

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**KLCS-TV
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LOS ANGELES UNIFIED SCHOOL DISTRICT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the 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 public telecommunications entity operated by the Los Angeles Unified School District, and its discretely presented component unit, KLCS Education Foundation ("KEF"), as of and for the year ended June 30, 2019, 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 of the Station 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 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.

Opinion

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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, and the changes in financial position and cash flows, of only the Station-related accounts of the Los Angeles Unified School District that are attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of the Los Angeles Unified School District as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditor's Opinion on the Prior Period Financial Statements

The financial statements of the Station for the year ended June 30, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on January 11, 2019.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2020, on our consideration of the Station'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 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 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 the Station's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Gainesville, Florida
February 12, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Management's Discussion and Analysis (MD&A) section is prepared by KLCS-TV ("KLCS" or the "Station") 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 ("LAUSD" or 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 \$2,643,272 (net position), and at the close of the fiscal year ended June 30, 2018 by \$1,944,202.
- The Station's total net position increased by \$699,070 from the prior year total, due primarily to new investments in capital assets resulting from KLCS' Station Rebuild project and an increase in Prepaid Expenses from KLCS prepayment of a three-year contract. For the fiscal year ended June 30, 2018, the Station's total net position increased by \$949,569 from the prior year total, also due primarily to new investments in capital assets resulting from the Station Rebuild project.
- The Station's total obligations increased by \$16,331 (0.86%) during the current fiscal year. The increase resulted mainly from an increase in amounts due to LAUSD from Prepaid Expenses. For the fiscal year ended June 30, 2018, the Station's total obligations increased by \$472,019 (32.9%), largely as a result of 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

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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 Position and the Statement of Cash Flows provide information on income and expenses and cash activities. All changes in net position 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 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 11-13 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 \$2,643,272 at the close of the most recent year, and \$1,944,203 at the close of the previous fiscal year.

By far the largest portion of the Station's net position (\$2,384,990 in the fiscal year ended June 30, 2019 and \$2,069,894 in the fiscal year ended June 30, 2018) 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, its unrestricted net position (\$258,282 in the fiscal year ended June 30, 2019 and -\$125,692 in the fiscal year ended June 30, 2018), represents resources that are not subject to external restrictions on how they may be used. These resources are mainly derived from prepaid expenses and activities such as donations, sales of recorded media, program underwriting, and production activities. The Station's unrestricted net position increased \$383,974 during the year primarily due to payment of previous year capital expenditures, an increase in prepaid expenses due to prepayment of a three-year contract with Nielsen Media Research, and a rise in accounts receivables from the completion of two major productions that were unpaid at year-end. In the fiscal year ended June 30, 2018, the Station's unrestricted net position decreased \$127,972 primarily due to unpaid capital expenditures.

In FY 2019, the Station's capital assets increased by 15.22% (compared with 108.58% for FY 2018), due to the continuation of the Station Rebuild project, with capital expenditures outpacing retirements and depreciation. The Rebuild project concluded during the year, so no major capital spending is projected for the upcoming year. Current assets increased by 22.46% (compared with 23.92% for FY 2018) reflecting an increase in accounts receivables from the aforementioned two major productions, and prepaid expenses, due to the prepayment of the Nielsen contract.

The Station's current liabilities (which are its total obligations) increased modestly by \$16,331 (0.86%) during the fiscal year. The increase resulted from an increase in the amount due to LAUSD (from the higher level of prepaid expenses) outpacing declines in deferred support and

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other payables. In the previous fiscal year, the Station's current liabilities increased by \$472,019 (32.87%) primarily due to an increase in unexpended grants.

