

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
FOR THE YEARS ENDED June 30, 2017 and 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Education
Los Angeles Unified School District

Report on the Financial Statements

We have audited the accompanying financial statements of KLCS-TV (the "Station"), a broadcast service of the Los Angeles Unified School District and its discretely presented component unit, KLCS Education Foundation ("KEF"), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Station'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.

Auditors' 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station and its discretely presented component unit, KEF, as of June 30, 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.

Emphasis of Matter

As discussed in Note No. 1 to the financial statements, this year the Station's financial statements include a discretely presented component. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

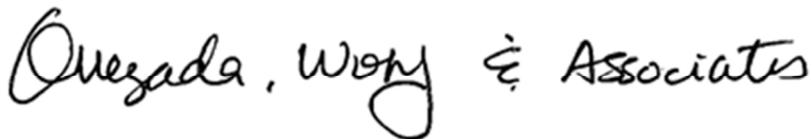
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Station's financial statements. The accompanying management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2018 on our consideration of KLCS-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 KLCS-TV's internal control over financial reporting and compliance.

Restriction On Use of this Report

This report is intended solely for the information and use of the Board of Education, management, and the Corporation for Public Broadcasting, and is not intended to be and should not be used by anyone other than these specified parties.



San Marino, California
January 31, 2018

**KLCS-TV
A BROADCAST SERVICE OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

The Management's Discussion and Analysis (MD&A) section is prepared by the KLCS management and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on and analysis of the financial activities of KLCS.

KLCS is the unit of the Los Angeles Unified School District (the District) engaged in the production and broadcast of television programming, and is an account in the District's General Fund. KLCS receives a substantial portion of its annual funding from the District and from the Corporation for Public Broadcasting.

The financial statements include the financial activities of KLCS and its related 501(c)(3) nonprofit corporation, the KLCS Education Foundation (KEF). KEF is a legally separate and tax-exempt entity which does not meet the criteria of being a blended component unit due to the amended criteria provided by GASB 61. KEF is discretely presented and the activities of KEF are not included in the MD&A.

Readers are encouraged to consider the information presented herein in concert with additional information furnished in the Station's letter of transmittal and the financial statements immediately following this report, including the accompanying note disclosures and supplemental information.

Financial Highlights

- The assets of the Station exceeded its liabilities at the close of the most recent fiscal year by \$994,633 (net position).
- The Station's total net position decreased by \$136,665 from the prior year total, due primarily to depreciation of capital assets exceeding new investments.
- The Station's total obligations increased by \$747,682 (109%) during the current fiscal year. The increase resulted primarily from an increase in unexpended grants.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Station's financial statements. The Station's financial statements comprise of both the financial statements proper and the notes to those financial statements.

The financial statements are designed to provide readers with a broad overview of the Station's finances.

The Statement of Net Position presents information on the assets and the liabilities of KLCS, with the difference between the two reported as its net position. Over time, increases or decreases in the net position may serve as useful indicators of whether the Station's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows provide information on income and expenses and cash activities. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

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statement for some items that will only result in cash flows in future fiscal periods.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data presented in the financial statements.

The financial statements can be found on pages 9-11 of this report.

Financial Analysis

As noted earlier, changes in net position over time may serve as a useful indicator of an entity's financial position. In the case of KLCS, assets exceeded liabilities by \$994,633 at the close of the most recent year.

By far the largest portion of the Station's net position (\$992,353) reflects its investments in capital assets (e.g. equipment and deferred equipment installation expenses) less depreciation. The Station uses these capital assets to provide television broadcast and production services; consequently, these assets are not available for future expenditure.

The second portion of the Station's net position consists of its prepaid expenses, which are not spendable. These prepaid expenses increased 12% during the fiscal year.

The remaining portion of the Station's net position, its unassigned net assets (-\$232,260), represent resources that are not subject to external restrictions on how they may be used. These resources are mainly derived from activities such as donations, sales of recorded media, program underwriting, and production activities. The Station's unassigned net position decreased 17.19% during the year primarily due to a decrease in accounts receivable.

