KVIE, INC.

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

Gilbert Associates, Inc.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
KVIE, Inc.
Sacramento, California

We have audited the accompanying financial statements of KVIE, Inc. (the Station), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and of cash flows 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 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. 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 audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KVIE, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 15, 2016

KVIE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,655,115	$ 1,258,268
Accounts receivable, net	135,409	109,781
Contributions and grants receivable, current portion	46,379	8,747
Inventory	11,305	17,367
Prepaid expenses and deposits	41,941	38,959
Deferred financing costs, current portion	29,222	27,351
Other current assets	82,726	64,685
Total current assets	2,002,097	1,525,158
NONCURRENT ASSETS:		
Contributions and grants receivable, net	162,331	
Deferred financing costs, net	140,638	169,860
Other assets	138,993	187,568
Investments	3,631,879	3,636,216
Property and equipment, net	9,177,207	10,036,574
TOTAL ASSETS	$ 15,253,145	$ 15,555,376
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 113,080	$ 297,439
Accrued expenses	316,575	450,612
Deferred revenue	258,259	236,939
Long-term debt, current portion	134,838	132,030
Total current liabilities	822,752	1,117,020
LONG-TERM DEBT, Net	4,270,001	4,394,611
Total liabilities	5,092,753	5,511,631
NET ASSETS:		
Unrestricted:		
Undesignated	6,806,029	6,751,801
Board designated	2,900,387	2,859,442
Temporarily restricted	45,703	24,329
Permanently restricted	408,273	408,173
Total net assets	10,160,392	10,043,745
TOTAL LIABILITIES AND NET ASSETS	$ 15,253,145	$ 15,555,376

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 1 of 2)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Membership contributions	$ 6,283,957	$ 6,257,060
Less: Direct benefit to donors	(560,908)	(766,812)
Membership contributions, net	5,723,049	5,490,248
Grants and other contributions	3,363,951	3,648,803
Sponsorships	1,389,242	1,260,954
Rental income	449,535	412,517
Production	233,948	324,500
Special events	276,336	284,395
Video productions	56,591	76,427
Royalties	24,436	58,961
Other revenue	55,623	52,707
Net assets released from restriction	24,329	64,368
Total revenues and support	11,597,040	11,673,880
EXPENSES:		
Program services:		
Programming and production	4,879,427	5,109,336
Broadcasting	1,657,688	1,621,961
Program information and promotion	870,656	950,992
Total program services	7,407,771	7,682,289
Supporting services:		
Fundraising and membership development	2,473,479	2,373,903
Management and general	1,587,417	1,618,766
Total supporting services	4,060,896	3,992,669
Total expenses	11,468,667	11,674,958
GAIN (LOSS) FROM OPERATIONS	128,373	(1,078)
Interest and investment income (loss)	(33,200)	61,429
INCREASE IN UNRESTRICTED NET ASSETS	95,173	60,351

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 2 of 2)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and other contributions	$ 45,703	$ 12,808
Net assets released from restriction	(24,329)	(64,368)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	21,374	(51,560)
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	100	8,225
INCREASE IN NET ASSETS	116,647	17,016
NET ASSETS, Beginning of Year	10,043,745	10,026,729
NET ASSETS, End of Year	$ 10,160,392	$ 10,043,745

KVIE, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 116,647	$ 17,016
Reconciliation to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,236,948	1,200,116
Net realized and unrealized loss on investments	166,479	111,619
Loss on disposal of property and equipment	15,123	2,947
Amortization of deferred financing costs	27,351	27,353
Permanently restricted contributions	(100)	(8,225)
Changes in:		
Accounts receivable	(25,628)	61,310
Contributions and grants receivable	(199,963)	75,562
Inventory	6,062	6,974
Prepaid expenses and deposits	(2,982)	(17,787)
Other assets	30,534	53,806
Accounts payable	(184,359)	(495,698)
Accrued expenses	(134,037)	(13,704)
Deferred revenue	21,320	(23,899)
Net cash and cash equivalents provided by operating activities	1,073,395	997,390
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(795,006)	(2,084,214)
Proceeds from sale of investments	632,864	1,613,843
Purchases of property and equipment	(396,704)	(1,089,733)
Proceeds from sale of property and equipment	4,000	
Net cash and cash equivalents used by investing activities	(554,846)	(1,560,104)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	100	8,225
Repayment of long-term debt	(121,802)	(117,427)
Net cash and cash equivalents used by financing activities	(121,702)	(109,202)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	396,847	(671,916)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,258,268	1,930,184
CASH AND CASH EQUIVALENTS, End of Year	$ 1,655,115	$ 1,258,268
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 206,472	$ 213,833

