

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
KCSM-TV
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of KCSM-TV (a public telecommunications entity operated as a program of the San Mateo County Community College District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the KCSM-TV's 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 an opinion 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 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 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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KCSM-TV, as of June 30, 2016, and the changes in its financial position and its cash flows thereof for the year 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 of KCSM-TV are intended to present the financial position, the change in financial position, and cash flows of only that portion of the San Mateo County Community College District that is attributable to the transactions of the program. They do not purport to, and do not, present fairly the financial position of San Mateo County Community College District as of June 30, 2016, the changes in its financial position, or its cash flows for the year 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.

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 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 supplemental 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.

Other Auditors

The financial statements of KCSM-TV as of June 30, 2015, were audited by other auditors whose report dated December 5, 2015, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the KCSM-TV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KCSM-TV's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Introduction

The San Mateo County Community College District's (the District) Annual Financial Report presents management's discussion and analysis of KCSM-TV financial activities during the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014. The discussion has been prepared by management and is best read in conjunction with the financial statements and the notes following this section.

There are three basic financial statements that provide information on KCSM -TV's financial activities as a whole. These statements are:

- Statement of Net Position
- Statement of Revenues, Expenses and Change in Net Position
- Statement of Cash Flows

Financial Overview Summary

- Total net position at June 30, 2016 decreased \$64 thousand over the prior fiscal year. The decrease was primarily due to a decrease in revenues, for example: CPB grants, business and industry, memberships and subscriptions revenue.
- Assets exceeded liabilities for the fiscal year ending June 30, 2016 by \$2.4 million, and total net position decreased \$64 thousand over last year.
- Total noncurrent assets decreased by \$299 thousand compared with prior year.
- Change in net position was a decrease of \$64 thousand compared with an increase of \$113 thousand for the fiscal year ending June 30, 2015.

Reporting for the District and KCSM as a Whole

- Economic position of the District with the State

Fiscal Year 2015/16 is the fifth year that the District has been community supported. Community supported means that when the State sets the District's revenue limit (determining how many students we are funded to serve) and deducts from that revenue limit the local property taxes and student fees, there is no need for State apportionment to sum to our revenue limit. This means that the District has somewhat more resources and is no longer subject to the state borrowing funds by delaying apportionment payments. The District is now firmly in community supported status and anticipates to receive upwards of \$50 million in 2016/17 in excess of what the District would have received had we been subject to the state's revenue limit. In addition to an increase in property taxes, the District is receiving funds from the dissolution of Redevelopment Agencies (RDAs). As less of the property taxes are being diverted to RDAs, more of them come to SMCCCD. The former RDAs are also slowly beginning the process of selling off their property, which brings some one-time funds to District coffers. Fiscal Year 2013/14 was the last year for receiving funds from the parcel tax (Measure G) and the funds were fully expended in 2014/15. All in all, the District's revenues have increased and, with a steady real estate market, show every sign of continuing increase.

The district has continued to run KCSM-TV with funding from the agreement to supplement station operations in exchange for a percentage of proceeds should the station successfully complete the FCC spectrum auction. The FCC spectrum auction started taking applications in December, 2015. The auction itself started March 29, 2016 and is in the third round of the reverse auction. The auction is expected to be complete in 2017.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Table 1 - Statement of Net Position

***SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT -KCSM TV
STATEMENT OF NET POSITION
FOR THE YEARS ENDED, JUNE 30,***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current Assets			
Cash & Cash equivalents	\$ 1,525,352	\$ 1,351,828	\$ 680,287
Accounts receivable	80,000	14,400	14,400
Total Current Assets	<u>1,605,352</u>	<u>1,366,228</u>	<u>694,687</u>
Noncurrent Assets			
Capital assets	7,148,108	7,137,312	7,542,885
Accumulated depreciation	<u>(6,085,492)</u>	<u>(5,775,608)</u>	<u>(5,846,498)</u>
Total Noncurrent Assets	<u>1,062,616</u>	<u>1,361,704</u>	<u>1,696,387</u>
TOTAL ASSETS	<u>2,667,968</u>	<u>2,727,932</u>	<u>2,391,074</u>
LIABILITIES			
Current Liabilities			
Vendor payable	20,374	15,995	17,623
Unearned Income	225,000	225,000	344
TOTAL LIABILITIES	<u>245,374</u>	<u>240,995</u>	<u>17,967</u>
NET POSITION			
Invested in capital assets	1,062,616	1,361,704	1,696,387
Unrestricted	1,359,978	1,125,233	676,720
TOTAL NET POSITION	<u>\$ 2,422,594</u>	<u>\$ 2,486,937</u>	<u>\$ 2,373,107</u>

Net Position

The Statement of Net Position above includes all assets and liabilities of KCSM-TV using the accrual basis of accounting, which is similar to the accounting basis used by private companies. Net Position, the difference between total assets and total liabilities, is one way to measure the financial condition of KCSM-TV. Following are explanatory remarks for the statement:

- Cash and cash equivalents consist of cash in the Treasury and San Mateo County Pool.
- Accounts receivable primarily consists of revenues from local sources which were not received as of the fiscal year's closing date.
- Capital assets, net of depreciation, are the net historical value of equipment less accumulated depreciation.
- Accounts payable consist of payables to the salaries and benefits, and local vendors.
- According to GASB Statements, equity is reported as – Net Position rather than – Fund Balance. KCSM-TV's net position is classified as follows:

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- Invested in capital assets, net of related debt, represents KCSM-TV’s total investment in capital assets and net of outstanding debt obligations related to those capital assets.
- Unrestricted net position represents resources used for transactions relating to the educational and general operations of KCSM-TV.

Statement of Revenues, Expenses and Change in Net Position

The Statement of Revenues, Expenses and Change in Net Position shown below consist of operating and non-operating results of KCSM-TV. Operating revenues represent all revenues from exchange transactions, in which each party gives and receives essentially equal value.

Table 2 – Statement of Revenues, Expenses, and Change in Net Position

***SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT -KCSM TV
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30,***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES			
District Income			
Business and industry	\$ 124,200	\$ 172,800	\$ 118,076
Royalties	9,489	14,344	36,331
Indirect Support			
San Mateo County Community College District	153,044	250,018	263,515
TOTAL OPERATING REVENUES	<u>286,733</u>	<u>437,162</u>	<u>417,922</u>
OPERATING EXPENSES			
Programming and production	310,320	318,528	278,430
Broadcasting	706,678	846,554	989,042
Program information and promotion	-	114	31,473
Management and general	476,500	609,394	803,527
Fundraising support	10,930	13,111	22,942
Underwriting and grant solicitation	-	-	26,657
TOTAL OPERATING EXPENSES	<u>1,504,428</u>	<u>1,787,701</u>	<u>2,152,071</u>
OPERATING LOSS	<u>(1,217,695)</u>	<u>(1,350,539)</u>	<u>(1,734,149)</u>
NON-OPERATING REVENUES			
CPB community service grants	236,070	432,538	442,974
CPB television interconnection grants	4,329	7,825	8,473
Memberships and Donations	12,953	124,006	15,081
Other sources	900,000	900,000	900,000
TOTAL NON-OPERATING REVENUES	<u>1,153,352</u>	<u>1,464,369</u>	<u>1,366,528</u>
CHANGE IN NET POSITION	(64,343)	113,830	(367,621)
NET POSITION, BEGINNING OF YEAR	<u>2,486,937</u>	<u>2,373,107</u>	<u>2,740,728</u>
NET POSITION, END OF YEAR	<u>\$ 2,422,594</u>	<u>\$ 2,486,937</u>	<u>\$ 2,373,107</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