In FY 2017, the Station's capital assets decreased by 11.4%, due primarily to depreciation of capital assets exceeding new investments. The trend of decreases in capital assets in recent years is expected to reverse starting in FY 2018 as the Station undergoes a rebuild of its technical infrastructure. Current assets increased by 105.7% reflecting an increase in unexpended grants.

The Station's current liabilities (which are its total obligations) increased by 108.6% during the fiscal year. The increase resulted primarily from the aforementioned increase in unexpended grants.

The Station enjoyed generally improved financial stability in the current fiscal year by, among other measures, redeploying funds from vacant positions, which allowed it to increase its cash reserves despite a substantial decrease in production activity. Moreover, as previously noted, the Station will commence a complete rebuild of its physical plant in FY 2018, which will radically improve its net position. The Station closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year and at year-end.

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Summary Statement of Net Position

As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Change from Previous Year</u>
Assets:			
Current Assets	\$ 1,438,215	\$ 699,157	105.71%
Capital Assets, Net	992,353	1,120,393	-11.43%
Total Assets	<u>\$ 2,430,567</u>	<u>\$ 1,819,550</u>	
Liabilities:			
Current Liabilities	\$ 1,435,934	\$ 688,252	108.63%
Long-term Liabilities			
Total Liabilities	<u>1,435,934</u>	<u>688,252</u>	108.63%
Net Position:			
Net Investment in Capital Assets	992,353	1,120,393	-11.43%
Nonspendable - Prepaid Expenses	234,641	209,176	12.17%
Unassigned	(232,360)	(198,271)	17.19%
Total Net Position	<u>994,633</u>	<u>1,131,298</u>	
Total Liabilities and Net Position	<u>\$ 2,430,568</u>	<u>\$ 1,819,550</u>	

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Summary Statement of Changes in Net Position

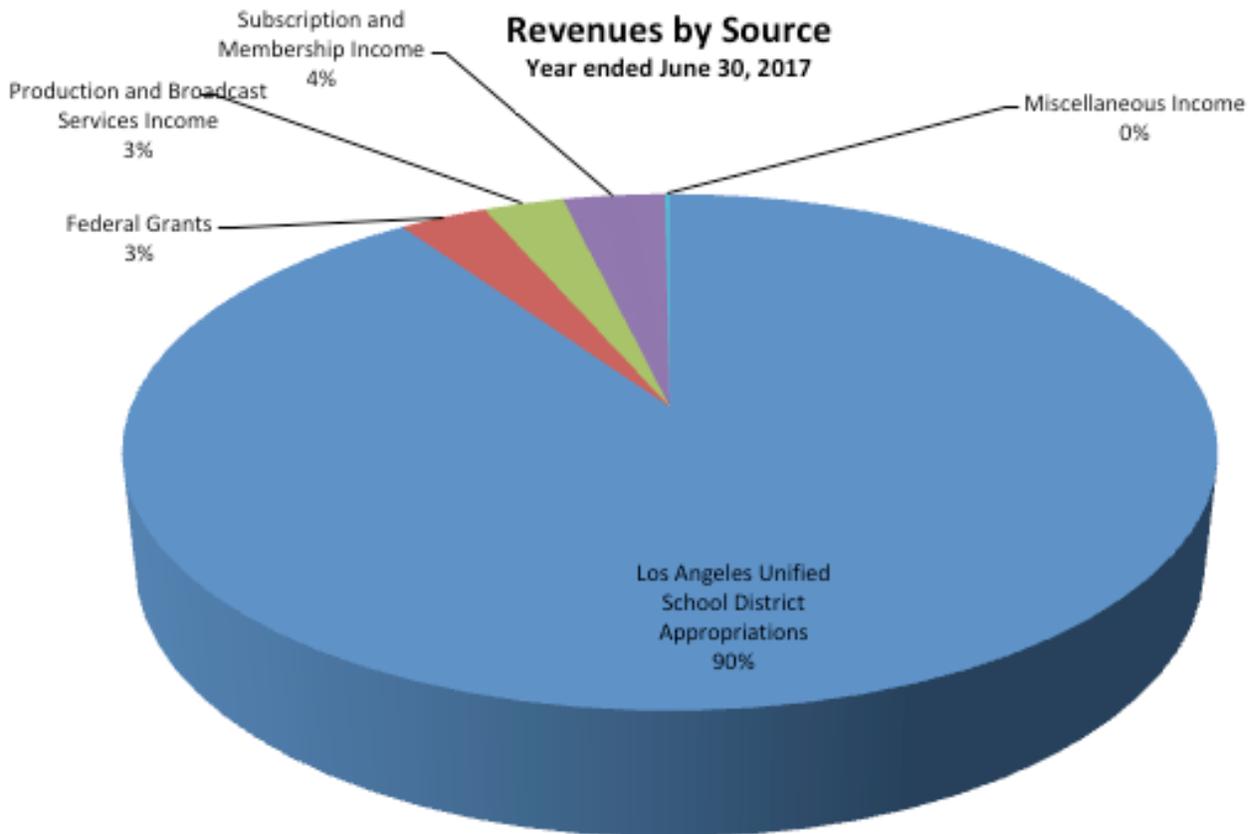
For the Years Ended June 30, 2017 and 2016

