses. The amount by which these departures would affect the liabilities, net position and expenses has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Bates Technical College, KBTC-TV as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

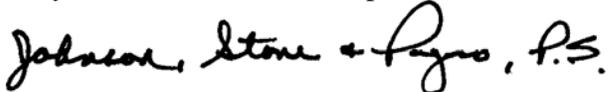
Emphasis of Matter

As discussed in Note 1, the financial statements present only KBTC-TV and do not purport to, and do not present fairly the financial position of Bates Technical College, as of June 30, 2018 and 2017, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 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 the 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.


JOHNSON, STONE & PAGANO, P.S.

November 27, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Bates Technical College, KBTC-TV
Management's Discussion and Analysis
For the Years Ended June 30, 2018 and 2017

Introduction and Reporting Entity

Management's Discussion and Analysis ("MD&A") is an overview of the financial position and activities of Bates Technical College-KBTC-TV ("KBTC") as of and for the year ended June 30, 2018 with comparative information for the year ended June 30, 2017.

Management of KBTC has prepared the following discussion. Readers should also review the Independent Auditor's Report along with the financial statements and related footnotes which follow this section to enhance their understanding of KBTC's performance.

Bates Technical College, KBTC-TV is a public television station established to encourage and promote non-commercial educational and public television broadcasting in the Tacoma and Centralia areas of Washington State. In the Centralia area, KBTC operates as KCKA-TV ("KCKA"). KBTC is operated by and licensed under Bates Technical College (the "College") and accounted for as a fund by the College. The station has a significant commitment to local interest programming, local production and growing its educational and community engagement activities.

The signal of KBTC and KCKA reaches an estimated 1.81 million households in greater western Washington, stretching from the northwestern border of Oregon to southwestern British Columbia, Canada.

Overview of the Financial Statements

The KBTC financial report consists of a series of financial statements and notes to the statements which are presented in accordance with the standards established by the Governmental Accounting Standards Board ("GASB") for the presentation of audited financial statements and note disclosures for state and local governments, and their subsidiaries.

Public Broadcasting Financial Statements

The public broadcasting entity-wide financial statements and the fund financial statements are the basic financial statements under the reporting standards of GASB. Financial information reported in the public-broadcasting financial statements uses the full-accrual method of accounting. Revenues are recognized when they are earned, and expenditures are recognized when they are incurred.

The public broadcasting financial statements present the financial activity of KBTC (the primary government entity). KCKA, which broadcasts from Centralia Washington, has its financial activity included in the KBTC financial statements.

Significant financial activities that occurred during the past year are listed and changes in financial activity from the prior year are shown.

The financial statements of KBTC consist of:

- **Statements of Net Position:** This statement presents the financial position of KBTC as of the end of the fiscal year. It classifies assets and liabilities as current or noncurrent. Generally, current liabilities are those that will be paid within one year of the date of the statement. Current assets are those that are available to satisfy current liabilities. The difference between

total assets and total liabilities, net position, is one indicator of the current financial condition of KBTC, while the change in net position is an indication of whether the overall financial condition improved or worsened during the year. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost, less an allowance for depreciation and amortization.

- **Statements of Revenues, Expenses and Changes in Net Position:** This statement presents KBTC's results of operations for the years ending June 30, 2018 and 2017.
- **Statements of Cash Flows:** This statement presents the detailed information about the major sources and uses of cash. KBTC does not maintain a separate cash account; therefore, all of KBTC's cash receipts and disbursements are reflected in the accounts of Bates Technical College.
- The notes to the financial statements provide an overview of the organization, significant accounting policies and important events.
- **Schedules of Functional Expenses:** This schedule presents the operating expenses incurred to vendors and employees for providing goods and services for the overall operations of KBTC. In addition, depreciation expense of \$346,044 and \$511,460 for 2018 and 2017, respectively, are reported.

