

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

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**KLCS-TV  
A BROADCAST SERVICE OF THE  
LOS ANGELES UNIFIED SCHOOL DISTRICT  
FOR THE YEARS ENDED June 30, 2018 and 2017**

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# ARMANDO BALBIN

## ***CERTIFIED PUBLIC ACCOUNTANT***

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### **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Los Angeles Unified School District

#### **Report on the Financial Statements**

I 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, 2018 and 2017, 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.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

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**MEMBER**  
**AICPA • California Society of Certified Public Accountants**

## Opinions

In my 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, 2018 and 2017, 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

### Discretely Presented Component Unit

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

### Employees Fringe Benefits, Compensated Absences, Retirement Plans and Post-employment Benefits

As further explained under the notes to the financial statements numbers 7 and 12, the KLCS-TV's employees are employed and paid by Los Angeles Unified School District (District). The District controls and pays the KLCS-TV's employees' salaries including compensated absences, fringe benefits, retirement plans, and post-employment benefits. The District is responsible for its compliance.

Each year the District determines the amount of grants and the corresponding expenses to be contributed by KLCS-TV, including if and to what extent some specific expenses will be charged to KLCS-TV. Therefore, KLCS-TV cannot reasonably determine the extent of these liabilities, if any. For further explanation of its policy regarding compensated absences and sick leave, refer to the District's audited financial statements for the year ended June 30, 2018, which is available at the District's Office of the Chief Financial Officer.

## Other Matters

### Required Supplementary Information

My 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 4 through 9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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, I have also issued my report dated January 11, 2019 on my consideration of KLCS-TV's internal control over financial reporting and on my 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 my 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.

*Armando Balbin*

Downey, California  
January 11, 2019

**KLCS-TV  
A BROADCAST SERVICE OF THE  
LOS ANGELES UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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 \$1,944,203 (net position).
- The Station's total net position increased by \$949,569 from the prior year total, due primarily to new investments in capital assets resulting from KLCS' Station Rebuild project.
- The Station's total obligations increased by \$472,018 (32.9%) during the current fiscal year. The increase resulted from unpaid capital expenditures and 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 statement for some

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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 10-12 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 \$1,944,203 at the close of the most recent year.

By far the largest portion of the Station's net position (\$2,069,894) 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 9.2% during the fiscal year.

The remaining portion of the Station's net position, its unassigned net assets (-\$381,891), represents 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 64.4% during the year primarily due to unpaid capital expenditures.

In FY 2018, the Station's capital assets increased by 109%, due to the Station Rebuild project, with capital expenditures outpacing retirements and depreciation. These new investments in the Station's technical infrastructure reversed a trend of decreases in capital assets in recent years. Current assets increased by 23.9% reflecting an increase in unexpended grants and prepaid expenses.

The Station's current liabilities (which are its total obligations) increased by 32.9% during the fiscal year. The increase resulted primarily from the aforementioned increase in unexpended grants.

The Station enjoyed dramatically improved financial stability in the current fiscal year by, among other measures, escalating its effort of redeploying funds from vacant positions, which allowed it to increase its cash reserves despite a continued lack of production activity. The Station also enjoyed an infusion over \$2 million allocated by its licensee from Spectrum Auction proceeds. These funds were used mainly for capital investments related to the Rebuild project. 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, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change from Previous Year</u>
<b>Assets:</b>			
Current Assets	\$ 1,782,261	\$ 1,438,215	23.92%
Capital Assets, Net	2,069,894	992,353	108.58%
<b>Total Assets</b>	<u>\$ 3,852,155</u>	<u>\$ 2,430,567</u>	
<b>Liabilities:</b>			
Current Liabilities	\$ 1,907,952	\$ 1,435,934	32.87%
Long-term Liabilities			
<b>Total Liabilities</b>	<u>1,907,952</u>	<u>1,435,934</u>	32.87%
<b>Net Position:</b>			
Net Investment in Capital Assets	2,069,894	992,353	108.58%
Nonspendable - Prepaid Expenses	256,200	234,641	9.19%
Unassigned	<u>(381,891)</u>	<u>(232,360)</u>	64.35%
<b>Total Net Position</b>	<u>1,944,203</u>	<u>994,633</u>	
<b>Total Liabilities and Net Position</b>	<u>\$ 3,852,155</u>	<u>\$ 2,430,568</u>	