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

1. ORGANIZATION AND PROGRAMS

KVIE, Inc. (Station) is a nonprofit corporation which was incorporated in 1955 under the laws of the State of California and made its first television broadcast in 1959, becoming the second non-commercial station to debut in the state. Its purpose is to provide educational television programming and related services to the Sacramento-Stockton-Modesto television market, the nation's 20th largest. Following is a description of the Station's primary programs:

- **Programming and production** consists of the selection of programs to be aired by the Station and the production of video by the Station to be aired locally, nationally on other Public Broadcasting Service (PBS) stations, and internationally.

- **Program information and promotion** relates to providing viewers with information about the Station's programming, local productions, events, and other mission-related services that include educational workshops and trainings that help preschoolers, students, teachers, and families.

- **Broadcasting** is related to the transmission of the Station's content to viewers through various media, including over-the-air broadcasting, cable, satellite, and the internet.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Station reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Contribution revenues are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted. Permanently restricted net assets are those net assets whose use by the Station is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Station and consist of contributions to the Station's endowment fund.

Membership revenues are recognized in full when received.

Production revenues consist of sponsorship revenue for production cost of programs produced by the Station. These revenues are recorded as exchange transactions, with revenue being recognized based on percentage of production completion of the program sponsored.

Sponsorship revenues relate to station sponsorships where the donor is recognized adjacent to programming on the Station. These revenues are recorded as conditional contributions, with revenue recognized over the life of the underwriting contract as conditions are met.

Government grant revenue is recognized when qualifying expenses are incurred.

Video productions revenue consists of fees for production services provided by the Station to outside parties. These revenues are recorded as services are performed.

Donations of materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Cash and cash equivalents – For financial statement purposes, the Station considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes. The Station minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Station has not experienced any losses in such accounts and management believes the Station is not exposed to any significant credit risk related to cash.

Accounts receivable are stated at the amount management expects to collect from outstanding balances and collectible within one year. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2016 and 2015 was $1,151 and $3,845, respectively.

Investments are stated at fair value and held for long-term purposes.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Station capitalizes all expenditures for property and equipment in excess of $1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from one to forty years.

Equipment purchased with grant funds from the National Telecommunications and Information Administration may revert to that agency if the Station wishes to dispose of the equipment within 10 years from the date of the grant. Such equipment is capitalized and included in property and equipment.

Inventory consists of supplies and membership inducement premiums. Inventory is stated at the lower of cost or market under the first-in, first-out method of valuation.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the usage of resources.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes – The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Station has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Station is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2012.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same; to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the assets or liabilities.

Subsequent events have been reviewed through November 15, 2016, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2016, that require recognition or disclosure in such financial statements.

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following:

	2016	2015
Contributions	$ 231,900	
Grants		$ 8,747
Less: Allowance for doubtful accounts	(23,190)	
Total	$ 208,710	$ 8,747

Contributions and grants receivable will be collected as follows:

	2016	2015
Within one year	$ 46,379	$ 8,747
One to five years	175,166	
More than five years	10,355	
Less: Allowance for doubtful accounts	(23,190)	
Total	$ 208,710	$ 8,747

4. INVESTMENTS

The Station's investments are included in Level 1 of the fair value hierarchy as they are based on quoted prices in active markets. Investments consist of the following:

	2016	2015
Cash and equivalents	$ 65,051	$ 12,737
Mutual funds – equity:		
Small value	16,350	
Large value	104,002	106,525
Small growth	9,292	12,071
Large blend	494,301	389,922
Mid-cap growth		16,844
Large growth	596,552	572,373
Diversified emerging markets		25,312
Foreign large growth	447,941	389,657
Real estate medium blend		149,506
Mutual funds – fixed income:		
High yield bond	174,609	168,168
Multi-sector bond	80,905	106,505
Bank loan	66,835	
Inflation protected bond	103,830	
Intermediate government		57,347
Short-term bond	1,204,024	1,362,956
Ultra-short bond	268,187	266,293
Total	$ 3,631,879	$ 3,636,216

Interest and investment income (loss) consists of:

	2016	2015
Interest and dividend income	$ 133,279	$ 173,048
Net realized and unrealized losses	(166,479)	(111,619)
Total	$ (33,200)	$ 61,429