The Station continued to enjoy improving financial stability in the current fiscal year despite facing several challenges, including the loss of several positions due to budget reductions by the LAUSD, the redeployment of funds to fill vacant positions, the end of funding for the Rebuild project, and reductions in grant awards due to changes in Corporation for Public Broadcasting policies. These challenges were somewhat mitigated by increased production activity. 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change from Previous Year</u>
Assets:			
Current Assets	\$ 2,182,566	\$ 1,782,261	22.46%
Capital Assets, Net	<u>2,384,990</u>	<u>2,069,894</u>	15.22%
Total Assets	<u>\$ 4,567,556</u>	<u>\$ 3,852,155</u>	
Liabilities:			
Current Liabilities	<u>\$ 1,924,284</u>	<u>\$ 1,907,953</u>	0.86%
Total Liabilities	<u>\$ 1,924,284</u>	<u>\$ 1,907,953</u>	0.86%
Net Position:			
Net Investment in Capital Assets	2,384,990	2,069,894	15.22%
Unrestricted	<u>258,282</u>	<u>(125,692)</u>	305.49%
Total Net Position	<u>\$ 2,643,272</u>	<u>\$ 1,944,202</u>	

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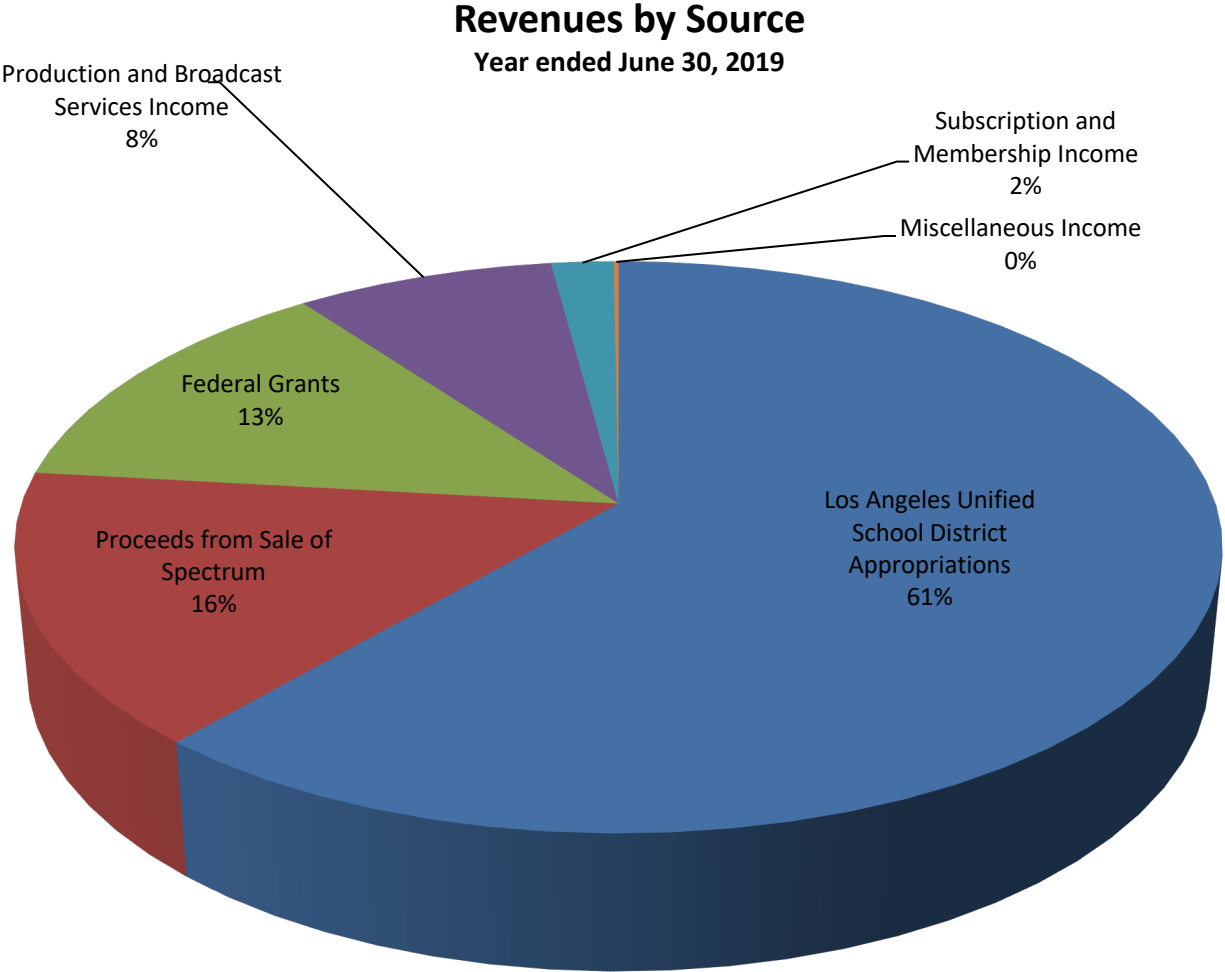
Summary Statement of Changes in Net Position