KBTC has received a qualified opinion on the financial statements as it relates to GASB No. 68 *Accounting and Financial Reporting for Pensions* and GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB"). The pension and OPEB information and related disclosures are not currently available at KBTC's fund level and therefore we are unable to record our proportionate share of the pension and OPEB liability. This is a departure from generally accepted accounting principles, the amount by which this departure would affect the liabilities, net position and expenses has not been determined.

The Statements of Net Position include assets, liabilities and net position of KBTC as of June 30, 2018 and 2017. The balance in KBTC fund balance held by Bates Technical College is \$1,702,330, which represents cash forwarded to Bates Technical College by KBTC. The statements list capital assets of broadcast equipment, building improvements, furniture and fixtures and automobiles; the balance is \$1,306,901, net of accumulated depreciation at June 30, 2018. Fixed (capital) assets are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Net position represents the residual interest of KBTC's assets after liabilities are deducted. Restricted net position is subject to externally imposed restrictions governing their use. Although unrestricted net position is not subject to externally imposed stipulations, the majority of the station's unrestricted net position has been designated for programming, broadcasting, production and outreach projects. Station operating revenues decreased during 2018 and operating expenses were significantly higher than the prior year. Net position decreased during 2018 from \$2,966,069 to \$2,885,303.

A review of the net position at June 30, 2018 and 2017 shows that KBTC continues to maintain a favorable financial foundation.

There were two major accounting changes that affected the financial statements. Management has not implemented GASB No. 68 *Accounting and Financial Reporting for Pensions* and GASB No. 75 *Accounting and Financial Reporting for Postemployment*

Benefits Other Than Pensions ("OPEB") as of and for the years ended June 30, 2018 and 2017. Accounting principles generally accepted in the United States of America require that KBTC record its proportionate share of net pension liability and OPEB liability, which would increase the liabilities and decrease net position and increase expenses. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

The following chart depicts the breakdown of assets, liabilities and net position for KBTC for the years ended June 30, 2018 and 2017:

	2018	2017
<u>Assets:</u>		
Current	\$ 1,750,437	\$ 1,805,632
Capital assets, net	<u>1,306,901</u>	<u>1,329,161</u>
TOTAL ASSETS	<u>\$ 3,057,338</u>	<u>\$ 3,134,793</u>
<u>Liabilities:</u>		
Current	\$ 172,035	\$ 168,724
<u>Net position:</u>		
Invested in capital assets	1,306,901	1,329,161
Restricted - expendable	878,337	1,169,382
Unrestricted	<u>700,065</u>	<u>467,526</u>
Total Net Position	<u>2,885,303</u>	<u>2,966,069</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,057,338</u>	<u>\$ 3,134,793</u>

The Statements of Revenues, Expenses and Changes in Net Position list expenses by function. Operating revenues are listed by source. Grants and contributions not restricted to a specific program or function are included in operating revenues.

KBTC's main revenue sources are the Corporation for Public Broadcasting ("CPB"), Bates Technical College, individuals and corporate donors. The station has and will continue to pursue funding from all sources consistent with its mission.

In reviewing the statements of revenues, expenses and change in net position, it should be noted that operating revenues before release from restriction in 2018 have decreased approximately \$46,000 in comparison to 2017. Restricted net assets, net of assets released from restriction, decreased by \$283,000. Indirect facility and administrative support from the college is down approximately \$6,000. Revenues generated through telecasting, production and broadcast services increased \$61,000. Instructional related expenses from the college decreased approximately \$21,000. In-kind contributions are down \$21,000 in comparison to the prior year. Membership income decreased by approximately \$15,000 with an active membership of more than 19,400.

	<u>2018</u>	<u>2017</u>
<u>Operating Revenues:</u>		
Community service grant from the Corporation for		
Public Broadcasting	\$ 893,650	\$ 937,353
Donated support	4,137,902	4,200,966
Other income	<u>617,296</u>	<u>556,157</u>
Total Operating Revenues Before		
Release from Restrictions	<u>\$ 5,648,848</u>	<u>\$ 5,694,476</u>
<u>Operating Expenses:</u>		
Program services	\$ 3,042,007	\$ 3,050,112
Support services	<u>2,687,607</u>	<u>2,558,816</u>
Total Operating Expenses	<u>\$ 5,729,614</u>	<u>\$ 5,608,928</u>
<u>Other Revenues:</u>		
Grant revenues (release from restrictions)	<u>\$ 291,045</u>	<u>\$ 8,220</u>

The Schedules of Functional Expenses identify the costs of providing the various programs and other activities on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received.