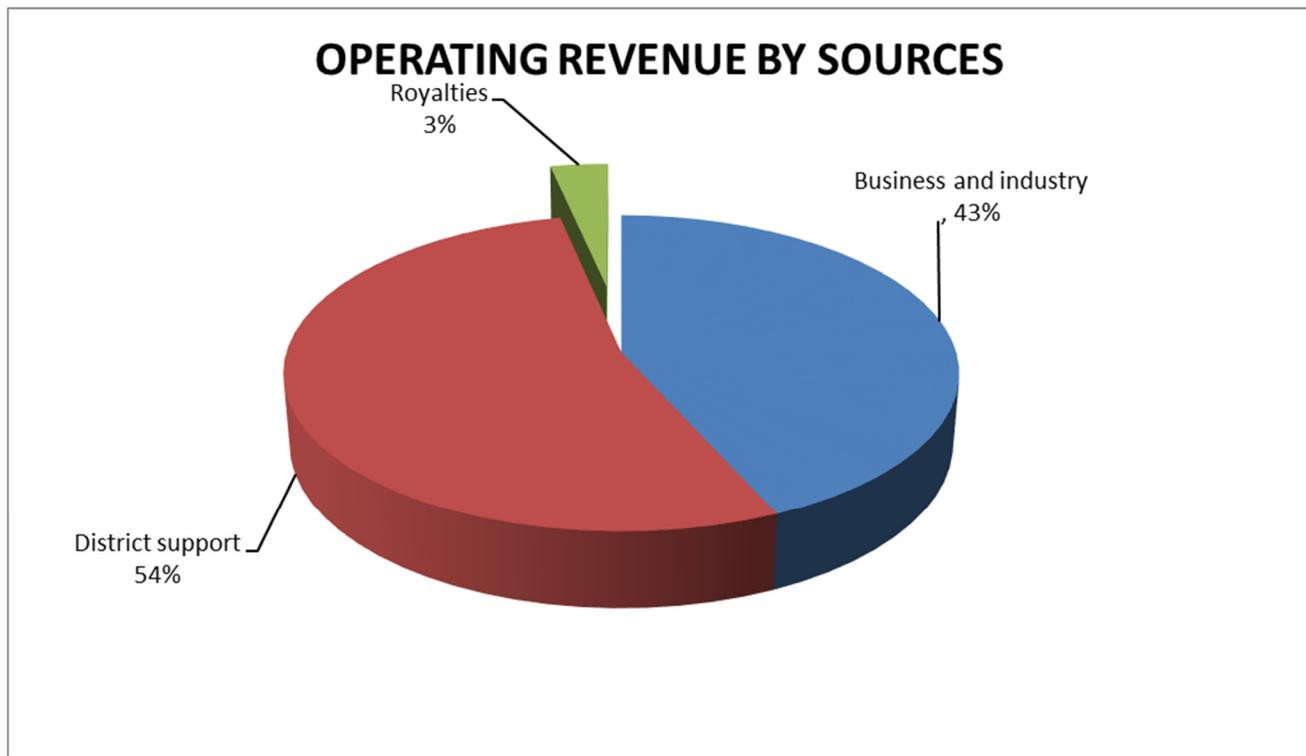
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Explanatory information for the statement is as follows:

- CPB community service grants: Payment from Corporation for Public Broadcasting designated to help provide a non-commercial, educational program stream to our community.
- CPB television interconnection grants: Payment from Corporation for Public Broadcasting designated to help cover costs to necessary to receive programs from PBS to serve our community.
- Business and industry: Financial support from companies and corporations to support the stations operations.
- Memberships and Donations: Financial support from individuals to support the operations of the station.
- Royalties: Payment from PBS and other entities to KCSM-TV based upon number of times a program made by KCSM-TV is aired by entities other than KCSM.
- Indirect support: Expenses or facilities paid by the San Mateo County Community College District.