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change from Previous Year</u>
Operating Revenues:			
Los Angeles Unified School District Appropriations	\$ 3,728,665	\$ 3,705,550	0.62%
Proceeds from Sale of Spectrum	937,574	2,062,451	-54.54%
Federal Grants	796,120	446,444	78.32%
Production and Broadcast Services Income	486,193	152,681	218.44%
Subscription and Membership Income	117,880	163,352	-27.84%
Miscellaneous Income	9,885	3,009	228.51%
Total Operating Revenues	<u>6,076,317</u>	<u>6,533,487</u>	
Operating Expenses:			
Programming and Production	2,241,770	2,137,029	4.90%
Broadcasting	1,076,753	1,183,795	-9.04%
Public Information and Promotion	113,492	83,663	35.65%
Management and General	1,261,116	1,592,276	-20.80%
Fundraising/Member Development	57,530	52,964	8.62%
Depreciation	317,220	253,598	25.09%
Underwriting/Grant Solicitation	-	-	N/A
Total Operating Expenses	<u>5,067,881</u>	<u>5,303,325</u>	
Operating Income	<u>1,008,436</u>	<u>1,230,162</u>	
Transfers:			
Transfer to Los Angeles Unified School District	(171,150)	(128,500)	
Transfer to KLCS Foundation	(138,216)	(152,093)	
Total Transfers	<u>(309,366)</u>	<u>(280,593)</u>	
Change in Net Position	699,070	949,569	
Net Position, Beginning	1,944,202	994,633	
Net Position, Ending	<u>\$ 2,643,272</u>	<u>\$ 1,944,202</u>	

