

Brazos Valley Public Broadcasting Foundation
(An Affiliate of Baylor University)
Financial Statements
May 31, 2017 and 2016
(With Independent Auditor's Report Thereon)

Brazos Valley Public Broadcasting Foundation
(An Affiliate of Baylor University)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Brazos Valley Public Broadcasting Foundation:

We have audited the accompanying financial statements of Brazos Valley Public Broadcasting Foundation (the "Foundation") (an affiliate of Baylor University), which comprise the statements of financial position as of May 31, 2017 and 2016, and the related statements of activities and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 Foundation as of May 31, 2017 and 2016, 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.

September 5, 2017

Brazos Valley Public Broadcasting Foundation
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Statements of Financial Position

May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 507,690	\$ 437,361
Prepaid expenses	<u>39,248</u>	<u>21,891</u>
Total current assets	546,938	459,252
Production and broadcasting equipment, net of accumulated depreciation (\$207,636 and \$194,996)		
	<u>66,025</u>	<u>78,665</u>
Total assets	<u>\$ 612,963</u>	<u>\$ 537,917</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 9,547	\$ 13,498
Accrued liabilities	<u>30,535</u>	<u>29,065</u>
Total liabilities	<u>40,082</u>	<u>42,563</u>
Net assets:		
Unrestricted	<u>572,881</u>	<u>495,354</u>
Total net assets	<u>572,881</u>	<u>495,354</u>
Total liabilities and net assets	<u>\$ 612,963</u>	<u>\$ 537,917</u>

See accompanying notes to financial statements.

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Statements of Activities

For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Revenues:		
Contributions and member fees	\$ 786,460	\$ 796,647
Community service grants	110,387	119,259
Telecasting and production	251,892	190,218
Other	2,329	1,100
Total unrestricted revenues	<u>1,151,068</u>	<u>1,107,224</u>
Expenses:		
Program services:		
Programming and production	310,565	279,684
Broadcasting	120,602	127,900
Public information and promotion	31,954	34,467
Total program expenses	<u>463,121</u>	<u>442,051</u>
Supporting services:		
Management and general	526,040	538,176
Fundraising and membership development	84,380	77,697
Total supporting expenses	<u>610,420</u>	<u>615,873</u>
Total expenses	<u>1,073,541</u>	<u>1,057,924</u>
Increase in unrestricted net assets	77,527	49,300
Net assets, beginning of year	<u>495,354</u>	<u>446,054</u>
Net assets, end of year	<u>\$ 572,881</u>	<u>\$ 495,354</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

For the Years Ended May 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Member fees collected	\$ 188,597	\$ 187,963
Grants and other gifts	710,579	729,043
Telecasting and production revenue collected	251,892	190,218
Payments to suppliers and employees	<u>(1,080,739)</u>	<u>(1,040,072)</u>
Net cash provided by operating activities	<u>70,329</u>	<u>67,152</u>
Net increase in cash	70,329	67,152
Cash, at beginning of year	<u>437,361</u>	<u>370,209</u>
Cash, at end of year	<u><u>\$ 507,690</u></u>	<u><u>\$ 437,361</u></u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Increase in net assets	<u>\$ 77,527</u>	<u>\$ 49,300</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,640	12,640
Decrease (increase) in prepaid expenses	(17,357)	1,664
Increase (decrease) in accounts payable and accrued liabilities	<u>(2,481)</u>	<u>3,548</u>
Total adjustments	<u>(7,198)</u>	<u>17,852</u>
Net cash provided by operating activities	<u><u>\$ 70,329</u></u>	<u><u>\$ 67,152</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

May 31, 2017 and 2016

(1) Description of the Foundation

Brazos Valley Public Broadcasting Foundation (the “Foundation”) operates a public radio station (KWBU-FM) to serve the Central Texas area. The Foundation operates as a membership form of corporation organized under the Texas Non-Profit Corporation Act. Baylor University (“Baylor”) is the only member of the Foundation. As the only member of the Foundation, Baylor has all voting interest of the Foundation, and Baylor's Board of Regents appoints the Foundation's Board of Directors. The Foundation provides services to Baylor, such as marketing programs and events for various departments. These services and contributions from Baylor comprise a significant portion of the Foundation's revenues.

(2) Summary of Significant Accounting Policies

The Foundation maintains the accounting records in conformity with the *Principles of Accounting and Financial Reporting for Public Telecommunications Entities* mandated by the Corporation for Public Broadcasting. The accounting policies used by the Foundation generally conform to generally accepted accounting principles.