Below is an illustration of District revenues by source:



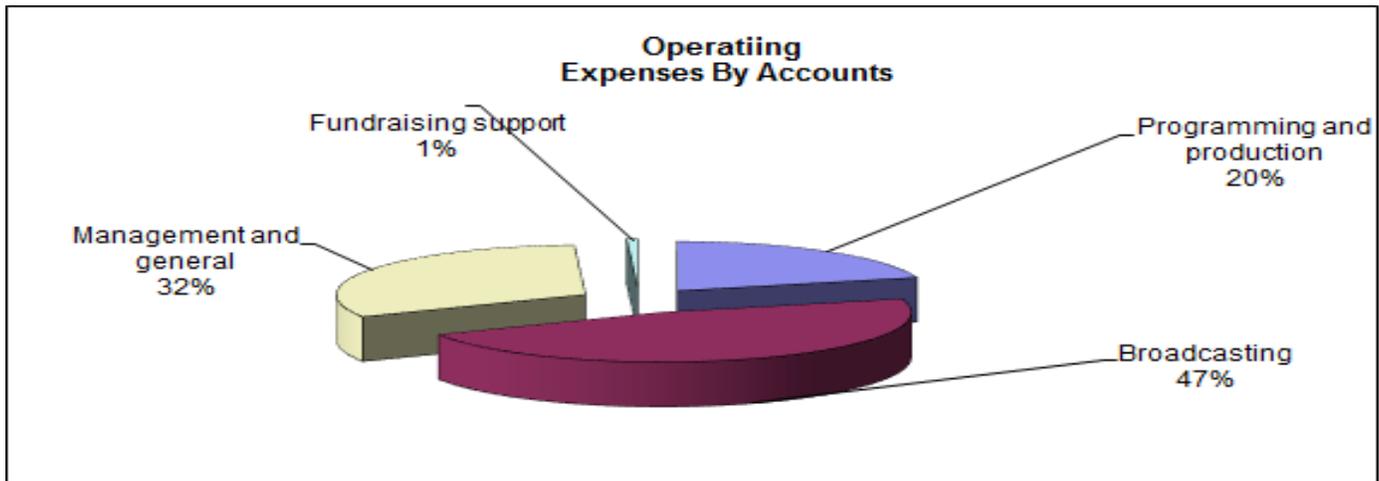
Comparing with the prior year, revenues and expenses changed mainly due to the following:

- Operating loss illustrates a decrease in business and industry revenue.
- Operating expenses show a decrease in broadcasting, program production, management and general support.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016



KCSM-TV's operating expenses are shown in the chart above. Following are explanatory comments for the Statement of Operating Expenses by Activity:

- Programming and production: Expenses incurred to purchase, schedule, and produce and prepare programs for broadcast.
- Broadcasting: Expenses incurred to prepare, store, check quality, verify automation asset management, play out, and monitor program streams. Also included in this category is maintenance, repair, design and installation of equipment necessary for technical operations of the station. All costs for transmission such as rent, and power are accounted in this area.
- Management and general: Expenses for management services such as station manager, accounting, administrative and legal services. Also included in this area is depreciation.
- Fundraising support: All costs for pledge premiums, membership administrative services and database management costs.
- Depreciation of capital assets is computed and recorded by the straight-line method. KCSM-TV maintains a capitalization threshold of \$5,000 for equipment and \$100,000 for building improvements.

Useful lives of the assets are estimated as follows:

- 5 to 10 years for equipment
- 25 to 50 years for improvements
- 25 to 50 years for buildings

Cash Flows

The Statement of Cash Flows shown below provides information about cash receipts and cash payments during the fiscal year. The statement also assists readers in understanding KCSM-TV's ability to generate net cash flows, and its ability to meet obligations as they come due, or KCSM-TV's need for assistance via external financing. KCSM-TV has adopted the direct method, and under this method, data for cash flow present operating activities by major categories of gross receipts and gross payments as well as the resulting net amount. Additional explanatory information for the statement is as follows:

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

- The main cash receipts from operating and non-operating activities consist of CPB grants, subscription and membership, royalties and District support. Cash outlays include payment of salaries, benefits, supplies, programming, production and operating expenses.
- The contract with LocusPoint Network, LLC (Other Sources) is the primary source of non-capital financing.
- For capital assets activities, the main outflows are purchase of capital assets.
- Cash from investing activities consists of Interest from County Investment Pool.