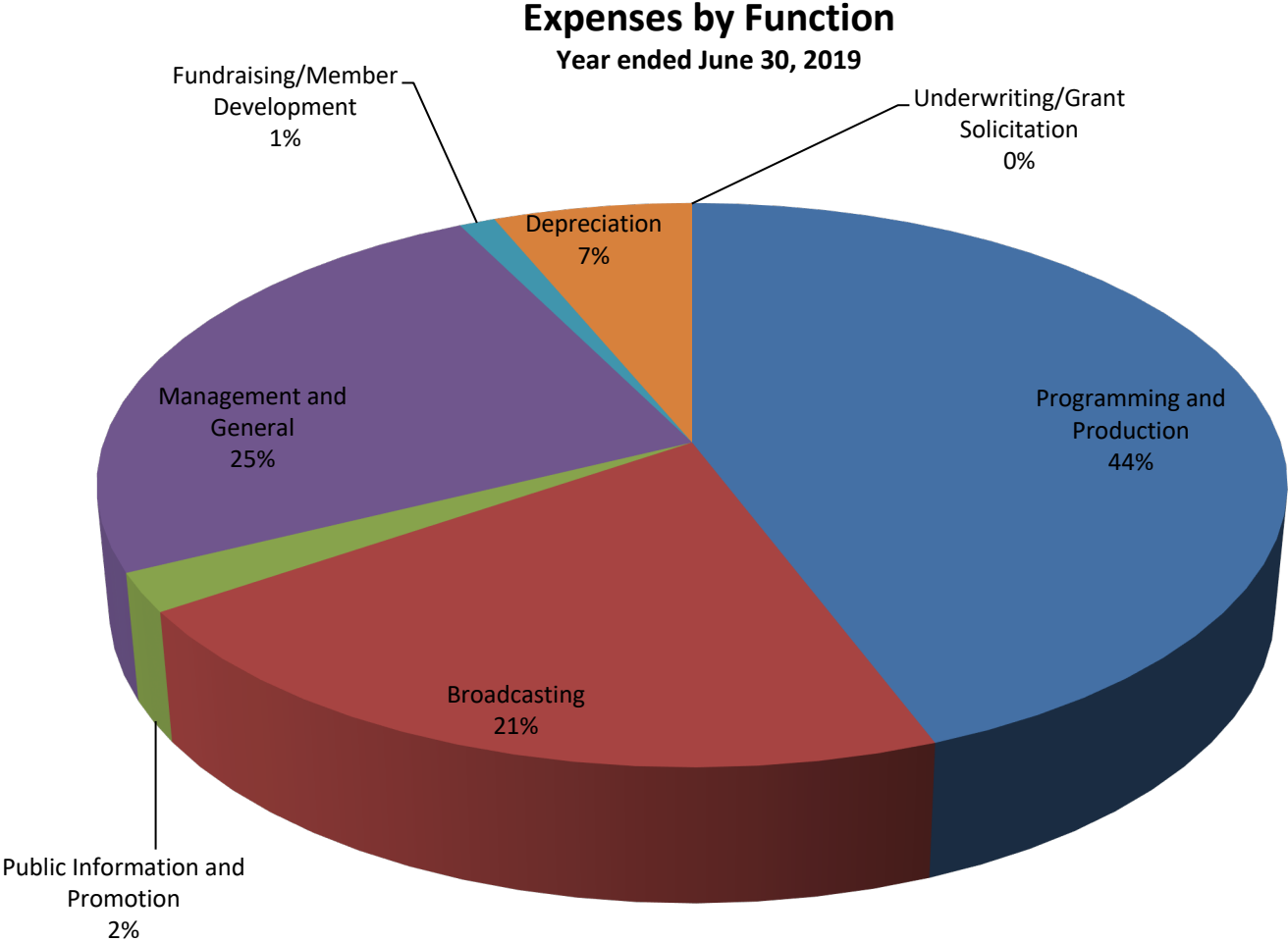
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With the winding down of the Station Rebuild project, the proportion of Station revenues contributed by Spectrum Auction proceeds (used to fund the project) decreased by half from 32% to 16%. As a result, the proportion of the Station's funding provided by District appropriations increased modestly from 57% in FY 2018 to 61% in the current fiscal year. The proportions contributed by production and broadcast services and federal grants increased more significantly, from 2% to 8% and 7% to 13% respectively.



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Programming and production and management and general functions continued to be the two main expense categories 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.

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STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019		2018	
	Primary Govt	Component Unit	Primary Govt	Component Unit
	KLCS-TV	KEF	KLCS-TV	KEF
Assets				
Current Assets:				
Cash in County	\$ 1,459,071	\$ -	\$ 1,522,151	\$ -
Cash in banks	3,000	489,955	3,000	351,739
Due from LAUSD and other receivables	256,701	-	911	-
Prepaid expenses	463,794	-	256,199	-
Noncurrent Assets:				
Property and equipment (net of accumulated depreciation of \$2,500,331 and \$2,386,968, respectively)	2,384,990	-	2,069,894	-
Total Assets	\$ 4,567,556	\$ 489,955	\$ 3,852,155	\$ 351,739
Liabilities and Net Position				
Current Liabilities:				
Accounts payable	\$ 1,419	\$ -	\$ 129,602	\$ -
Due to LAUSD	463,794	-	256,200	-
Unexpended grants	1,459,071	-	1,522,151	-
Total Liabilities	\$ 1,924,284	\$ -	\$ 1,907,953	\$ -
Net Position				
Net investment in capital assets	\$ 2,384,990	\$ -	\$ 2,069,894	\$ -
Unrestricted	258,282	489,955	(125,692)	351,739
Total Net Position	\$ 2,643,272	\$ 489,955	\$ 1,944,202	\$ 351,739

The notes to 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, 2019 AND 2018

