

KNCT-TV AND KNCT-FM

**OPERATING SEGMENTS OF THE
CENTRAL TEXAS COLLEGE DISTRICT**

COMBINED FINANCIAL STATEMENTS

August 31, 2017 and August 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Central Texas College District
Killeen, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of KNCT-TV and KNCT-FM (operating segments of the Central Texas College District), as of and for the year ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards 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 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 opinions.

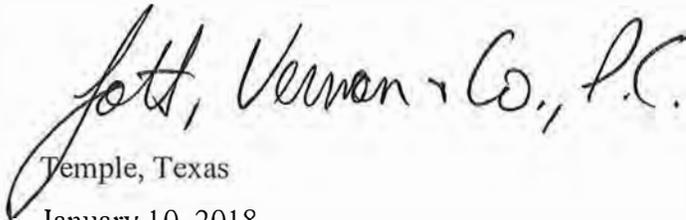
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KNCT-TV and KNCT-FM (operating segments of the Central Texas College District), as of August 31, 2017 and 2016, and the respective 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 in accordance with auditing standards generally accepted in the United States of America, 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.


Jett, Vernon & Co., P.C.
Temple, Texas

January 10, 2018

KNCT Public Broadcasting

Management's Discussion and Analysis

Introduction and Reporting Entity

The following discussion and analysis is an overview of the financial position and activities of KNCT Public Telecommunications for the years ended August 31, 2017 and 2016. Management of the station prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section.

KNCT-TV, a full-power public television station and KNCT-FM, a full power FM non-commercial radio station are owned and operated by Central Texas College, a political subdivision of the state of Texas. The college is governed by a Board of Trustees who are elected by voters in the college district. The stations began operation in November 1970 to serve central Texas residents with quality non-commercial educational programming.

KNCT-TV provides a signal to an estimated 300,000 households through its over the air broadcast signal. The station is also available to viewers by cable carriage and direct broadcast satellite carriage. KNCT-FM operates with an effective radiated power of 50,000 watts with an antenna height of 1,000 feet. The radio service enjoys a large coverage area of an approximate 100 mile radius with internet streaming of its programming for worldwide coverage.

KNCT's program schedule on channel 46.1 mirrors the National Program Service schedule as provided by Public Broadcasting Service. Programming is also acquired from National Educational Telecommunications Association and various other program providers. KNCT's second channel, 46.2 provides programming from the PBS Kids Channel. This channel provides 24 hour per day children's programming. KNCT's third multi-cast channel is affiliated with the Create channel which provides programming from a variety of public broadcasting sources.

In addition KNCT is committed to local program production which includes a monthly half-hour program dealing with matters of concern to the Hispanic community, a monthly half-hour program for the African American community and a weekly hour program featuring Hispanic music and news. The station also produces a monthly half hour program which provides information on college activities. The station is also committed to serving the military community as Killeen, Texas is home to Ft. Hood, one of the largest military installations in the United States.

The station also partners with a local newspaper to broadcast the Bell County Spelling Bee. The station also broadcasts a program featuring concert bands including adult and high school. This is a partnership with a local production company.

The commitment to local programming is carried out by a production department of 2 full time employees and 1 part time paid student employee.

The radio station also provides programming for persons over age 50. It is the only local radio station to do so and has enjoyed success and membership support for its efforts. The station produces a weekly 6 hour big band music show. The station carries a weekly program for local news information for senior citizens. In addition the station is the only station under local ownership in the Killeen-Temple market. When commercial radio stations ceased broadcast of local high school sports, KNCT became the only outlet to provide live play by play of all Killeen High Schools. This will mark the 39th year the station has broadcast local KISD games.

The radio station installed a new digital transmitter and has begun HD radio broadcasts. A second full time channel was added in the in mid-2015 and provides a 24 hour classical music service.

The stations operate within a modest budget structure. The radio station is supported by membership contributions and corporate funding and an annual grant from Corporation for Public Broadcasting (CPB).