(a) Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting.

(b) Pledges

The Foundation engages in fund-raising campaigns through its radio station. The campaigns' fund-raising appeals are conducted on air as well as by mail. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the public broadcaster for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. However, uncollected pledges are intentions to give, rather than promises, and are not shown as assets in the statement of financial position.

(c) Production and Broadcasting Equipment

Production and broadcasting equipment are recorded at cost or, in the case of donated equipment, at estimated fair value as of the date of receipt, based on the Foundation's policy of capitalizing assets greater than \$5,000. Depreciation is

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Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(c) Production and Broadcasting Equipment (continued)

provided over the estimated useful lives of the respective assets using the straight-line method. The estimated lives of such assets range between five and twenty years. Depreciation expense was \$12,640 for both of the years ended May 31, 2017 and 2016.

(d) Revenues and Expenses

Contributions received and unconditional promises to give are measured at their fair values as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Foundation reports expirations of those donor restrictions when the donated or acquired long-lived assets are placed in service.

(e) Donated Materials, Services and Support

A substantial number of volunteers have donated hours to the Foundation's program services during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services (such as legal and accounting services) of \$103,404 and \$119,002 are included in the statement of activities at their fair value for the years ended May 31, 2017 and 2016, respectively. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

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Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(e) Donated Materials, Services and Support (continued)

Total in-kind contributions, principally donated personal services and office and studio space, for the years ended May 31, 2017 and 2016, are reflected in the following:

	<u>2017</u>	<u>2016</u>
Revenues:		
Contributions and member fees	\$ <u>364,365</u>	\$ <u>351,314</u>
Expenses:		
Programming and production	\$ 32,360	\$ 28,002
Broadcasting	22,820	26,215
Public information and promotion	31,954	17,479
Management and general	252,316	261,392
Fundraising and membership development	<u>24,915</u>	<u>18,226</u>
	<u>\$ 364,365</u>	<u>\$ 351,314</u>

(f) Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation is exempt from federal income tax, except on activities unrelated to its exempt purposes, under Internal Revenue Code Section 501(c)(3). There was no required provision for income taxes for the years ended May 31, 2017 and 2016.

(g) Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

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Notes to Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(h) Advertising Costs

Advertising costs are expensed in the period in which they are incurred. Advertising costs of \$6,297 and \$2,149 were incurred for the years ended May 31, 2017 and 2016, respectively.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant items subject to such estimates and assumptions include the determination of useful lives of equipment. Actual results could differ from those estimates.

(3) Operating Lease

The Foundation is obligated under an operating lease for use of a radio tower that expires December 1, 2023. Rent expense for the operating lease for 2017 and 2016 was \$24,042 for each year. As of May 31, 2017, the Foundation has lease commitments for future periods as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023 and Thereafter</u>	<u>Total</u>
Equipment	\$ 23,898	24,615	25,353	26,114	26,897	44,144	171,021

(4) Corporation for Public Broadcasting Community Service Grants

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

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Notes to Financial Statements
(Continued)

(4) Corporation for Public Broadcasting Community Service Grants (continued)

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

Certain general provisions of the CSGs must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The Foundation recognized CSGs of \$110,387 and \$119,259 from the CPB during the years ended May 31, 2017 and 2016, respectively. CSGs are considered unconditional contributions since no direct value or specific performance is required from the Foundation in exchange.

(5) Concentration of Revenues

The Foundation relies heavily on donations, in-kind contributions and CSGs as the major source of operating revenues. Due to uncertain allocation of funds by Congress to the CPB, the overall effects, if any, on future funding provided to the Foundation by the CPB cannot be determined at this time. Additionally, as discussed in Notes 1 and 6, Baylor provides a significant portion of revenue for the Foundation.

(6) Related Party Transactions

Baylor provides a significant portion of the Foundation's revenue. Donated materials, services and support include \$320,857 and \$323,295 contributed by Baylor in 2017 and 2016, respectively. In addition, Baylor provided \$233,498 and \$248,737 of other contributions in 2017 and 2016, respectively. Also, telecasting and production revenue includes \$153,309 and \$126,406 for services provided to Baylor in 2017 and 2016, respectively.

(7) Subsequent Events

The Foundation has evaluated subsequent events from the date of the statement of financial position through September 5, 2017, the date at which the financial statements were available to be issued, and has determined that there are no items to disclose.