Table 3 – Statement of Cash Flows

***SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT - KCSM TV
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Business and industry	\$ 124,200	\$ 172,800	\$ 103,676
District support	153,044	250,783	263,515
Royalties	9,489	14,344	36,331
Payments to suppliers	(631,098)	(386,131)	(872,072)
Payment to /(on behalf of) employees	<u>(624,667)</u>	<u>(844,624)</u>	<u>(844,624)</u>
Net Cash Used In Operating Activities	<u>(969,032)</u>	<u>(792,828)</u>	<u>(1,313,174)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
CPB community service grants	236,070	432,538	442,974
CPB television interconnection grants	4,329	7,825	8,473
Memberships and donations	12,953	124,006	15,081
Other source	<u>900,000</u>	<u>900,000</u>	<u>900,000</u>
Net Cash Provided By Operating Activities	<u>1,153,352</u>	<u>1,464,369</u>	<u>1,366,528</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of capital assets	<u>(10,796)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH	173,524	671,541	53,354
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,351,828</u>	<u>680,287</u>	<u>626,933</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,525,352</u>	<u>\$ 1,351,828</u>	<u>\$ 680,287</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT KCSM-TV

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Economic Factors and the 2016-17 Budget

Being community supported, the District's revenues primarily consist of property tax revenues and student fees and are relatively predictable. The County Assessor's Office has stated that the property tax base went up 7.62% county-wide in 2015-16, which means our projected tax revenues in 2016/17 are 7.62% higher. This puts the District on very solid financial footing. The District continues to build multi-year financial plans and has planned balanced budgets through 2018/19.

KCSM-TV will continue to operate at a minimal level to meet our obligations to the community. The College District will continue to support the station until there is a determination through the Federal Spectrum Auction proceedings.

Contacting the Financial Management Office

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of KCSM-TV's finances and to show the District's accountability for funding received. Questions or concerns about this report or requests for additional financial information should be addressed to Kathy Blackwood, Executive Vice Chancellor, by phone at 650-358-6869 or by e-mail at blackwoodk@smccd.edu.

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,525,352	\$ 1,351,828
Accounts receivable	<u>80,000</u>	<u>14,400</u>
Total current assets	<u>1,605,352</u>	<u>1,366,228</u>
Noncurrent assets		
Capital assets	7,148,108	7,137,312
Accumulated depreciation	<u>(6,085,492)</u>	<u>(5,775,608)</u>
Total noncurrent assets	<u>1,062,616</u>	<u>1,361,704</u>
Total assets	<u>2,667,968</u>	<u>2,727,932</u>
LIABILITIES		
Current liabilities		
Vendor payable	20,374	15,995
Unearned income	<u>225,000</u>	<u>225,000</u>
Total liabilities	<u>245,374</u>	<u>240,995</u>
NET POSITION		
Investment in capital assets	1,062,616	1,361,704
Unrestricted	<u>1,359,978</u>	<u>1,125,233</u>
Total net position	<u>\$ 2,422,594</u>	<u>\$ 2,486,937</u>