The station relies on a variety of revenue sources which include tower facilities rental, production services and use of its facilities for academic activities and an annual grant from the Corporation for Public Broadcasting.

Overview of the Financial Statements

KNCT Public Broadcasting consists of both radio and television.

The financial statements of KNCT consist of the Combined Statement of Net Position, the Combined Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities.

The Combined Statement of Net Position includes Assets, Liabilities and Net Position as of August 31, 2017 and 2016. This statement is classified into Current and Non-Current Assets and Current Liabilities, with Net Position classified in the categories as noted above. The Combined Statement of Revenues, Expenses and Changes in Net Position depicts the operating revenues and expenses resulting in Net Operating Income (Loss), which is then combined with Non-Operating Revenues (Expenses) to provide the total Change in Net Position. The Statement of Cash Flows shows the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities and cash flows from investing activities. The financial

statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Highlights

The financial position of KNCT remains stable as of August 31, 2017. Combined Net Position totaled \$909,074 for the year ended August 31, 2017 (FY 2017) and \$1,186,852 for the year ended August 31, 2016 (FY 2016). KNCT's Combined Net Position decreased by \$277,778 in FY 2017 compared to a decrease in Combined Net Position for FY 2016 of \$430,956. Operating Revenues totaled \$2,317,495 in FY 2017 compared to \$2,321,494 in FY 2016. Operating and Support Service Expenses totaled \$1,149,459 and \$1,445,814, respectively in FY2017 compared to \$1,208,903 and \$1,543,547 in FY 2016. The Combined Net Operating loss for FY 2017 was \$277,778, which included non-cash depreciation expense of \$187,056 while the Combined Net Operating loss for FY 2016 was \$430,956 which included non-cash depreciation expense of \$206,280.

Financial Analysis of Statements

KNCT condensed financial statements are presented below for FY 2017 and 2016.

Condensed Combined Statement of Net Position

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	256,694	256,749
Property and equipment, net	1,336,093	1,523,149
Other Non-Current	<u>96,115</u>	<u>97,774</u>
Total Assets	<u>1,688,902</u>	<u>1,877,672</u>
Liabilities		
Current Liabilities	<u>779,828</u>	<u>690,820</u>
Total Liabilities	<u>779,828</u>	<u>690,820</u>
Net Position		
Unrestricted	(427,019)	(336,297)
Invested In Capital	<u>1,336,093</u>	<u>1,523,149</u>
Total Net Position	<u>909,074</u>	<u>1,186,852</u>

Condensed Combined Statement of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenues	2,317,495	2,321,494
Operating Expenses	(1,149,459)	(1,208,903)
Support Services Expenses	<u>(1,445,814)</u>	<u>(1,543,547)</u>
Decrease in net Position	(277,778)	(430,956)
Net Position-Beginning of Year	<u>1,186,852</u>	<u>1,617,808</u>
Net Position-End of Year	<u>909,074</u>	<u>1,186,852</u>

Condensed Statement of Cash Flows

	<u>2017</u>	<u>2016</u>
Net cash flows from operating activities	(44,859)	(196,261)
Net cash flows from investing activities	<u> </u>	<u>(5,334)</u>
Net increase (decrease) in cash	(44,859)	(201,595)
Cash at beginning of year	<u>(648,067)</u>	<u>(446,472)</u>
Cash at end of year	<u>(692,926)</u>	<u>(648,067)</u>

Current Assets consist primarily of cash, account receivable, broadcasting rights-short term and prepaid expenses. Non-Current Assets consist primarily of property and equipment and long-term broadcasting rights. Property and equipment presented net of accumulated depreciation of \$1,336,093 and \$1,523,149 at August 31, 2017 and 2016, respectively. Current liabilities consist of a cash overdraft and accounts payable and accrued expenses.

Operating Revenues consist of contributions, subscription and membership income and grants from CPB. Expenses consist of operating expenses which are programming, production and broadcasting and from support services which consist of fundraising, management and depreciation.