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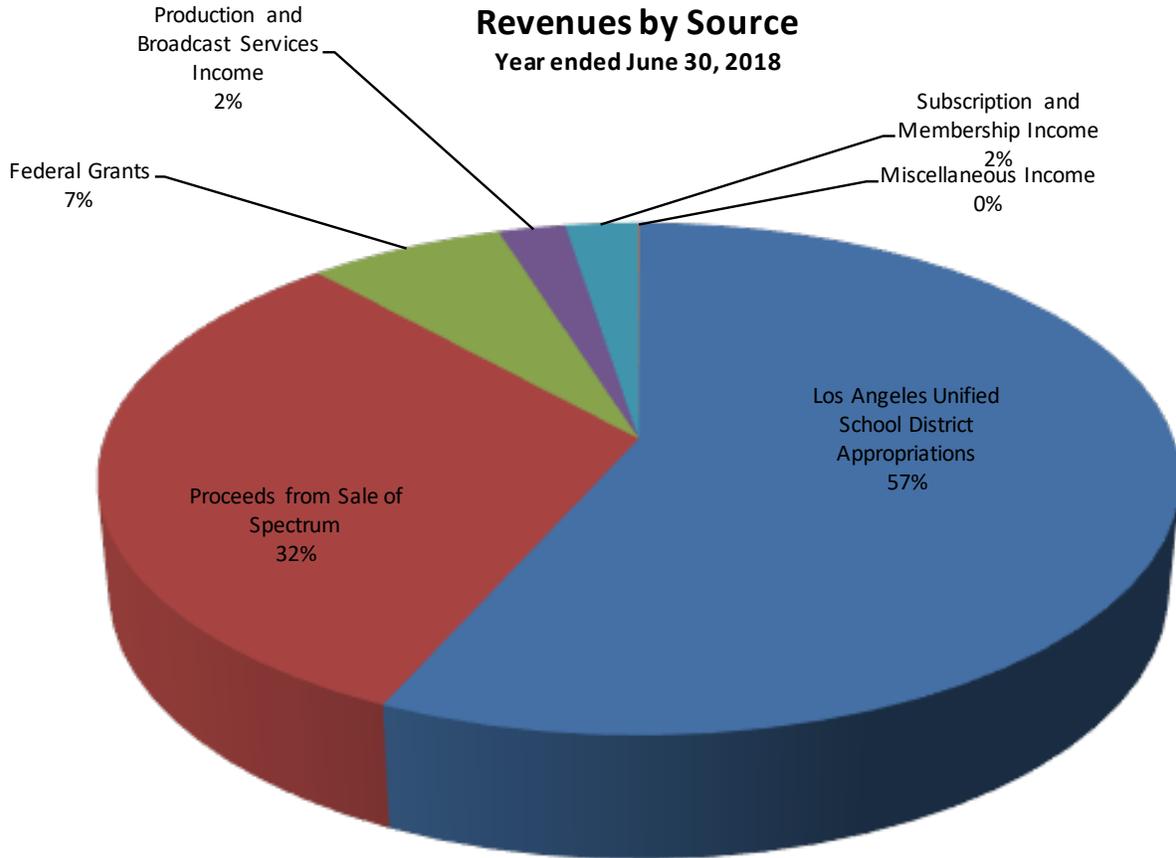
**Summary Statement of Changes in Net Position**