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

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET REVENUE, EXPENSES, AND CHANGE IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Direct Income		
Business and industry	\$ 124,200	\$ 172,800
Royalties	9,489	14,344
Indirect support		
San Mateo County Community College District	<u>153,044</u>	<u>250,018</u>
Total operating revenues	<u>286,733</u>	<u>437,162</u>
Operating expenses		
Programming and production	310,320	318,528
Broadcasting	706,678	846,554
Program information and promotion	-	114
Management and general	476,500	609,394
Fundraising support	<u>10,930</u>	<u>13,111</u>
Total operating expenses	<u>1,504,428</u>	<u>1,787,701</u>
Loss from operations	<u>(1,217,695)</u>	<u>(1,350,539)</u>
Non-operating revenues		
CPB community service grants	236,070	432,538
CPB television interconnection grants	4,329	7,825
Memberships and donations	12,953	124,006
Other sources	<u>900,000</u>	<u>900,000</u>
Total non-operating revenues	<u>1,153,352</u>	<u>1,464,369</u>
Change in net position	(64,343)	113,830
Net position at beginning of year	<u>2,486,937</u>	<u>2,373,107</u>
Net position at end of year	<u>\$ 2,422,594</u>	<u>\$ 2,486,937</u>

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

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Business and industry	\$ 124,200	\$ 172,800
District support	153,044	250,018
Royalties	9,489	14,344
Payments to suppliers	(631,098)	(837,828)
Payment to or on behalf of employees	<u>(624,667)</u>	<u>(617,162)</u>
Net cash used in operating activities	(969,032)	(1,017,828)
Cash flows from financing activities		
CPB community service grants	236,070	432,538
CPB television interconnection grants	4,329	7,825
Memberships and donations	12,953	124,006
Other source	<u>900,000</u>	<u>1,125,000</u>
Net cash provided by financing activities	1,153,352	1,689,369
Cash flows used in investing activities		
Purchase of capital assets	<u>(10,796)</u>	<u>-</u>
Net change in cash and cash equivalents	173,524	671,541
Cash and cash equivalents at beginning of year	<u>1,351,828</u>	<u>680,287</u>
Cash and cash equivalents at end of year	<u>\$ 1,525,352</u>	<u>\$ 1,351,828</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,217,695)	\$(1,350,539)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	309,883	334,683
Changes in assets and liabilities		
Increase in accounts receivable	(65,600)	-
Increase (decrease) in vendor payable	<u>4,380</u>	<u>(1,972)</u>
Net cash used in operating activities	<u>\$ (969,032)</u>	<u>\$ (1,017,828)</u>

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

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: KCSM-TV is a public telecommunications television station operated as a program of the San Mateo County Community College District. KCSM-TV is a program of the San Mateo County Community College District general fund, and all activities are also reported within the financial statements of the District.

These financial statements are not intended to, and do not purport to, present fairly the financial position and changes in the financial position of the San Mateo County Community College District in compliance with accounting principles generally accepted in the United States of America.

Basis of Accounting: The KCSM-TV financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, San Mateo County Community College District is considered a special-purpose government engagement only in business-type activities. Accordingly, KCSM-TV's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Net Position: KCSM-TV's net position is classified as follows:

Net investment in capital assets – this represents KCSM-TV's total investment in capital assets, net of accumulated depreciation and any liabilities issued to acquire the capital assets.

Unrestricted net position – this includes resources from fees, District support, and other services. These resources are used for transactions relating to the general operations of KCSM-TV and may be used at the discretion of the Board of Trustees to meet current expenses for any purpose.

Classifications of Revenues and Expenses: Operating revenue includes activities that have the characteristics of exchange transactions, such as sales and services of auxiliary enterprises, and District Support. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as local grants, and gifts and contributions. Operating expenses are those expenses directly attributable to the operations of KCSM-TV.

Capital Assets: KCSM-TV records assets purchased at cost. The value of donated goods is recorded when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their acquisition value at the date of donation. KCSM-TV maintains a capitalization threshold of \$5,000. KCSM-TV depreciates all equipment using the straight-line method of depreciation over the estimated useful life of the related assets, ranging from 5 to 20 years.

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 reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Flows: For purposes of the statement of cash flows, KCSM-TV considers all investments with a maturity of three months or less to be cash equivalents.