	2017	2016	Change from Previous Year
Revenues:			
Los Angeles Unified School District Appropriations	\$ 3,677,032	\$ 3,818,531	-3.71%
Federal Grants	125,233	720,080	-82.61%
Production and Broadcast Services Income	113,833	75,443	50.88%
Subscription and Membership Income	145,308	134,793	7.80%
Miscellaneous Income	7,029	4,857	44.73%
Total Revenues	<u>4,068,435</u>	<u>4,753,705</u>	
Expenses:			
Programming and Production	1,914,977	2,280,317	-16.02%
Broadcasting	657,802	947,599	-30.58%
Public Information and Promotion	57,290	203,395	-71.83%
Management and General	1,105,295	1,188,192	-6.98%
Fundraising/Member Development	77,333	81,900	-5.58%
Depreciation	202,659	207,501	-2.33%
Underwriting/Grant Solicitation	-	8,631	-100.00%
Total Expenses	<u>4,015,356</u>	<u>4,917,535</u>	-18.35%
Excess (Deficiency) of Revenues Over (Under) Expenses	<u>53,078</u>	<u>(163,830)</u>	
Other Financing (Uses):			
Operating Transfer to Los Angeles Unified School I	(119,750)	(130,000)	
Operating Transfer to KLCS Foundation	(69,993)	220,290	
Total Other Financing (Uses)	<u>(189,743)</u>	<u>90,290</u>	
Excess (Deficiency) of Revenues Over (Under) Expenses and Other Financing (Uses)	<u>(136,665)</u>	<u>(73,540)</u>	
Net Position, Beginning	1,131,297	1,204,837	
Net Position, Ending	<u>\$ 994,633</u>	<u>\$ 1,131,297</u>	