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change from Previous Year</u>
Revenues:			
Los Angeles Unified School District Appropriations	\$ 3,705,550	\$ 3,677,032	0.78%
Proceeds from Sale of Spectrum	2,062,451		N/A
Federal Grants	446,444	125,233	256.49%
Production and Broadcast Services Income	152,681	113,833	34.13%
Subscription and Membership Income	163,352	145,308	12.42%
Miscellaneous Income	3,009	7,029	-57.19%
Total Revenues	<u>6,533,486</u>	<u>4,068,435</u>	
Expenses:			
Programming and Production	2,137,028	1,914,977	11.60%
Broadcasting	1,183,795	657,802	79.96%
Public Information and Promotion	83,663	57,290	46.03%
Management and General	1,592,274	1,105,295	44.06%
Fundraising/Member Development	52,964	77,333	-31.51%
Depreciation	253,598	202,659	25.14%
Underwriting/Grant Solicitation	-	-	N/A
Total Expenses	<u>5,303,323</u>	<u>4,015,356</u>	32.08%
Excess (Deficiency) of Revenues Over (Under) Expenses	<u>1,230,162</u>	<u>53,078</u>	
Other Financing (Uses):			
Operating Transfer to Los Angeles Unified School District	(128,500)	(119,750)	
Operating Transfer to KLCS Foundation	<u>(152,093)</u>	<u>(69,993)</u>	
Total Other Financing (Uses)	<u>(280,593)</u>	<u>(189,743)</u>	
Excess (Deficiency) of Revenues Over (Under) Expenses and Other Financing (Uses)	949,570	(136,665)	
Net Position, Beginning	<u>994,632</u>	<u>1,131,297</u>	
Net Position, Ending	<u>\$ 1,944,202</u>	<u>\$ 994,632</u>	

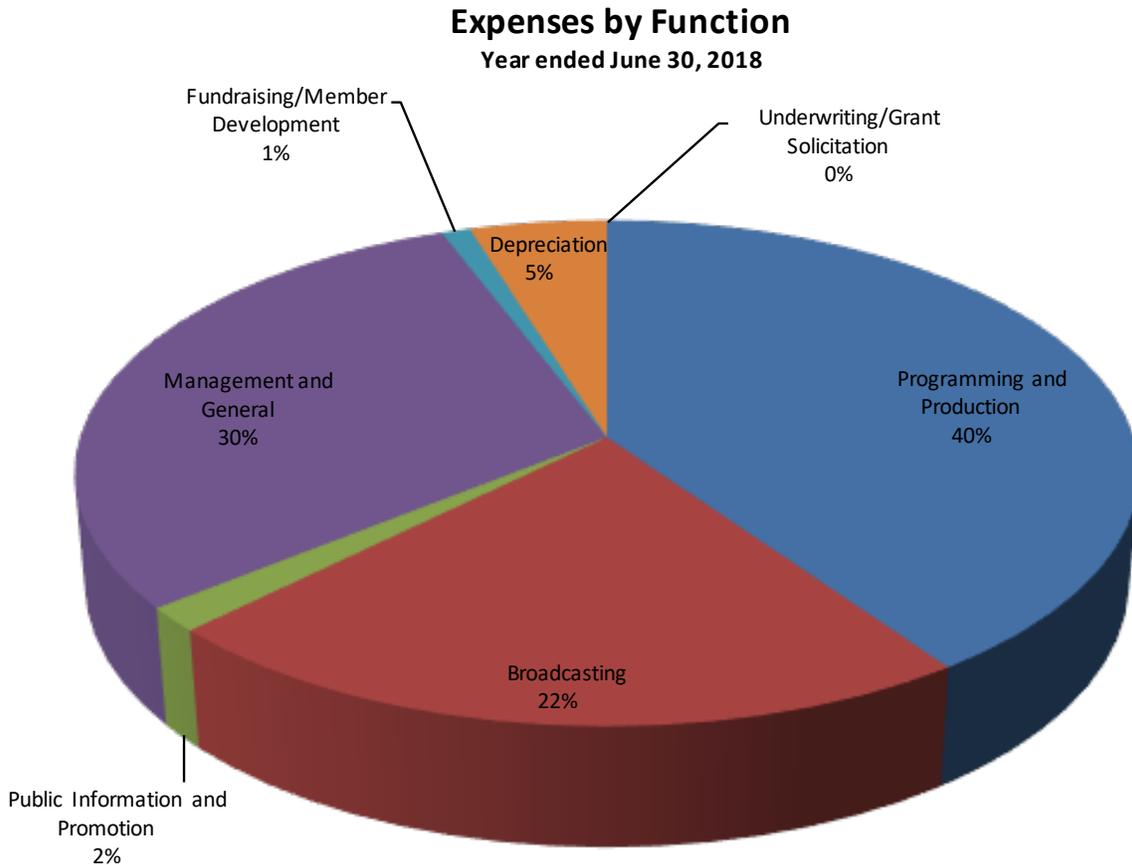
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The Station's net position improved by \$949,569 in the current fiscal year due to its receipt of an over \$2 million allocation of FCC Incentive Auction proceeds from its licensee. These funds, used mainly for the Station Rebuild project, accounted for a third of all Station revenues. As a result, the proportion of the Station's funding provided by District appropriations decreased from 90% in FY 2017 to 57% in the current fiscal year. But taken together these two sources still amounted to 89% of Station funding being received from the District.