There were no significant variances from the budget in 2018.

Overall expenses increased approximately \$120,700 in 2018. Significant changes in expenses include depreciation decreasing by \$165,400. There was an overall decrease of \$40,800 for travel and \$36,600 for indirectly allocated supplies and services. There was an overall increase for salaries, payroll taxes and employee benefits of \$187,000, professional services of \$65,000, postage and shipping of \$51,100 and program acquisition expenses of \$43,600. Other items fluctuated by less significant amounts.

The Statements of Cash Flows identify the increases and decreases in cash from operating and investing activities. In the current year, cash generated from operating activities increased approximately \$58,000 for a total of \$267,052. In the prior year, cash generated from operating activities was \$209,057. The station utilizes the cash generated by both operating activities to invest in broadcast equipment and support operational plans consistent with KBTC's mission.

	<u>2018</u>	<u>2017</u>
<u>Cash Flows from Operating Activities:</u>		
Increase (decrease) in net position	\$ (80,766)	\$ 85,548
Adjustments to reconcile decrease in net position to net cash provided by operating activities	289,312	429,560
Changes in current assets and liabilities	<u>58,506</u>	<u>(306,051)</u>
Net Cash Provided by Operating Activities	267,052	209,057
<u>Cash Flows Used in Investing Activities:</u>		
Purchase of equipment	<u>(267,052)</u>	<u>(209,057)</u>
Change in cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
CASH AT END OF YEAR	\$ <u>-</u>	\$ <u>-</u>

The Notes to Financial Statements provide an overview of the organization, significant accounting policies and important events.

Net position subject to donor-imposed stipulations that may or will be met either by actions of KBTC or the passage of time is restricted net position. At June 30, 2018 and 2017, KBTC had restricted net position of \$878,337 and \$1,169,382, respectively. In 2018, the restrictions of a prior grant were met, thus releasing \$291,045 to operating revenues. As with a majority of the digital conversion grants, this grant requires Bates Technical College/KBTC maintain the equipment without modification for a period of 10 years. If the equipment is not retained for the required 10 year period, the full amount of the grant may be required to be repaid to the grantor.

Assessment on Future Financial Indicators, Activities & Responses

KBTC remained committed to its mission to engage viewers, communities and supporters by delivering media experiences that educate, inspire and entertain. A goal of raising the profile of the station in the community guided the activities of the station and led to increasing locally produced content. Staffing changes to support the goal included restructuring the Programming and Creative Services Departments of the station. This also included combining work activities for more efficient delivery of on air promotions, recording local events for online streaming, identifying and acquiring local and regional content of interest to the KBTC viewers.

The KBTC Association supported the station in its efforts to increase local production. The Association provided funds to create and launch a new series called *KBTC Profiles*. The first project under this series was *Vietnam Perspectives*. Several stories from local citizens whose lives were directly impacted by the war were produced for broadcast. The series of interstitials was produced and packaged to compliment the airing of *The Vietnam War* from PBS. The *KBTC Profiles* series was further developed and will feature human interest stories of people and places in the region. *KBTC Profiles* and *Vietnam Perspectives* can be found at kbt.org

The station also created the *Insight Speaker Series* that features experts in the disciplines of arts, education, the environment and history. While the *Insight Speakers Series* originally launched in 2017, it continued to be refined this past year and featured such notable speakers as the Conductor of Symphony Tacoma.