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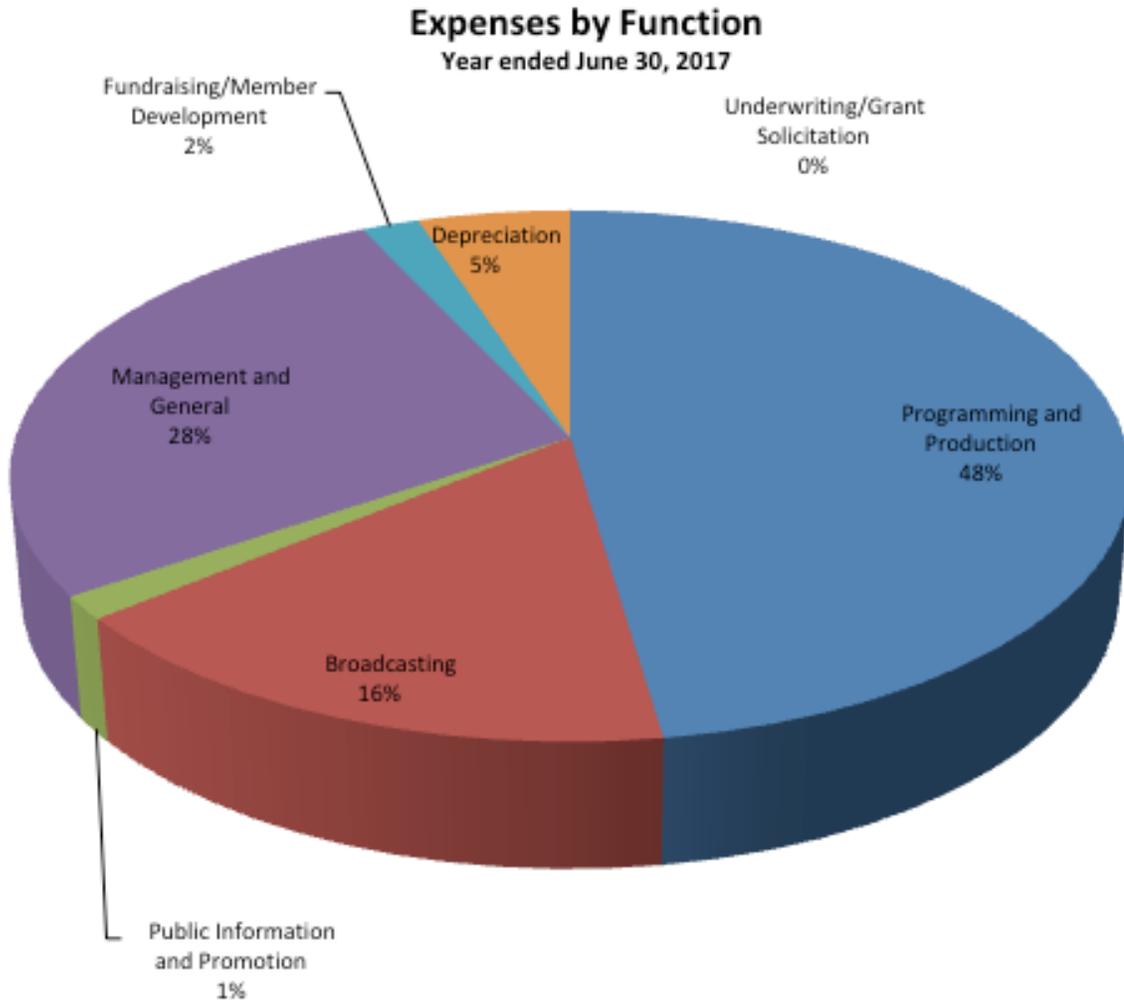
The Station's net position decreased by \$136,665 in the current fiscal year, due primarily to depreciation of capital assets exceeding new investments.

The following graph shows that appropriations from the Los Angeles Unified School District and grants from federal funds, primarily through the Corporation for Public Broadcasting, are the main revenue sources of the Station. The proportion of the Station's funding provided by the District increased from 80% in FY 2016 to 90% in the current fiscal year, due to the redeployment of licensee support previously noted. At the same time the share of Station revenues provided by federal grants declined from 15% to 3%.



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The following graph shows that programming and production and management and general functions are the main expenses of the Station.



Requests for Information

This financial report is designed to provide a general overview of the Station's finances for all those with an interest in it. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, KLCS-TV, 1061 West Temple Street, Los Angeles, CA 90012. General information relating to KLCS can be found on its website at www.klcs.org.