	2019		2018	
	Primary Govt KLCS-TV	Component Unit KEF	Primary Govt KLCS-TV	Component Unit KEF
OPERATING REVENUES				
Support and revenues:				
Los Angeles Unified School District:				
General appropriations	\$ 3,465,345	\$ -	\$ 3,486,645	\$ -
Facilities and administrative support	263,320	-	218,905	-
Proceeds from sale of spectrum	937,574	-	2,062,451	-
Corporation for Public Broadcasting -				
Community Service and other grants	796,120	-	446,444	-
Subscription and membership income	-	117,880	-	163,352
Rental of facilities	484,693	-	142,681	-
Support from KLCS Education Foundation	117,880	-	163,352	-
Production and program underwriting	1,500	-	10,000	-
Miscellaneous income	9,885	-	3,009	-
Total Operating Revenues	6,076,317	117,880	6,533,487	163,352
OPERATING EXPENSES				
Certificated salaries	136,807	-	135,026	-
Classified salaries	1,808,396	-	1,658,161	-
Employee benefits	928,689	-	854,243	-
Indirect administration	226,363	-	181,948	-
Contract services	266,564	-	361,909	-
Utilities	137,500	-	212,677	-
Supplies	143,052	-	66,764	-
Membership and dues	27,844	-	28,599	-
Rent	299,882	-	299,882	-
Equipment rental	278	-	13,629	-
Equipment maintenance and repair	118,219	-	80,572	-
Instructional materials	557,561	-	587,851	-
Reprographic services	31,200	-	31,200	-
Travel and conference	7,086	-	19,525	-
Non-capital equipment purchases	53,063	-	23,493	-
Abandoned unused equipment	-	-	486,633	-
Depreciation and amortization	317,220	-	253,598	-
Miscellaneous	8,157	-	7,615	-
Support to KLCS-TV	-	117,880	-	163,352
Total Operating Expenses	5,067,881	117,880	5,303,325	163,352
Operating Income	1,084,346	-	1,230,162	-
Transfers				
Transfer to Los Angeles Unified School District	(171,150)	-	(128,500)	-
Transfer to KLCS Education Foundation	(138,216)	-	(152,093)	-
Transfer from KLCS-TV	-	138,216	-	152,093
Total Transfers	(309,366)	138,216	(280,593)	152,093
Change in Net Position	699,070	138,216	949,569	152,093
Net Position, at beginning of year	1,944,202	351,739	994,633	199,646
Net Position, at end of year	\$ 2,643,272	\$ 489,955	\$ 1,944,202	\$ 351,739

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

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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		2018	
	Primary Govt KLCS-TV	Component Unit KEF	Primary Govt KLCS-TV	Component Unit KEF
Cash flows from operating activities				
Cash received from Los Angeles Unified School District and grants	\$ 4,461,707	\$ -	\$ 4,473,569	\$ -
Cash received from membership	-	117,880	-	163,352
Cash received - miscellaneous	11,385	-	13,009	-
Cash received from rentals and other revenues	484,693	-	142,681	-
Cash received from KLCS Education Foundation	117,880	-	163,352	-
Cash paid to KLCS-TV	-	(117,880)	-	(163,352)
Cash received from Spectrum sales	937,574	-	2,062,451	-
Cash paid for personnel costs	(2,873,893)	-	(2,647,430)	-
Cash paid for other operating expenses	(2,260,744)	-	(1,787,690)	-
Net cash provided by operating activities	<u>878,602</u>	<u>-</u>	<u>2,419,942</u>	<u>-</u>
Cash flows from noncapital financing activities				
Transfer to Los Angeles Unified School District	(171,150)	-	(128,500)	-
Transfer from (to) KLCS Education Foundation	(138,216)	138,216	(152,093)	152,093
Net cash provided by (used in) noncapital financing activities	<u>(309,366)</u>	<u>138,216</u>	<u>(280,593)</u>	<u>152,093</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(632,316)	-	(1,817,772)	-
Net change in cash	(63,080)	138,216	321,577	152,093
Cash at beginning of year	1,525,151	351,739	1,203,574	199,646
Cash at end of year	<u>1,462,071</u>	<u>489,955</u>	<u>1,525,151</u>	<u>351,739</u>
Cash components:				
Cash in County	\$ 1,459,071	\$ -	\$ 1,522,151	\$ -
Cash in bank	3,000	489,955	3,000	351,739
Total Cash	<u>\$ 1,462,071</u>	<u>\$ 489,955</u>	<u>\$ 1,525,151</u>	<u>\$ 351,739</u>
Operating income	\$ 1,008,436	\$ -	\$ 1,230,162	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	317,220	-	253,598	-
Abandoned unused equipment	-	-	486,633	-
(Increase) decrease in accounts receivable	(255,790)	-	(911)	-
(Increase) decrease in prepaid expenses	(207,595)	-	(21,558)	-
Increase (decrease) in accounts payable	(128,183)	-	128,882	-
Increase (decrease) in due to Los Angeles Unified School District	207,594	-	21,559	-
Increase (decrease) in unexpended grants	(63,080)	-	321,577	-
Net cash provided by operating activities	<u>\$ 878,602</u>	<u>\$ -</u>	<u>\$ 2,419,942</u>	<u>\$ -</u>