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Land	$ 2,392,502	$ 2,392,502
Buildings	8,855,090	8,812,862
Broadcast equipment	7,399,565	7,341,225
Production equipment	2,361,678	2,256,307
Office and production furniture and equipment	1,074,889	1,032,903
Leasehold improvements	427,713	427,713
Vehicles and related equipment	97,094	97,094
Total	22,608,531	22,360,606
Less: Accumulated depreciation and amortization	(13,431,324)	(12,324,032)
Total	$ 9,177,207	$ 10,036,574

6. LINE OF CREDIT

The Station has a $500,000 revolving line of credit with a bank, secured by property, with interest payable monthly at 3.75% per annum and principal due in one installment upon maturity at November 30, 2016. There were no amounts outstanding on this line of credit at June 30, 2016 and 2015.

7. LONG-TERM DEBT

The Station has a promissory note with River City Bank secured by the Station's building and payable in monthly installments of $25,022 including interest at 4.00% per annum, with a final payment of $3,394,266 due October 15, 2023. The outstanding loan balance as of June 30, 2016 and 2015 was $4,404,656 and $4,523,165, respectively. In connection with the promissory note, the Station incurred a prepayment penalty fee that was financed and incorporated into the outstanding principal amount. In accordance with professional standards, this fee has been capitalized as deferred financing costs and will be amortized over the term of the note.

The Station entered into a non-cancelable capital lease agreement for office equipment in July 2013. Installments of $297 are due monthly maturing in July 2016. The leased equipment valued upon acquisition totaling $9,533 is included in office and production furniture and equipment and is being depreciated over the term of the lease. Depreciation expense for the equipment is included in the total depreciation and amortization expense. The outstanding capital lease balance was $183 and $3,476, respectively, as of June 30, 2016 and 2015.

Total interest expense was $206,029 and $213,208 for 2016 and 2015, respectively.

Maturities on the note and capital lease are as follows:

Year ending June 30:

2017	$ 134,838
2018	128,913
2019	134,242
2020	139,792
2021	145,571
Thereafter	3,721,483
Total	$ 4,404,839

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Equipment	$ 32,765	
Education	11,438	$ 11,521
Outreach	1,500	7,258
Other		5,550
Total	$ 45,703	$ 24,329

Permanently restricted net assets are comprised of donor-restricted endowment funds to be used to support the ongoing operations of the Station. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Station classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Permanently restricted net assets as of June 30, 2016 and 2015 consist of one endowment fund that is invested in perpetuity with interest and dividends to be used for operating purposes. The endowment investment policy, approved by the Board of Directors, emphasizes preservation of the principal balance as its primary objective and growth and income as secondary objectives. There were restricted contributions of $100 and $8,225 made to the fund in 2016 and 2015, respectively. There were no restricted investment earnings or distributions made from the fund in 2016 and 2015.

Board-restricted net assets have been designated to provide reserves to assure the ability of the Station to meet operating needs on an as-needed basis and do not represent a Board endowment fund.

9. DONATED SERVICES AND FACILITIES

The Station received the following donated services and facilities:

	2016	2015
Tower facilities	$ 360,000	$ 360,000
Goods and supplies	119,673	133,824
Professional services	84,425	140,000
Total donated services and facilities	$ 564,098	$ 633,824

10. RENTAL INCOME

The Station leases office spaces under non-cancelable operating leases expiring through 2018. One agreement includes an option to extend for two additional five year periods. Revenue from these agreements will be recognized on the straight-line basis in accordance with professional standards.

Minimum future lease payments to be received under this agreement are as follows:

Year ending June 30:

2017	$ 439,895
2018	440,500
Total	$ 880,395

11. COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, nonprofit and grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations in order to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

The grants are reported on the accompanying financial statements as unrestricted operating revenue; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

12. RETIREMENT PLAN

The Station sponsors a 401(k) retirement plan with an effective date of July 1, 2014. Regular full-time and part-time employees over the age of 21 are eligible to participate in the plan. Under the provisions of the plan, the Station's matching contribution is at the rate of 100% of the first 1% of qualified wages and 50% of contributions that exceed 1% of qualified wages up to a maximum total of 6% of qualified wages. Non-safe harbor matching and nonelective contribution accounts are subject to a 3 year cliff vesting schedule, and safe harbor matching contribution accounts are subject to a 2 year cliff vesting schedule. Employer contributions totaled $145,600 and $140,982 for the years ended June 30, 2016 and 2015, respectively.

13. INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by the Video Production Department, which provides video production facilities and services, is taxable as unrelated business income.