KLCS-TV
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STATEMENTS OF NET POSITION
AS OF JUNE 30, 2017 AND 2016

	2017		2016	
	Primary Gov't KLCS-TV	Component Unit KEF	Primary Gov't KLCS-TV	Component Unit KEF
Assets	\$ 1,200,574	\$ -	\$ 476,668	\$ -
Cash in County	3,000	199,646	3,000	129,654
Cash in banks	-	-	10,313	-
Due from LAUSD and other receivables	234,641	-	209,176	-
Property and equipment (net of accumulated depreciation of \$6,462,436 and \$6,259,776, respectively)	992,352	-	1,120,393	-
Total Assets	\$ 2,430,567	\$ 199,646	\$ 1,819,550	\$ 129,654
Liabilities				
Accounts payable	\$ 235,360	\$ -	\$ 211,585	\$ -
Unexpended grants	1,200,574	-	476,668	-
Total Liabilities	1,435,934	-	688,253	-
Net Position				
Net investment in capital assets	992,353	-	0	-
Nonspendable - Prepaid expenses	234,641	-	209,176	-
Unassigned (Deficiency)	(232,361)	199,646	(198,272)	129,654
Total Net Position	994,633	199,646	10,904	129,654
Total Liabilities and Net Position	\$ 2,430,567	\$ 199,646	\$ 699,157	\$ 129,654

The notes to the financial statements are an integral part of these financial statements

KLCS-TV
A BROADCAST SERVICE OF THE
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017		2016	
	Primary Government	Component Unit	Primary Government	Component Unit
Revenues				
Support and revenues:				
Los Angeles Unified School District: General Appropriations	\$ 3,513,450	\$ -	\$ 3,591,495	\$ -
Facilities and Administrative Support	163,581		227,036	
Corporation for Public Broadcasting - Community Services Grants and other grants	125,233		720,080	
Subscription and membership income	-	145,308	-	134,793
Rental of facilities	111,333		56,869	
Support from KLCS Education Foundation	145,308		134,793	
Production and Program Underwriting	2,500		18,574	
Miscellaneous income	7,029		4,858	
Total Revenues	4,068,434	145,308	4,753,705	134,793
Expenses				
Certificated salaries	136,096		127,017	
Classified salaries	1,449,586		1,837,391	
Employee benefits	691,548		799,237	
Indirect administration	126,624		190,079	
Contract services	98,240		375,895	
Utilities	186,045		184,187	
Supplies	56,023		89,459	
Membership and dues	119,364		120,702	
Rent	299,882		295,437	
Equipment rental	14,333		8,369	
Equipment maintenance and repair	93,236		98,908	
Instructional materials	460,108		486,248	
Reprographic services	31,200		28,600	
Travel and conference	27,687		37,275	
Non-Capital Equipment Purchases	8,783		18,246	
Depreciation and amortization	202,659		207,501	
Miscellaneous	13,941		12,984	
Support to KLCS-TV	-	145,308	-	134,793
Total expenses	4,015,355	145,308	4,917,535	134,793
Excess (Deficiency) of Revenues over (under) Expenses	53,079	-	(163,830)	-
Other Financing (Uses)				
Operating Transfer (from) to KLCS Education Foundation	(69,993)	69,993	220,290	(220,290)
Operating Transfer (from) to Los Angeles Unified School District	(119,750)		(130,000)	
Total Other Financing (Uses)	(189,743)	69,993	90,290	(220,290)
(Deficiency) Excess of Revenues over (under) Expenses and Other Financing (Uses)	(136,664)	69,993	(73,540)	(220,290)
Net Position, at beginning of year	1,131,297	129,654	1,204,837	349,944
Net Position, at end of year	\$ 994,633	\$ 199,647	\$ 1,131,297	\$ 129,654

The notes to the financial statements are an integral part of these financial statements

KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017		2016	
	Primary Gov't KLCS-TV	Component Unit KEF	Primary Gov't KLCS-TV	Component Unit KEF
Cash flows from operating activities:				
Cash received from grants	\$ 4,526,170	\$ -	\$ 4,752,988	\$ -
Cash received from membership	-	145,307	-	134,793
Cash received - miscellaneous	9,529		23,431	
Cash received from rentals and other revenues	121,646		158,043	
Cash received from KLCS Education Foundation	145,308	(145,308)	134,793	(134,793)
Cash paid for personnel costs	(2,277,230)		(2,763,646)	
Cash paid for other operating expenses	(1,537,155)		(1,946,553)	
Operating transfer from KLCS Education Foundation	(69,993)	69,993	220,290	(220,290)
Operating transfer to Los Angeles Unified School District	(119,750)		(130,000)	
Net cash provided (used) by operating activities	798,525	69,992	449,346	(220,290)
Cash flows from capital and related financing activities:				
Purchase of capital assets	(74,619)	-	(234,969)	-
Net increase (decrease) in cash	723,906	69,992	214,377	(220,290)
Cash at beginning of year	479,668	-	265,291	349,944
Cash at end of year	\$ 1,203,574	\$ 69,992	\$ 479,668	\$ 129,654
Cash components:				
Cash in County	\$ 1,200,574	\$ -	\$ 476,668	\$ -
Cash in bank	3,000	199,646	3,000	129,654
Total cash	\$ 1,203,574	\$ 199,646	\$ 479,668	\$ 129,654
<u>Reconciliation of excess expenses and other financing over Revenue to net cash provided (used) by operating activities</u>				
Excess of expenses and other financing over revenue	\$ (136,664)	\$ 69,992	\$ (73,540)	\$ (220,290)
Adjustment to reconcile excess expenses and other financing over revenue to net cash provided by operating activities				
Depreciation and amortization	202,659		207,501	
(Increase) decrease in accounts receivable	10,313		101,174	
(Increase) decrease in prepaid expenses	(25,464)		(1,154)	
Increase (decrease) in accounts payable	23,775		988	
Increase (decrease) in unexpended grants	723,906		214,377	
	-		-	
Net cash provided (used) by operating activities	\$ 798,525	\$ 69,992	\$ 449,346	\$ (220,290)

The notes to the financial statements are an integral part of these financial statements

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 – REPORTING ENTITY

KLCS-TV (the “Station”) is a public television station licensed to the Los Angeles Unified School District (the “District”) and an account within the District’s General Fund. These financial statements do not represent the financial position or the results of operations of the District. The Station receives a substantial portion of its annual funding from the District and the Corporation for Public Broadcasting (CPB).

The Station’s broadcasting license has been renewed by the Federal Communications Commission through December 1, 2022.

Discretely Presented Component Unit

The Station’s financial statements include KLCS Education Foundation (“KEF”), a related California nonprofit corporation commencing operations during the fiscal year ended on June 30, 2014. KEF is exempt from Federal and California income taxes under Section 501 (c)(3) of the Internal Revenue Code, and Section 23701 of the California Law, Revenue and Taxation Code. The purpose of KEF is to raise and manage revenues for the Station and manage Station memberships.

KEF is presented in the Station’s reporting entity as a discretely presented component unit because of the financial accountability criteria in GASB Statement No. 14, *The Financial Reporting Entity*

as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. KEF meets the criteria to be reported with the Station as a discretely presented component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the that primary government.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In May 2005, the CPB issued guidance for financial reporting under GASB No. 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments in their guide Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities. CPB encourages all public broadcasting entities to present their financial statements as an enterprise fund. The Station has adopted this method for their financial statement presentation.

Measurement Focus and Basis of Accounting

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Station accounts for its operations in a manner similar to a private business enterprise - where the intent of the governing body is to finance the cost (expenses, including depreciation) of providing goods and services on a continuing basis or recover the cost of services primarily through fees to customers. The Station generally fully funds capital investments in advance of acquisition. Although the Station funds the majority of its capital investments in buildings and equipment in advance of purchase, the value of these investments is shown as a depreciation expense in the operating budget as the beneficial use of the assets are consumed. Careful attention to the accompanying notes is suggested to fully understand the financial position of the Station.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for business accounting and financial principles. As a division of the District, the Station must follow Government Accounting Standards.

The Station's policy for defining operating activities, as reported on the statement of revenues, expenses and changes in net position, are those that generally result from the provision of public service media or instructional technology services and from the production of program material for distribution over electronic networks and broadcast channels. Revenues associated with, or restricted by, donors for capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

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Cash

KLCS-TV maintains its cash in an account at the District and deposited in the Los Angeles County Treasury and in a bank account, which are readily available for withdrawal. Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, KLCS-TV will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The cash deposited in the country treasury, per the audited financial statements of the Los Angeles Unified School District for the year ended on June 30, 2017, is not exposed to custodial credit risk since all county deposits are either covered by federal depository insurance or collateralized with securities held by the County. Deposits in bank accounts are insured by federal depository insurance up to \$250,000, having no risk exposure.