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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.or](http://www.klcs.or)

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**STATEMENTS OF NET POSITION**  
**June 30, 2018 and 2017**

	2018		2017	
	Primary Gov't KLCS-TV	Component Unit KEF	Primary Gov't KLCS-TV	Component Unit KEF
<b>Assets</b>				
Cash in County	\$ 1,522,151	\$ -	\$ 1,200,574	\$ -
Cash in banks	3,000	351,739	3,000	199,646
Due from LAUSD and other receivables	911	-	-	-
Prepaid expenses	256,199	-	234,641	-
Property and equipment (net of accumulated depreciation of \$2,386,966 and \$6,462,436, respectively)	2,069,894	-	992,352	-
<b>Total Assets</b>	<b>\$ 3,852,155</b>	<b>\$ 351,739</b>	<b>\$ 2,430,567</b>	<b>\$ 199,646</b>
<b>Liabilities and Net Position</b>				
Liabilities				
Accounts payable	\$ 129,602	\$ -	\$ 719	\$ -
Due to Los Angeles Unified School District	256,200	-	234,641	-
Unexpended grants	1,522,151	-	1,200,574	-
<b>Total Liabilities</b>	<b>1,907,953</b>	<b>-</b>	<b>1,435,934</b>	<b>-</b>
Net Position				
Net investment in capital assets	2,069,894	-	992,353	-
Nonspendable - Prepaid expenses	256,199	-	234,641	-
Unassigned (Deficiency)	(381,891)	351,739	(232,361)	199,646
<b>Total Net Position</b>	<b>1,944,202</b>	<b>351,739</b>	<b>994,633</b>	<b>199,646</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 3,852,155</b>	<b>\$ 351,739</b>	<b>\$ 2,430,567</b>	<b>\$ 199,646</b>

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

**KLCS-TV**  
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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**June 30, 2018 and 2017**