The Community Engagement activities, providing early childhood learning opportunities for children and families in underserved communities, in partnership with several local organizations, continued to grow. These activities have an impact and help fill in early learning gaps of children within KBTC's service area. These partnerships and programs also help raise awareness of station activities by providing a greater understanding of the services the station offers beyond broadcast. Fortunately, KBTC is receiving financial support with continuing Ready to Learn grant funds from the Corporation for Public Broadcasting under funding provided by the U.S. Department of Education. A key activity for the future will be for staff to secure these and other sources of funding in order to continue providing and expanding early learning services.

As reported in previous years, the television broadcast industry continues to undergo monumental change. The recent completion of the spectrum auction and relocation assignments of broadcast channels has moved into the next phase. While the Seattle-Tacoma Designated Media Market ("DMA") did not participate in the spectrum auction, several stations, including KBTC received directives for new channel assignments. Over the next couple of years, KBTC will be required to "repack" and build out our broadcast facilities in an effort to relocate several of our channels. Station management will continue to seek financial support from PBS and T-Mobile to cover the costs of these channel relocations.

Audiences continue to access content via broadcast; PBS reaches 80% of all US television households through its member stations. Here in western Washington 5% of KBTC viewers receive the signal over-the-air. The station audience is 1.8 million households, reaching more than 4 million viewers. However, it is becoming clear that streaming content is increasing in popularity and, the competition includes such entities as Netflix, Hulu, Xfinity, etc. To that end, KBTC will continue to seek distribution options and provide the community with streaming content. KBTC Public Television will explore developments as they happen and ascertain what is needed to serve its growing, media market.

AUDITED FINANCIAL STATEMENTS

BATES TECHNICAL COLLEGE, KBTC-TV**STATEMENTS OF NET POSITION**

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
KBTC fund balance held by Bates Technical College	\$ 1,702,330	\$ 1,778,810
Accounts, grants and contributions receivable	48,107	26,822
Total Current Assets	1,750,437	1,805,632
CAPITAL ASSETS		
Broadcast equipment	17,952,942	17,644,816
Building and leasehold improvements	542,405	542,405
Nonbroadcast equipment and furniture	939,947	924,289
Automobiles	136,685	136,685
	<u>19,571,979</u>	<u>19,248,195</u>
Less accumulated depreciation	18,265,078	17,919,034
	<u>1,306,901</u>	<u>1,329,161</u>
TOTAL ASSETS	<u>\$ 3,057,338</u>	<u>\$ 3,134,793</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 172,035	\$ 158,718
Unearned revenue		10,006
Total Current Liabilities	172,035	168,724
NET POSITION		
Invested in capital assets	1,306,901	1,329,161
Restricted - expendable	878,337	1,169,382
Unrestricted	700,065	467,526
	<u>2,885,303</u>	<u>2,966,069</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,057,338</u>	<u>\$ 3,134,793</u>

See independent auditor's report.
The accompanying notes are an integral part of these financial statements.

BATES TECHNICAL COLLEGE, KBTC-TV**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Operating and capital appropriations from Bates Technical College	\$ 440,015	\$ 460,598
Donated facilities and administrative support from Bates Technical College	1,134,026	1,140,341
Subscription and membership income	2,391,250	2,406,051
Telecasting, production and broadcast services	617,296	556,157
Community service grant from Corporation for Public Broadcasting	893,650	937,353
In-kind contributions	172,611	193,976
Net position released from restrictions	291,045	8,220
Total Operating Revenues	<u>5,939,893</u>	<u>5,702,696</u>
OPERATING EXPENSES		
Program services		
Programming and production	1,473,262	1,359,299
Broadcasting	1,393,876	1,472,180
Program information	174,869	218,633
	<u>3,042,007</u>	<u>3,050,112</u>
Supporting services		
Management and general	1,244,869	1,144,274
Fundraising	1,442,738	1,414,542
	<u>2,687,607</u>	<u>2,558,816</u>
Total Operating Expenses	<u>5,729,614</u>	<u>5,608,928</u>
Operating Income	210,279	93,768
NET POSITION RELEASED FROM RESTRICTIONS	<u>(291,045)</u>	<u>(8,220)</u>
NET INCREASE (DECREASE) IN NET POSITION	(80,766)	85,548
Net Position at Beginning of Year	<u>2,966,069</u>	<u>2,880,521</u>
NET POSITION AT END OF YEAR	<u>\$ 2,885,303</u>	<u>\$ 2,966,069</u>

See independent auditor's report.
The accompanying notes are an integral part of these financial statements.