Prepaid Expenses

Prepaid expenses consist of various payments that KLCS has made in advance for goods or services to be received in the future. These prepaid expenses principally include insurance and service contracts requiring up-front payments.

Property and Equipment

Property and equipment are recorded at cost, or in the case of donated property, at fair value on the date of receipt. Capital assets are depreciated on a straight-line basis using estimated useful lives of 5 years to 20 years.

In-Kind Contributions of Property and Equipment

Contributed property and equipment includes land, buildings, tower site, buildings and building improvements, broadcast equipment, furniture, office equipment and vehicles. Contributions are recorded at fair value upon receipt. Fair value is based on market prices for similar assets, independent appraisals or replacement cost of the asset.

Donated Services, Facilities and Other Assets

In-kind contributions of services and assets are recorded if they meet the criteria established by CPB and accounting principles generally accepted in the United States of America.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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NOTE 3 – DUE FROM LAUSD AND OTHER RECEIVABLES – RELATED PARTY

Included in the \$10,313 are \$10,073 due from LAUSD (the District), a related party.

NOTE 4 - PROPERTY AND EQUIPMENT

At June 30, 2017, Property and Equipment consist of the following:

	Balances			Balances
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Studio and other Broadcasting Equipment	\$ 6,517,505	\$ 74,619	\$ -	\$ 6,592,124
Furniture and Equipment	76,206	-	-	76,206
Vehicles	129,600	-	-	129,600
Deferred Equipment Installation Expenses	656,858	-	-	656,858
Total Property and Equipment	<u>7,380,169</u>	<u>74,619</u>	<u>-</u>	<u>7,454,788</u>
Accumulated Depreciation and Amortization	6,259,776	\$ 202,659	\$ -	6,462,435
Property and Equipment, Net of Accumulated Depreciation and Amortization	<u>\$ 1,120,393</u>			<u>\$ 992,353</u>

The depreciation charge for the year ended June 30, 2017 was \$202,659.

At June 30, 2016, Property and Equipment consist of the following:

	Balances			Balances
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Studio and other broadcasting equipment	\$ 6,297,664	\$ 234,969	\$ 15,128	\$ 6,517,505
Furniture and equipment	76,206	-	-	76,206
Vehicles	129,600	-	-	129,600
Deferred equipment installation expenses	656,858	-	-	656,858
Total property and equipment	<u>7,160,328</u>	<u>234,969</u>	<u>15,128</u>	<u>7,380,169</u>
Accumulated depreciation and amortization	6,067,403	\$ 207,501	\$ 15,128	6,259,776
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 1,092,925</u>			<u>\$ 1,120,393</u>

The depreciation charge for the year ended June 30, 2016 was \$207,501.

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 5 - COMPENSATED ABSENCES AND SICK LEAVE

Compensated absences and sick leave, including personnel costs and related fringe benefits are paid by and under the control of the District, as it is responsible for its compliance. Each year the District determines the amount of grants and the corresponding expenses to be contributed by KLCS, including if and to what extent some specific expenses will be charged to KLCS. Therefore, KLCS cannot reasonably determine the extent of these liabilities, if any. For further explanation of its policy regarding compensated absences and sick leave, please refer to the District's audited financial statements for the year ended June 30, 2017, which is available at the District's Office of the Chief Financial Officer and on the internet at:

<https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202016-17/LosAngelesUnifiedRpt17.pdf>

NOTE 6 - UNEXPENDED GRANTS

At June 30, 2017 and 2016, unexpended grants are as follows:

Grant	2017	2016
CPB Community Service Grant FY 2017	\$ 822,517	\$ -
CPB Community Service Grant FY 2016	378,057	475,551
CPB Community Service Grant FY 2015	-	1,117
	-	-
Totals	<u>\$ 1,200,574</u>	<u>\$ 476,668</u>