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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – REPORTING ENTITY

KLCS-TV (“KLCS” or the “Station”) is a public television station licensed to the Los Angeles Unified School District (“LAUSD” or 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In May 2005, 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

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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.

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.

In the statements of net position, net position includes the following:

Net investment in capital assets—consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.

Restricted—consists of assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.

Nonexpendable restricted net position—consists of endowment and similar type funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to

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principal. The Station does not have any nonexpendable restricted net position as of June 30, 2019 and 2018.

Expendable restricted net position—includes resources in which the Station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The Station does not have any expendable restricted net position as of June 30, 2019 and 2018.

Unrestricted—The difference between the assets and liabilities that is not reported in “net investment in capital assets” and “restricted net position.”

When both restricted and unrestricted resources are available for use, it is the Station's policy to expend restricted resources first, then unrestricted resources as they are needed.

Cash

KLCS-TV maintains its cash in an account at the District 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 County treasury, per the audited financial statements of the Los Angeles Unified School District for the year ended on June 30, 2019, 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. The balance in bank accounts was \$489,955 as of June 30, 2019 and \$351,739 as of June 30, 2018.

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 8 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.

Revenue Recognition

Appropriations from the District are recorded as revenue in the statements of revenues, expenses, and changes in net position when an expense is recorded.

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Membership contributions are recognized as support in the period they are received.

Facilities and administrative support represents expenses paid on behalf of the Station by the District and includes contributed professional services, materials, and facilities, and indirect administrative support.

Pledges and Contributions

The Station engages in periodic fundraising campaigns in the form of special programming, as well as on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Station for enhancement of program offerings and other expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. Contributions, including unconditional promises to give and membership receipts, are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors and the Station is not able to determine that they are probable of collection, therefore they are not shown as assets in the statements of net position. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Station. This usage is consistent with appeals for the contributions and pledges.

Income Taxes

The Station is owned and operated by the Los Angeles Unified School District, part of the State of California's educational system. As such, it is exempt from federal and state income taxes. See Note 1 and Note 14 for information regarding income taxes related to KEF.

Due from LAUSD and Other Receivables

Accounts receivable, including Due from LAUSD, are stated at the amount management expects to collect from outstanding balances. Credit is extended on a short-term basis; thus accounts receivable do not bear interest. There was no allowance for doubtful accounts recorded at June 30, 2019 and 2018.

Corporation for Public Broadcasting Community Service Grants

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

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years. Certain General Provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and

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meet compliance requirements. These General provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission.

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. There were no in-kind contributions of property and equipment in the fiscal years ended in June 30, 2019 and 2018.

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 KEF’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. In addition, KLCS deposits receipts from production and other activities into KEF’s bank accounts. Net transfers from KLCS to KEF were \$138,216 and \$152,093 for the fiscal years ended June 30, 2019 and June 30, 2018.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on total net position.