BATES TECHNICAL COLLEGE, KBTC-TV**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from CPB grant	\$ 893,650	\$ 937,353
Cash received from subscriptions and memberships	2,446,445	2,063,799
Cash received from telecasting, production and broadcasting	607,290	566,163
Cash payments for compensation and benefits	(2,354,659)	(2,134,542)
Cash payments to suppliers	<u>(1,325,674)</u>	<u>(1,223,716)</u>
Net Cash Provided by Operating Activities	<u>267,052</u>	<u>209,057</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(267,052)</u>	<u>(209,057)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(267,052)</u>	<u>(209,057)</u>
CHANGE IN CASH		
Cash at Beginning of Year	<u> </u>	<u> </u>
CASH AT END OF YEAR	<u>\$ <u> </u></u>	<u>\$ <u> </u></u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net position	\$ (80,766)	\$ 85,548
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities		
Depreciation	346,044	511,460
Donated equipment	(56,732)	(81,900)
(Increase) decrease in assets		
KBTC fund balance held by Bates Technical College	76,480	(343,060)
Accounts, grants and contributions receivable	(21,285)	808
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	13,317	26,195
Unearned revenue	<u>(10,006)</u>	<u>10,006</u>
Net Cash Provided by Operating Activities	<u>\$ 267,052</u>	<u>\$ 209,057</u>
OTHER CASH FLOW INFORMATION		
Refer to Note 1 of the financial statements for further explanation of KBTC's cash.		

See independent auditor's report.
The accompanying notes are an integral part of these financial statements.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Bates Technical College, KBTC-TV ("KBTC") is a public (not-for-profit) television station established to encourage and promote noncommercial educational and public television broadcasting in the Tacoma and Centralia areas of Washington State. In the Centralia area, KBTC operates as KCKA-TV. KBTC is operated by and licensed under Bates Technical College (the "College") and accounted for as a fund by the College. The College, an agency of the State of Washington, follows generally accepted accounting principles for governmental fund accounting. A fund, as defined by the Government Accounting Standards Board, is a fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources together with all related liabilities and residual equities and changes therein are recorded and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. As an agency of the State of Washington, the College is subject to audit by the State Auditor's Office to evaluate internal controls and financial activities information and for compliance with state and federal laws.

The financial statements of KBTC have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. KBTC implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35 *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*.

KBTC Fund Balance Held by Bates Technical College

Amounts held by Bates Technical College represent cash forwarded to the College by KBTC which are commingled with the College for the purposes of banking and investment. Because of the pooling concept, it is not possible to allocate KBTC's share of pooled cash and investment balances into various risk categories.

Accounts, Grants and Contributions Receivable

Receivables are recorded when invoices are issued or when amounts on underwriting agreements have been earned, but not yet received or a promise to give has been made as of the statements of net position date. Receivables are written off when they are determined to be uncollectible. An allowance for doubtful accounts has not been established as management believes that essentially all receivables are collectible at June 30, 2018 and 2017 and are all current, less than 90 days past due.

Capital Assets

Capital assets are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, ranging between 3 and 30 years. Certain assets have restrictions on their use (see Note 4).

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include trade payables and accrued vacations.

Net Position

KBTC's net position is classified as follows:

Invested in Capital Assets

This represents KBTC's total investment in capital assets net of depreciation related to those capital assets.

Restricted Net Position - Expendable

Restricted net position - expendable includes resources in which KBTC is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. See Notes 3 and 4 for descriptions of the restrictions for KBTC's restricted net position - expendable.

Restricted Net Position - Nonexpendable

Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. At June 30, 2018 or 2017, KBTC has no balance in restricted net position - nonexpendable.