NOTE 7 - MISCELLANEOUS INCOME

For the years ended on June 30, 2017 and 2016, Miscellaneous Income was as follows:

	2017	2016
Sales of Books and Recorded Media and Other Revenues	\$ -	\$ 582
Programming - Rights, Royalties and Other Payments	7,029	4,276
	<u>\$ 7,029</u>	<u>\$ 4,858</u>

KLCS-TV
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 8 – FUNCTIONAL EXPENSES

	<u>2017</u>	<u>2016</u>
Program services		
Programming and production	\$ 1,914,976	\$ 2,280,317
Broadcasting	657,802	947,599
Public information and promotion	57,290	203,395
Total program services	<u>2,630,068</u>	<u>3,431,311</u>
Supporting services		
Management and general	1,105,295	1,188,192
Fundraising/member development	77,333	81,900
Depreciation	202,659	207,501
Underwriting/grant solicitation	-	8,631
Total supporting services	<u>1,385,287</u>	<u>1,486,224</u>
Total program and supporting services	<u>\$ 4,015,355</u>	<u>\$ 4,917,535</u>

NOTE 9 – LEASE AND OTHER COMMITMENTS

KLCS rents its antenna space under an operating lease. The total expense for rental space was \$299,882 and \$295,437 for June 30, 2017 and 2016, respectively. Future minimum annual rental and generator fee commitments under the non-cancelable operating lease is as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Rent</u>	<u>Fee</u>	<u>Total</u>
2018	\$ 262,925	\$ 63,228	\$ 326,153
2019	262,925	63,228	326,153
2020	262,925	63,228	326,153
2021	267,526	63,544	331,070
2022	272,128	63,860	335,988
	<u>\$ 1,328,429</u>	<u>\$ 317,088</u>	<u>\$ 1,645,517</u>

**KLCS-TV
A BROADCAST SERVICE OF THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 10 – RETIREMENT PLAN

KLCS employees are covered by the District's defined benefits pension plan operated by the California Public Employees Retirement System, as well as other post-employment benefits. The required disclosure and other information of these plans can be found in the District's latest Comprehensive Annual Financial Report. This report is available at the District's Office of the Chief Financial Officer.

For the years ended June 30, 2017 and 2016, KLCS-TV contributed \$203,236 and \$217,151, respectively, to the plan on behalf of its employees. Additional information regarding contributions to the plan may be obtained by contacting the District's Payroll Administration Branch (on the internet at <https://achieve.lausd.net/payroll>).

The market value of the plan assets with respect to Station employees as of June 30, 2017 was 67.8% of the plan liabilities.

NOTE 11 - CONTINGENCY

a) Grants and contracts

Corporation for Public Broadcasting Community Services and other grants received are subject to audit by auditors of the granting agencies or contracted public accountants. Any disallowed costs or adjustments likely must be repaid to the granting agencies.

b) Income Taxes

KEF filed, for the year ended December 31, 2016, Return of Organization Exempt from Income Tax, Form 990, and the California Exempt Organization Annual Information Return, Form 199. KEF believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax position. Generally, income tax returns remain open for examination by taxing authorities for three years.

NOTE 12 – SUBSEQUENT EVENTS

KLCS-TV management evaluated subsequent events through January 31, 2018, which is the date the financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements.



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**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***

INDEPENDENT AUDITORS' REPORT

Board of Education
Los Angeles Unified School District

We have audited the financial statements of KLCS-TV's (the "Station"), a broadcast service of the Los Angeles Unified School District (the "District") and its discretely presented component unit, KLCS Education Foundation's ("KEF"), as of and for the years ended on June 30, 2017 and 2016, and have issued our report thereon dated January 31, 2018. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KLCS-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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLCS-TV's internal control. Accordingly, we do not express an opinion on the effectiveness of KLCS-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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLCS-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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 KLCS-TV's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction On Use of this Report

This report is intended solely for the information and use of the Board of Education, management, and the Corporation for Public Broadcasting, and is not intended to be and should not be used by anyone other than these specified parties.

Quezada, Wong & Associates

San Marino, California
January 31, 2018