NOTE 3 – SIGNIFICANT CONCENTRATIONS

The Station received significant revenue from three sources in the fiscal years ended June 30, 2019 and 2018. In the fiscal year ended June 30, 2019, the Los Angeles Unified School District, FCC Spectrum Auction proceeds, and the Corporation for Public Broadcasting accounted for 61%, 15% and 13%, respectively, of revenue. In the fiscal year ended June 30, 2018, the Los Angeles Unified School District, FCC Spectrum Auction proceeds, and the Corporation for Public Broadcasting accounted for 57%, 32% and 7%, respectively, of revenue.

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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, were about \$63 million. In FY 2017, LAUSD allocated \$2 million to the Station that was made available to it in FY 2018. In FY 2018, an additional \$1 million was allocated and made available to the Station. In FY 2019, LAUSD advised Station management that that remaining auction proceeds would not be made available to KLCS, but would instead be used to fund other District initiatives.

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, 2019	June 30, 2018
Due from Los Angeles Unified School District	\$ 180,181	\$ 911
Due to Los Angeles Unified School District	463,794	256,200

The amounts Due from Los Angeles Unified School District are related to unpaid services rendered by KLCS to LAUSD divisions. The amounts Due to Los Angeles Unified School District are related to KLCS Prepaid Expenses purchased with LAUSD appropriations.

The Station transfers revenues it earns from the broadcast of County of Los Angeles Board of Supervisors meetings each year to LAUSD. These transfers were \$171,150 and \$128,500 for the fiscal years ended June 30, 2019 and 2018, respectively. The funds were remitted directly from the County of Los Angeles to LAUSD, were never available for the Station’s use, never returned to the Station in the form of LAUSD appropriations or otherwise, and will not be included in the Station’s calculation of nonfederal financial support in future years. As directed by CPB, the Station excludes the revenues it earns from the broadcast of County of Los Angeles Board of Supervisors meetings twice in its calculation of nonfederal financial support in order to mitigate against the risk that LAUSD will return the funds to the Station in the future.

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NOTE 6 - PROPERTY AND EQUIPMENT

At June 30, 2019, Property and Equipment consist of the following:

	Balances			Balances
	<u>July 1, 2018</u>	Additions	Retirements	<u>June 30, 2019</u>
Studio and Broadcast Equipment	\$ 3,529,770	\$ 545,176	\$ 144,458	\$ 3,930,488
Furniture and Office Equipment	76,206	-	-	76,206
Vehicles	129,600	87,140	59,398	157,342
Capitalized Facilities Improvements	<u>721,284</u>	<u>-</u>	<u>-</u>	<u>721,284</u>
Total Property and Equipment	4,456,860	<u>632,316</u>	<u>203,856</u>	4,885,320
Accumulated Depreciation	<u>2,386,966</u>	<u>\$ 317,220</u>	<u>\$ 203,856</u>	<u>2,500,330</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 2,069,894</u>			<u>\$ 2,384,990</u>

The depreciation charge for the year ended June 30, 2019 was \$317,220.

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

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

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

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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 years ended June 30, 2019 and 2018, which is available at the District's Office of the Chief Financial Officer.

NOTE 8 - UNEXPENDED GRANTS

At June 30, 2019 and 2018, unexpended grants are as follows:

Grant	2019	2018
CPB Community Service Grant 2016	\$ -	\$ 1
CPB Community Service Grant 2017	-	769,851
CPB Community Service Grant 2018	730,094	752,299
CPB Community Service Grant 2019	717,909	-
CPB Interconnection Grant 2019	11,068	-
Totals	<u>\$ 1,459,071</u>	<u>\$ 1,522,151</u>

NOTE 9 - MISCELLANEOUS INCOME

For the years ended on June 30, 2019 and 2018, Miscellaneous Income was as follows:

	2019	2018
Sales of Books and Recorded Media and Other Revenues	\$ 39	\$ 44
Viewer Guide Advertising	4,550	-
Interest and Dividends	419	-
Programming - Rights, Royalties, and Other Payments	4,877	2,965
	<u>\$ 9,885</u>	<u>\$ 3,009</u>

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NOTE 10 – FUNCTIONAL EXPENSES