Unrestricted Net Position

Unrestricted net position represent resources derived from operating grants, state appropriations, corporate memberships and underwriting and unrestricted contributions. These resources are used for transactions relating to the general operations of KBTC and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

KBTC has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) operating grants from the Corporation for Public Broadcasting ("CPB"), (2) support from the College and (3) corporate memberships and underwriting. Membership contributions and contributed support are deemed program revenue and therefore operating revenue as prescribed by CPB.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Nonoperating Revenues

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, contributions or grants received for purchase of capital assets and other revenue sources that are defined as nonoperating revenues.

Support, Revenue Recognition and Expenses

Support and revenues are reported as increases in unrestricted net position unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net position. Expirations of restrictions on net position, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are transferred to unrestricted net position. KBTC treats restricted revenues as unrestricted if the donor restrictions expire during the fiscal year the gift is received.

Contributions, including unconditional promises to give, are recognized as revenues in the same period received. Promises to give that are scheduled to be received after the statements of net position date are shown as increases in accounts receivable and unrestricted net position. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in restricted net position - unexpendable conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at the appropriate discount rate.

Certain support and expenses are provided for in the financial statements as allowed under guidelines provided by the CPB and include donated facilities and administrative support from the College. Eligible employees of KBTC are also deemed to be employees of the College and are therefore provided benefits, including retirement benefits, in the same manner as the College provides to all of its eligible employees.

Restricted Resources

When KBTC has both restricted and unrestricted resources available to finance a particular program, KBTC uses restricted resources before unrestricted resources.

Donated Volunteer Services

No amounts have been recorded in the financial statements for donated volunteer services because such services do not meet the criteria for such recognition.

In-kind Contributions

In-kind contributions consist of donated professional services, capital assets and facilities recorded at their estimated fair value. The amounts of the contributions are recorded as support when earned and capitalized or expensed as deemed appropriate.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Income Taxes

No provision is made for federal income taxes as KBTC is tax-exempt under provision of the Internal Revenue Code, and is not required to file an annual information return.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of revenues, expenses and changes in net position and the schedules of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received.

Advertising

Advertising costs are expensed as incurred and are included in advertising and marketing expense which totaled \$122,371 in 2018 and \$139,902 in 2017.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 those estimates.

Subsequent Events

KBTC evaluated for subsequent events through November 27, 2018, the date the financial statements were available to be issued. No such events were identified.

NOTE 2 - CAPITAL ASSETS

Capital assets at June 30 consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
<u>June 30, 2018</u>					
Broadcast equipment	\$ 17,644,816	\$ 308,126			\$ 17,952,942
Building and leasehold improvements	542,405				542,405
Nonbroadcast equipment and furniture	924,289	15,658			939,947
Automobiles	<u>136,685</u>				<u>136,685</u>
	19,248,195	323,784			19,571,979
Less accumulated depreciation	<u>17,919,034</u>	<u>346,044</u>			<u>18,265,078</u>
	\$ <u>1,329,161</u>	\$ <u>(22,260)</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>1,306,901</u>

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 2 - CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
<u>June 30, 2017</u>					
Broadcast equipment	\$ 17,357,505	\$ 287,311			\$ 17,644,816
Building and leasehold improvements	542,405				542,405
Nonbroadcast equipment and furniture	920,643	3,646			924,289
Automobiles	<u>136,685</u>				<u>136,685</u>
	18,957,238	290,957			19,248,195
Less accumulated depreciation	<u>17,407,574</u>	<u>511,460</u>			<u>17,919,034</u>
	\$ <u>1,549,664</u>	\$ <u>(220,503)</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>1,329,161</u>

NOTE 3 - RESTRICTED NET POSITION - EXPENDABLE

Restricted net position - expendable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Grant from Corporation for Public Broadcasting Digital Distribution Fund 11 (until March 2018)		\$ 63,179
Grant from Department of Community, Trade & Economic Development (until June 2018)		227,866
Grant from Department of Community, Trade & Economic Development (until June 2019)	\$ 227,866	227,866
Grant from Corporation for Public Broadcasting Digital Television Transition Grants (until June 2019)	245,308	245,308
Grant from Corporation for Public Broadcasting Digital Television Transition Grants (until June 2019)	<u>405,163</u>	<u>405,163</u>
	\$ <u>878,337</u>	\$ <u>1,169,382</u>