	2018		2017	
	Primary Gov't KLCS-TV	Component Unit KEF	Primary Gov't KLCS-TV	Component Unit KEF
<b>Revenues</b>				
Support and revenues:				
Los Angeles Unified School District: General Appropriations	\$ 3,486,645	\$ -	\$ 3,513,450	\$ -
Facilities and Administrative Support	218,905		163,581	
Proceeds from Spectrum Sales	2,062,451			
Corporation for Public Broadcasting - Community Services Grants and other grants	446,444		125,233	
Subscription and membership income	-	163,352	-	145,308
Rental of facilities	142,681		111,333	
Support from KLCS Education Foundation	163,352		145,308	
Production and Program Underwriting	10,000		2,500	
Miscellaneous income	3,009		7,029	
<b>Total Revenues</b>	<b>6,533,487</b>	<b>163,352</b>	<b>4,068,434</b>	<b>145,308</b>
<b>Expenses</b>				
Certificated salaries	135,026		136,096	
Classified salaries	1,658,161		1,449,586	
Employee benefits	854,243		691,548	
Indirect administration	181,948		126,624	
Contract services	361,909		98,240	
Utilities	212,677		186,045	
Supplies	66,764		56,023	
Membership and dues	28,599		119,364	
Rent	299,882		299,882	
Equipment rental	13,629		14,333	
Equipment maintenance and repair	80,572		93,236	
Instructional materials	587,851		460,108	
Reprographic services	31,200		31,200	
Travel and conference	19,525		27,687	
Non-Capital Equipment Purchases	23,493		8,783	
Depreciation and amortization	253,598		202,659	
Abandoned unused equipment	486,633			
Miscellaneous	7,615		13,941	
Support to KLCS-TV	-	163,352	-	145,308
<b>Total expenses</b>	<b>5,303,325</b>	<b>163,352</b>	<b>4,015,355</b>	<b>145,308</b>
<b>Excess (Deficiency) of Revenues over (under) Expenses</b>	<b>1,230,162</b>	<b>-</b>	<b>53,079</b>	<b>-</b>
<b>Other Financing (Uses)</b>				
Operating Transfer (from) to KLCS Education Foundation	(128,500)	152,092	(69,993)	69,993
Operating Transfer (from) to Los Angeles Unified School District	(152,093)		(119,750)	
<b>Total Other Financing (Uses)</b>	<b>(280,593)</b>	<b>152,092</b>	<b>(189,743)</b>	<b>69,993</b>
<b>(Deficiency) Excess of Revenues over (under) Expenses and Other Financing (Uses)</b>	<b>949,569</b>	<b>152,092</b>	<b>(136,664)</b>	<b>69,993</b>
<b>Net Position, at beginning of year</b>	<b>994,633</b>	<b>199,647</b>	<b>1,131,297</b>	<b>129,654</b>
<b>Net Position, at end of year</b>	<b>\$ 1,944,202</b>	<b>\$ 351,739</b>	<b>\$ 994,633</b>	<b>\$ 199,647</b>

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

**KLCS-TV**  
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**STATEMENTS OF CASH FLOW**  
**June 30, 2018 and 2017**

	2018		2017	
	Primary Gov't KLCS- TV	Component Unit KEF	Primary Gov't KLCS- TV	Component Unit KEF
<b>Cash flows from operating activities:</b>				
Cash received from grants	\$ 4,473,569	\$ -	\$ 4,526,170	\$ -
Cash received from membership	-	163,352	-	145,307
Insurance settlement	-		-	
Cash received - miscellaneous	13,009		9,529	
Cash received from rentals and other revenues	142,681		121,646	
Cash received from KLCS Education Foundation	163,352	(163,352)	145,308	(145,308)
Cash received from Spectrum sale	2,062,451			
Cash paid for personnel costs	(2,647,430)		(2,277,230)	
Cash paid for other operating expenses	(1,787,690)		(1,537,155)	
Operating transfer from (to) KLCS Education Foundation	(152,093)	152,093	(69,993)	69,993
Operating transfer to Los Angeles Unified School District	(128,500)		(119,750)	
	-		-	
<b>Net cash provided (used) by operating activities</b>	<b>2,139,349</b>	<b>152,093</b>	<b>798,525</b>	<b>69,992</b>
<b>Cash flows from investing activities:</b>	-	-	-	-
<b>Cash flows from capital and related financing activities:</b>				
Purchase of capital assets	(1,817,772)	-	(74,619)	-
<b>Cash flows from non-capital financing activities:</b>	-	-	-	-
<b>Net increase (decrease) in cash</b>	<b>321,577</b>	<b>152,093</b>	<b>723,906</b>	<b>69,992</b>
<b>Cash at beginning of year</b>	<b>1,203,574</b>	<b>199,646</b>	<b>479,668</b>	<b>129,654</b>
<b>Cash at end of year</b>	<b>\$ 1,525,151</b>	<b>\$ 351,739</b>	<b>\$ 1,203,574</b>	<b>\$ 199,646</b>
<b>Cash components:</b>				
Cash in County	\$ 1,522,151	\$ -	\$ 1,200,574	\$ -
Cash in bank	3,000	351,739	3,000	199,646
Total cash	<b>\$ 1,525,151</b>	<b>\$ 351,739</b>	<b>\$ 1,203,574</b>	<b>\$ 199,646</b>
<b>Reconciliation of excess expenses and other financing</b>				
Excess of expenses and other financing over revenue	\$ 949,570	\$ 152,092	\$ (136,664)	\$ 69,992
Adjustment to reconcile excess expenses and other financing over revenue to net cash provided by				
Depreciation and amortization	253,598		202,659	
Donated equipment	-		-	
Abandoned unused equipment	-		-	
Abandoned unused equipment	486,633			
(Increase) decrease in accounts receivable	-		10,313	
(Increase) decrease in prepaid expenses	(22,469)		(25,464)	
Increase (decrease) in accounts payable	150,440		23,775	
Increase (decrease) in unexpended grants	321,577		723,906	
	-		-	
<b>Net cash provided (used) by operating activities</b>	<b>\$ 2,139,349</b>	<b>\$ 152,092</b>	<b>\$ 798,525</b>	<b>\$ 69,992</b>