Request for Information

This financial report is designed to provide donors, members and taxpayers with a general overview of KNCT Public Telecommunications finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

KNCT Public Telecommunications
6200 West Central Texas Expressway
Killeen, TX 76540

KNCT-TV & KNCT-FM
(OPERATING SEGMENTS OF THE CENTRAL TEXAS COLLEGE DISTRICT)
Combined Statement of Net Position
August 31, 2017 and August 31, 2016

	Current Year Primary Institution	Prior Year Primary Institution
Assets		
Current Assets		
Cash	\$ -	\$ -
Accounts Receivable(Net of Allowance)	14,748	12,367
Broadcasting Rights-Short Term	241,946	244,382
Prepaid Expenses	-	-
Total Current Assets	<u>256,694</u>	<u>256,749</u>
Noncurrent Assets		
Building & Leasehold Improvements	2,410,852	2,410,852
Broadcasting Rights-Long Term	96,115	97,774
Capital Assets	4,044,905	4,088,676
Accumulated Depreciation	<u>(5,119,664)</u>	<u>(4,976,379)</u>
Total Noncurrent Assets	<u>1,432,208</u>	<u>1,620,923</u>
Total Assets	<u>\$ 1,688,902</u>	<u>\$ 1,877,672</u>
Liabilities		
Current Liabilities		
Cash Overdraft	692,926	648,067
Accounts Payable & Accrued Expenses	86,902	42,753
Deferred Support & Revenues	-	-
Total Current Liabilities	<u>779,828</u>	<u>690,820</u>
Total Liabilities	<u>779,828</u>	<u>690,820</u>
Net Position		
Unrestricted	(427,019)	(336,297)
Invested in Capital Assets	1,336,093	1,523,149
Total Net Position	<u>909,074</u>	<u>1,186,852</u>

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

KNCT-TV & KNCT-FM
(OPERATING SEGMENTS OF THE CENTRAL TEXAS COLLEGE DISTRICT)
Combined Statement of Revenues, Expenses and Changes in Net Position
For the year ended August 31, 2017 and August 31, 2016

	Current Year Primary Institution	Prior Year Primary Institution
Revenues		
Operating Revenues		
Contributions	\$ 1,164,668	\$ 1,130,828
Gifts & Donations	-	-
Subscription and Membership Income	328,599	348,106
Auction	-	-
Community Service Grants from Corporation for Public Broadcasting	696,242	762,524
State Grant	-	-
Local Grant	-	-
Federal Grant	-	-
Telecasting, Production and Other Income	127,986	80,036
Total Operating Revenues	<u>2,317,495</u>	<u>2,321,494</u>
Expenses		
Operating Expenses		
Program Services -		
Programming and Production	717,955	790,250
Broadcasting	431,504	418,653
Program Information	-	-
	<u>1,149,459</u>	<u>1,208,903</u>
Supporting Services -		
Fund Raising and Membership Development:		
Fund Raising	167,314	189,195
Management and General	1,091,444	1,148,072
Gain/Loss on Disposal	-	-
Depreciation Expense	187,056	206,280
Other non-operating	-	-
	<u>1,445,814</u>	<u>1,543,547</u>
Total Expenses	<u>2,595,273</u>	<u>2,752,450</u>
Increase(Decrease) in Net Position	(277,778)	(430,956)
Net Position - Beginning of Year	<u>1,186,852</u>	<u>1,617,808</u>
Net Position - End of Year	<u>\$ 909,074</u>	<u>\$ 1,186,852</u>

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

KNCT-TV & KNCT-FM
(OPERATING SEGMENTS OF THE CENTRAL TEXAS COLLEGE DISTRICT)
Statement of Cash Flows
For the year ended August 31, 2017 and August 31, 2016