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4 - CONTINGENCIES, COMMITMENTS AND CONCENTRATIONS

KBTC was awarded a Digital Nielsen Encoder Program grant of \$8,220 to upgrade the Nielsen encoders to full digital technology. This grant requires KBTC to maintain the equipment without modification for a period of 10 years. The asset restriction for this grant was met during the year ended June 30, 2017, and, accordingly, the related net position restricted - expendable was released from restrictions on the statements of net position during the year.

KBTC was awarded a Digital Distribution Fund 11 grant of \$94,018 to upgrade the DTV Encoder to full digital technology. The total grant amount was adjusted to \$63,179 to reflect actual expenditures related to this portion of the digital upgrade. This grant requires KBTC to maintain the equipment without modification for a period of 10 years. The asset restriction for this grant was met during the year ended June 30, 2018, and, accordingly, the related net position restricted-expendable was released from restrictions on the statements of net position during the year.

KBTC received grants of \$227,866 each in two years for a total of \$455,732 from the Washington State Department of Community, Trade and Economic Development. These grants provide support for the digital conversion. These grants specify that KBTC maintain the equipment without modification for a period of 10 years. The asset restriction for one of these grants in the amount of \$227,866 was met during the year ended June 30, 2018, and, accordingly, the related net position restricted-expendable was released from restrictions on the statements of net position during the year.

KBTC was awarded a grant from the Corporation of Public Broadcasting of \$245,308 to upgrade the video service to full digital technology. The grant specifies that KBTC must maintain the equipment without modification for a period of 10 years.

KBTC was awarded a grant from the Corporation of Public Broadcasting of \$500,000 for the maximization of KBTC's transmitters. The total amount of the grant was adjusted to \$405,163 to reflect actual expenditures related to this grant. The grant specifies that KBTC must maintain the equipment without modification for a period of 10 years.

NOTE 5 - OPERATING LEASE

Future operating lease commitments are not material; total rental and lease expense for 2018 and 2017 is less than 2% of revenues.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 6 - RETIREMENT PLANS

Through the College, KBTC offers two contributory pension plans to its employees. The Washington State Public Employees Retirement System ("PERS") is a cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan ("SBRP") is a defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges ("SBCTC") and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. Employer matching is provided at various rates based on the age of the participating employee. During the years ended June 30, 2018 and 2017, KBTC contributed \$134,652 and \$114,669, respectively, under these plans.

GASB No. 68 *Accounting and Financial Reporting for Pensions* requires KBTC to report its proportionate share of the total pension liability as it is a part of the college system. The pension information and related disclosures are not currently available at KBTC's fund level and therefore is unable to record its proportionate share of the pension liability. This is a departure from generally accepted accounting principles, the amount by which this departure would affect the liabilities, net position and expenses has not been determined.

GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB") requires KBTC to recognize its proportionate share of the state's actuarially determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources and benefit expense related to the plan. The OPEB information and related disclosures are not currently available at KBTC's fund level and therefore is unable to record its proportionate share of the total OPEB liability. This is a departure from generally accepted accounting principles, the amount by which this departure that would affect the liabilities, net position and expenses has not been determined.

NOTE 7 - FUTURE SICK TIME AND SABBATICAL OBLIGATIONS

Under terms of employment with exempt employees and employees covered by a collective bargaining agreement, if certain conditions are met, current employees may elect to receive a monetary payment for accrued sick time on a four-for-one basis. If all of KBTC's accrued sick time was converted at June 30, 2018, the cost would be \$72,908.