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

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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**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 the 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 financial statements 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.

**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

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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, 2018, 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. As of June 30, 2018, the balance in the bank account was \$351,739. Management asserts that the amount is deposited in a high-quality bank; therefore, there is not a reasonable risk.

### **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. The Station's capitalization threshold is \$5,000. Capital assets are depreciated on a straight-line basis using estimated useful lives of 5 years to 20 years. Most equipment is depreciated over 10 years, capitalized facility improvements and the antenna are depreciated over 20 years, and vehicles over 8. These follow mainly LAUSD assigned useful lives.

### **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.

### **KLCS Education Foundation ("KEF") Accounting Policy**

KEF mainly follows accounting policies adopted by KLCS, including those regarding basis of presentation, basis of accounting, and measurement focus. The only asset of KEF is cash deposited in the Foundation's bank account, which is largely derived from member donations. The purpose of KEF is to generate and manage revenues to support KLCS. Consequently, all of its expenditures are made for this purpose.

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**NOTE 3 – RESTATEMENT OF THE OF THE PRECEDING YEAR FINANCIAL STATEMENTS**

The presentation of financial statements for the year ended June 30, 2017 was restated to conform to the June 30, 2018 presentation.

**NOTE 4 – SPECTRUM SALES – FCC SPECTRUM INCENTIVE AUCTION**

In 2017, the Station, through its licensee, the Los Angeles Unified School District (LAUSD), participated in the Federal Communications Commission (FCC) Spectrum Incentive Auction, and entered into a channel sharing agreement with KCET, a television station in the Los Angeles area. In exchange for a payment from the FCC, the Station relinquished the right to broadcast on its assigned bandwidth, instead sharing the auction proceeds with KCET for the right to broadcast on that station’s bandwidth. KLCS/LAUSD’s share of the proceeds, after channel sharing expenses, are about \$63 million. In FY 2018, LAUSD allocated \$2 million to the Station. LAUSD has yet to determine the disposition of the remaining auction proceeds.

**NOTE 5 – RELATED PARTY TRANSACTIONS**

The transactions with the Los Angeles Unified School District, a related party, were as follows:

	Fiscal Year ended on	
	June 30, 2018	June 30, 2017
Due from Los Angeles Unified School District	\$ 911	\$ -
Due to Los Angeles Unified School District	256,200	234,641

**NOTE 6 - PROPERTY AND EQUIPMENT**

At June 30, 2018, Property and Equipment consist of the following:

	Balances			Balances
	June 30, 2017	Additions	Retirements	June 30, 2018
Studio and other Broadcasting Equipment	\$ 6,592,124	\$ 1,753,345	\$ 4,815,699	\$ 3,529,770
Furniture and Equipment	76,206	-	-	76,206
Vehicles	129,600	-	-	129,600
Capitalized Facility Improvements	656,858	64,426	-	721,284
Total Property and Equipment	7,454,788	1,817,771	4,815,699	4,456,860
Accumulated Depreciation and Amortization	6,462,435	\$ 253,598	\$ 4,329,067	2,386,966
Property and Equipment, Net of Accumulated Depreciation and Amortization	\$ 992,353			\$ 2,069,894

The depreciation charge for the year ended June 30, 2018 was \$253,598.