	Current Year Primary Institution	Prior Year Primary Institution
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Excess of support and revenues over(under) expenditures	\$ (277,778)	\$ (430,956)
Adjustments to reconcile excess of support and revenues over(under) expenditures		
Changes in assets and liabilities affected by operating activities:		
Accounts receivable	(2,381)	23,502
Prepaid expense	-	-
Broadcasting rights-Current	2,436	(828)
Broadcasting rights-Long Term	1,659	(51)
Depreciation Expense	187,056	206,280
Gain/Loss on Disposal	-	-
Accounts payable and accrued expenses	44,149	5,792
Other Adjustments	-	-
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	<u>(44,859)</u>	<u>(196,261)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	-	(5,334)
	<u> </u>	<u> </u>
Net cash provided by investing activities	<u>-</u>	<u>(5,334)</u>
Increase in cash	(44,859)	(201,595)
Cash at beginning of year	(648,067)	(446,472)
Cash at end of year	<u>\$ (692,926)</u>	<u>\$ (648,067)</u>

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

KNCT-TV AND KNCT-FM
(Operating Segments of the Central Texas College District)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Central Texas College District (the District) maintains two operating segments which function as non-commercial public television (KNCT-TV) and public FM radio (KNCT-FM) stations in Killeen, Texas. The Stations maintain their accounting records in conformity with the Principles of Accounting and Financial Reporting for Public Telecommunications Entities mandated by the Corporation for Public Broadcasting.

The District adopted two new GASB statements in fiscal year 2013. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which was effective for financial statement periods beginning after December 15, 2011, established reporting standards for deferred outflows and inflows and changed the presentation and titles of the financial statements accordingly.

For fiscal year 2013 the District adopted GASB 65, Items Previously Reported as Assets and Liabilities, which is effective for financial statement periods beginning after December 15, 2012. This statement established accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows and deferred inflows.

Basis of Accounting

The Financial Statements are recorded on an accrual basis.

Cash and Cash Equivalents

The District'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.

Revenue Recognition

Unrestricted contributions and pledges are recorded as revenue in the financial statements when received. Contributions restricted for the acquisition of property and equipment or other capital improvements are reported on the balance sheet as deferred support until the funds are expended.

Broadcast Facilities and Equipment

Broadcast facilities and equipment are recorded at cost or, in the case of donated facilities and equipment, at their appraised value as of the date of receipt.

Broadcasting Rights

Expenses are recognized over a three year period using an allocation formula based on estimated replacement cost of the programs.

Indirect Administrative Support

Indirect administrative support totaling \$753,172 and \$747,656 as of August 31, 2017 and August 31, 2016 has been included in both contribution revenue and management and general expenses. This amount represents allocations of cost incurred by the District which have been derived in accordance with the guidelines established by the Corporation for Public Broadcasting in its Handbook of Instructions.

Contributions

This amount represents indirect cost recoveries and cash contributed by the College in support of this public service.

KNCT-TV AND KNCT-FM
(Operating Segments of the Central Texas College District)

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. The KNCT TV/FM reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line methods over the estimated useful lives of the assets. The following lives are used:

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

Capital assets activity for the year ended August 31, 2017 and August 31, 2016 was as follows:

	<u>Balance as of</u> <u>September 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of</u> <u>August 31, 2017</u>
Building & Leasehold Improvements	\$ 2,410,852	\$ -	\$ -	\$ 2,410,852
Capital Assets	4,088,676	-	(43,771)	4,044,905
Accumulated Depreciation	<u>(4,976,379)</u>	(187,056)	43,771	<u>(5,119,664)</u>
Net Capital Assets	<u>\$ 1,523,149</u>			<u>\$ 1,336,093</u>
	<u>Balance as of</u> <u>September 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of</u> <u>August 31, 2016</u>
Building & Leasehold Improvements	\$ 2,410,852	\$ -	\$ -	\$ 2,410,852
Capital Assets	4,378,060	5,334	(294,718)	4,088,676
Accumulated Depreciation	<u>(5,064,817)</u>	(206,280)	294,718	<u>(4,976,379)</u>
Net Capital Assets	<u>\$ 1,724,095</u>			<u>\$ 1,523,149</u>