Bates Technical College offers its administrative and exempt employees a sabbatical leave benefit after seven years of full-time employment. The sabbatical cost, including cost of replacement personnel, cannot exceed 150% of an employee's salary and benefits. Since sabbaticals require the approval of the College president, can be supplemented by outside funding and must be in compliance with RCW 25B.10.650, the value of this obligation at June 30, 2018 cannot be determined. As of June 30, 2018, no employees are on an approved sabbatical leave.

SUPPLEMENTARY INFORMATION

BATES TECHNICAL COLLEGE, KBTC-TV

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended June 30, 2018 and 2017

	Program Services								Supporting Services				Total Expenses			
	Programming and Production		Broadcasting		Program Information		Total Program Services		Management and General		Fundraising				Total Supporting Services	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017		
Salaries, payroll taxes and employee benefits	\$ 648,514	\$ 516,918	\$ 661,216	\$ 652,537	\$ 70,378	\$ 117,451	\$ 1,380,108	\$ 1,286,906	\$ 957,725	\$ 837,411	\$ 468,208	\$ 494,752	\$ 1,425,933	\$ 1,332,163	\$ 2,806,041	\$ 2,619,069
Rents and maintenance	15,398	16,807	45,805	48,540			61,203	65,347	12		21,319	8,217	21,331	8,217	82,534	73,564
Professional services	69,583	74,108	86,113	11,137			155,696	85,245	28,371	29,270	81,004	85,529	109,375	114,799	265,071	200,044
Dues and fees	4,239	7,846		178	225	364	4,464	8,388	24,317	26,460	114,605	90,938	138,922	117,398	143,386	125,786
Supplies	17,875	20,390			70	256	17,945	20,646	6,373	7,487	14,589	5,861	20,962	13,348	38,907	33,994
Utilities	67,934	69,810	64,273	75,607	8,277	11,228	140,484	156,645	58,852	60,542	126,589	139,306	185,441	199,848	325,925	356,493
Advertising and marketing	41,775	66,467			55,507	55,506	97,282	121,973	10,483	679	14,606	17,250	25,089	17,929	122,371	139,902
Occupancy	53,248	55,862	60,156	59,914			113,404	115,776	34,015	33,472	5,300	5,253	39,315	38,725	152,719	154,501
Postage and shipping	854	2,059	421	605	29,000	18,000	30,275	20,664	130	408	106,301	64,492	106,431	64,900	136,706	85,564
Ground care, security and maintenance of plant	58,904	56,776	55,730	61,491	7,176	9,132	121,810	127,399	49,588	47,795	57,684	59,083	107,272	106,878	229,082	234,277
Travel	14,577	27,767	69	7,618			14,646	35,385	3,325	12,183	2,285	13,509	5,610	25,692	20,256	61,077
Broadcast supplies			83,054	50,989			83,054	50,989							83,054	50,989
Other indirect allocated supplies and services	34,765	41,632	32,892	45,090	4,236	6,696	71,893	93,418	29,267	35,047	34,045	43,324	63,312	78,371	135,205	171,789
Program acquisition	445,172	402,628					445,172	402,628			17,766	16,695	17,766	16,695	462,938	419,323
Premiums											373,689	367,388	373,689	367,388	373,689	367,388
Miscellaneous	424	229		47			424	276	514	487	4,748	2,945	5,262	3,432	5,686	3,708
Depreciation			304,147	458,427			304,147	458,427	41,897	53,033			41,897	53,033	346,044	511,460
	<u>\$ 1,473,262</u>	<u>\$ 1,359,299</u>	<u>\$ 1,393,876</u>	<u>\$ 1,472,180</u>	<u>\$ 174,869</u>	<u>\$ 218,633</u>	<u>\$ 3,042,007</u>	<u>\$ 3,050,112</u>	<u>\$ 1,244,869</u>	<u>\$ 1,144,274</u>	<u>\$ 1,442,738</u>	<u>\$ 1,414,542</u>	<u>\$ 2,687,607</u>	<u>\$ 2,558,816</u>	<u>\$ 5,729,614</u>	<u>\$ 5,608,928</u>

See independent auditor's report.