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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
Capitalized Facility Improvements	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.

**NOTE 7 - 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, 2018, which is available at the District's Office of the Chief Financial Officer.

**NOTE 8 - UNEXPENDED GRANTS**

At June 30, 2018 and 2017, unexpended grants are as follows:

Grant	2018	2017
CPB Community Service Grant FY 2018	\$ 752,299	\$ -
CPB Community Service Grant FY 2017	769,851	822,517
CPB Community Service Grant FY 2016	-	378,057
	-	-
Totals	<u>\$ 1,522,150</u>	<u>\$ 1,200,574</u>

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**NOTE 9 - MISCELLANEOUS INCOME**

For the years ended on June 30, 2018 and 2017, Miscellaneous Income was as follows:

	<u>2018</u>	<u>2017</u>
Sales of Books and Recorded Media and Other Revenues	\$ 44	\$ -
Programming - Rights, Royalties and Other Receipts	2,965	7,029
	<u>\$ 3,009</u>	<u>\$ 7,029</u>

**NOTE 10 – FUNCTIONAL EXPENSES**

	<u>KLCS-TV</u>	
	<u>2018</u>	<u>2017</u>
Program services		
Programming and production	\$ 2,137,028	\$ 1,914,976
Broadcasting	1,183,795	657,802
Public information and promotion	83,663	57,290
Total program services	<u>3,404,486</u>	<u>2,630,068</u>
Supporting services		
Management and general	1,592,276	1,105,295
Fundraising/member development	52,964	77,333
Depreciation	253,598	202,659
Underwriting/grant solicitation	-	-
Total supporting services	<u>1,898,838</u>	<u>1,385,287</u>
Total program and supporting services	<u>\$ 5,303,324</u>	<u>\$ 4,015,355</u>

The KLCS Education Foundation supporting services expense, Support to KLCS-TV for the years ended on June 30, 2018 and 2017, was \$163,352 and \$145,408, respectively.

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**NOTE 11 – LEASE AND OTHER COMMITMENTS**

KLCS rents its antenna space under an operating lease. The total expense for rental space was \$299,882 and \$299,882 for June 30, 2018 and 2017, respectively, which included for each year the antenna rent expense of \$262,925 plus other rent expense for \$36,957. Future minimum annual rental and generator fee commitments under the non-cancelable operating lease is as follows:

Year Ended June 30,	Rent	Fee	Total
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
2023	272,128	63,860	335,988
	<u>\$ 1,337,632</u>	<u>\$ 317,720</u>	<u>\$ 1,655,352</u>

**NOTE 12 – RETIREMENT PLAN AND POST EMPLOYMENT BENEFITS**

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, 2018 and 2017, KLCS-TV contributed \$269,606 and \$203,236, 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>).

As described under the note to the financial statements number 7, the KLCS-TV’s employees are employed and paid by Los Angeles Unified School District (District). The District controls and pays the KLCS-TV’s employees’ salaries including, fringe benefits, retirement plans, and post-employment benefits. The District is responsible for its compliance. For further explanation of its policy regarding retirement plans, and post-employment benefits, including the full disclosure, refer to the District’s audited financial statements for the year ended June 30, 2018, which is available at the District’s Office of the Chief Financial Officer.

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**NOTE 13 - 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, 2017, 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 14 – SUBSEQUENT EVENTS**

KLCS-TV management evaluated subsequent events through January 11, 2019, 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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**INDEPENDENT AUDITOR'S REPORT**

**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***

Board of Education  
Los Angeles Unified School District

I have audited the financial statements of KLCS-TV (the "Station"), a broadcast service of the Los Angeles Unified School District (the "District") and its discretely presented component unit, KLCS Education Foundation ("KEF"), as of and for the years ended on June 30, 2018 and 2017, and have issued my report thereon dated January 11, 2019. I conducted my 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 my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLCS-TV's internal control. Accordingly, I 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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined previously.

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**MEMBER**

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLCS-TV's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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.

*Armando Balbin*

Downey, California  
January 11, 2019