	KLCS-TV	
	<u>2019</u>	<u>2018</u>
Program services		
Programming and production	\$ 2,241,770	\$ 2,137,029
Broadcasting	1,076,753	1,183,795
Public information and promotion	113,492	83,663
Total program services	<u>3,432,015</u>	<u>3,404,487</u>
Supporting services		
Management and general	1,261,116	1,592,276
Fundraising/member development	57,530	52,964
Depreciation	317,220	253,598
Underwriting/grant solicitation	-	-
Total supporting services	<u>1,635,866</u>	<u>1,898,838</u>
Total program and supporting services	<u><u>\$ 5,067,881</u></u>	<u><u>\$ 5,303,325</u></u>

The KLCS Education Foundation supporting services expense, Support to KLCS-TV, for the years ended on June 30, 2019 and 2018, was \$117,880 and \$163,352, respectively.

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, 2019 and 2018, 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:

<u>Year Ended June 30,</u>	<u>Rent</u>	<u>Generator Fee</u>	<u>Total</u>
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
2024	272,128	63,860	335,988
Future minimum payments	136,064	31,930	167,994
	<u><u>\$ 1,482,899</u></u>	<u><u>\$ 350,282</u></u>	<u><u>\$ 1,833,181</u></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 (CalPERS) or the California State Teachers' Retirement System (CalSTRS), as well as other post-employment benefits. The required

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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, 2019 and 2018, KLCS contributed \$342,852 and \$269,606, respectively, to the plans on behalf of its employees. In addition, the Station contributed \$90,367 and \$93,812 for retiree health and medical benefits on behalf of its employees outside of the plans for the years ended June 30, 2019 and 2018, respectively. 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, KLCS employees are employed and paid by Los Angeles Unified School District (District). The District controls and pays KLCS employees' salaries, fringe benefits, retirement plans, and post-employment benefits. The District is responsible for compliance. For further explanation of its policy regarding retirement plans, and post-employment benefits, including full disclosures, refer to the District's audited financial statements for the years ended June 30, 2019 and 2018, which are available at the District's Office of the Chief Financial Officer.

NOTE 13 – NON-FEDERAL FINANCIAL SUPPORT

CPB allocates a portion of its funds annually to public broadcasting entities, primarily based on Non-Federal Financial Support (NFFS). NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A contribution is defined as cash, property, or services given to a public broadcasting entity for general operational purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcasting station. However, to eliminate distortions in the Television CSG grant program precipitated by extraordinary infusions of new capital investments in DTV, all capital contributions received for purposes of acquiring new equipment or upgrading existing or building new facilities regardless of source or form of the contribution are not included in calculating the NFFS. This change excludes all revenues received for any capital purchases.

A payment is cash, property, or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state or local government or agency thereof, or an educational institution; (2) the form of the payment must be an appropriation or contract payment in exchange for specific materials or services related to public broadcasting; (3) the purpose must be for services or materials with respect to the provision of educational or instructional television or radio programs; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

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Reported NFFS for the Station was \$3,645,234 and \$3,844,909 for the fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 14 - 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 identified by the auditors likely must be repaid to the granting agencies.

b) Income Taxes

KEF filed, for the year ended June 30, 2018, 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 15 – SUBSEQUENT EVENTS

KLCS-TV management evaluated subsequent events through February 12, 2020, 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.

**INDEPENDENT AUDITORS' 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**

To the Board of Education,
Los Angeles Unified School District:

We have audited, 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, the financial statements of KLCS-TV (the "Station"), a public telecommunications entity operated by the Los Angeles Unified School District, and its discretely presented component unit, KLCS Education Foundation, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements, and have issued our report thereon dated February 12, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Station'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 the Station's internal control. Accordingly, we do not express an opinion on the effectiveness of the Station'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.

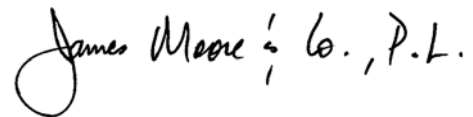
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the Station's financial statements are free from 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 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.

James Moore & Co., P.L.

Gainesville, Florida
February 12, 2020