Income Taxes: KCSM-TV is a program of San Mateo County Community College District. San Mateo County Community College District is a public educational institution and is considered to be a political subdivision of the State of California and is therefore tax exempt and not subject to filing information returns.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments: Deposits and investments as of June 30, 2016 and 2015, are classified in the accompanying financial statements in the amount of \$1,525,352 and \$1,351,828, respectively. Cash accounts maintained by KCSM-TV are held by San Mateo County Community College District in pooled amounts at the San Mateo County Treasury.

Policies and Practices: TV is authorized through the District under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury: KCSM – TV and the District are considered to be involuntary participants in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the entity's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

(Continued)

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

General Authorizations: Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type Issuer</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. KCSM-TV and the District manage exposure to interest rate risk by depositing funds with the San Mateo County Treasury. KCSM-TV's share of deposits with the County Treasury was \$1,525,352 at June 30, 2016 and \$1,351,828 as of June 30, 2015. The fair value of this investment at June 30, 2015 and June 30, 2016 is approximately \$1,530,020 and \$1,351,693, respectively, with a weighted average maturity of approximately 1.06 years and 1.63 years respectively.

NOTE 3 – CAPITAL ASSETS

Changes in equipment are summarized as follows as of June 30:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Equipment	\$ 7,137,312	\$ 10,795	\$ -	\$ 7,148,107
Less - Accumulated Depreciation	<u>5,775,608</u>	<u>309,883</u>	<u>-</u>	<u>6,085,491</u>
Net Equipment	<u>\$ 1,361,704</u>	<u>\$ (299,088)</u>	<u>\$ -</u>	<u>\$ 1,062,616</u>

(Continued)

KCSM-TV
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED AS A PROGRAM OF THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – CAPITAL ASSETS (continued)

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Equipment	\$ 7,542,885	\$ -	\$ 405,573	\$ 7,137,312
Less - Accumulated Depreciation	<u>5,846,498</u>	<u>334,683</u>	<u>405,573</u>	<u>5,775,608</u>
Net Equipment	<u>\$ 1,696,387</u>	<u>\$ 334,683</u>	<u>\$ -</u>	<u>\$ 1,361,704</u>

Depreciation expense for the years ended June 30, 2016, and June 30, 2015 were \$309,883 and \$334,683 respectively, and is included in management and general expenses.

NOTE 4 – DONATED SERVICES

During the year, many KCSM-TV individuals donate significant amounts of time and services in an effort to advance the programs and objectives of the station. These services have not been recorded in the financial statements because no objective basis is available to measure the value of such services.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the year, KCSM-TV received indirect administrative support from the College District totaling \$153,044 for the year ended June 30, 2016 and \$250,018 for the year ended June 30, 2015. This consisted of licensee indirect costs as agreed upon under the terms of a signed memorandum of understanding.

NOTE 6 – OTHER MATTERS

San Mateo County Community College District (SMCCCD) has entered into a Funding Agreement with Locus Points Network (LPN) on May 16, 2013. LPN has agreed to provide to SMCCCD funding in the amount of \$3,600,000 to be paid in installments of \$225,000 for the operating expenses of the Station as it is currently operated in compliance with the rules, regulations and policies of the FCC. The parties have agreed that in consideration of, among other things, LPN providing such funding to SMCCCD, LPN will have the right to share 36.5% of the Gross Sale Proceeds upon the sale of KCSM-TV. Effective July 1, 2013, Locus Point Networks (LPN) LLC is paying SMCCCD \$225,000 per quarter. These funds are reflected as administrative support from SMCCCD to KCSM-TV.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

KCSM-TV
San Mateo County Community College District

We have audited, in accordance with the 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, the financial statements of KCSM-TV a resource of the San Mateo County Community College District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise KCSM-TV's financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KCSM-TV's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KCSM-TV's internal control. Accordingly, we do not express an opinion on the effectiveness of KCSM-TV's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KCSM-TV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016