

KNHC C89.5 RADIO STATION

FINANCIAL REPORT

AUGUST 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Seattle Public Schools
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities and major fund of KNHC C89.5 Radio Station (a public telecommunications entity operated by Seattle Public Schools) ("the Station"), an aggregated fund of Seattle Public Schools, as of and for the years ended August 31, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Station as of August 31, 2018 and 2017, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the financial position and changes in financial position of the Station and do not purport to and do not present fairly the financial position of Seattle Public Schools as of August 31, 2018 and 2017, or the changes in its financial position, including its net pension or other post employment benefit obligations and related deferred inflows and outflows, for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 6 and the budgetary comparison information on pages 20 through 22 be presented to supplement the basic financial statements. Such information, although not 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, 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.

Peterson Sullivan LLP

February 25, 2019

KNHC C89.5 RADIO STATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended August 31, 2018 and 2017

The discussion and analysis of KNHC C89.5 Radio Station's ("the Station") financial performance provides an overall review of the Station's financial activities for the fiscal years ended August 31, 2018 and 2017. The Station is a segment of the Seattle School District #1 ("the District"). The intent of this discussion and analysis is to look at the Station's financial performance as a whole, and readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Station's financial performance.

KNHC C89.5 Radio Station Mission

KNHC C89.5, Seattle's Home for Dance, has served the community since its beginnings in 1971. The mission has been simple: to provide the audience with cutting edge dance music while serving as a training ground in broadcasting skills for students in Seattle Public Schools ("SPS").

Governance Organization and Responsibilities

The Board of Directors for SPS is an elected body of seven citizens representing geographical regions, known as Districts, within the City of Seattle. The length of each member's term is four years. Directors are elected by district in the primary elections and at large (city-wide) in the general election of odd-numbered years.

It is the belief of the Board of Directors and Superintendent that they are partners in the governance team of SPS. Both must do their jobs well for the organization to be successful and for the governance team, as a whole, to be effective. The Board of Directors oversees the Station as part of the overall District operations.

Report Components

This annual report consists of the following components:

- Management's Discussion and Analysis – Management's Discussion and Analysis ("MD&A") is information presented, as required, by the Governmental Accounting Standards Board ("GASB"). This section will provide readers of this report with an introduction to the basic financial statements and an analytical overview of the Station's activities. It also provides additional information that supplements the financial statements and the notes to the financial statements.
- Financial Statements – The financial statements present financial information about the Station that transpired during the fiscal year.
- Notes to the Financial Statements – The notes to the financial statements are an integral part of these financial statements and provide a more detailed presentation of various activities of the Station, such as capital assets and organizational structure. The reader of the financial statements should make particular note of the information included in the notes.

Financial Structure

The operating funds of the Station are not taxing funds. Revenue comes from four major sources: underwriting and individual philanthropic gifts (including matching gifts from area businesses), grants from the Corporation for Public Broadcasting ("CPB"), District appropriations, and indirect support. These are described in more detail below.

- Public Support – KNHC solicits ongoing support from the general public through the process of annual membership drives for new and existing donors, matching gifts from area businesses, and from area businesses and nonprofit organizations through corporate underwriting.
- Corporation for Public Broadcasting – KNHC receives a grant from the CPB. This grant includes restricted funds to be used to acquire and produce national programming, and unrestricted funds to be used for general station operations. The grant is renewable each year, provided the Station continues to meet the minimum requirements and Congress continues to fund the CPB.
- District Appropriations – The District appropriations (support from SPS) for the Station are a direct result of the expenditures that occur within the general fund of the District for the operation of the Station as a training lab for students of the District.
- Indirect Support – Additional revenues are generated as the result of indirect support from the District.

Overview of Financial Statements

Combined government-wide and fund-basis financial statements have been presented, with eliminations and adjustments included as part of the statements. The government-wide financial statements include the financial activities of the overall government whereas the fund financial statements provide information about specific funds, with the emphasis on major governmental funds. The Station has elected to present combined government-wide and fund-basis financial statements because it has only one all-purpose governmental fund.

Financial Highlights

The assets of the Station exceeded the liabilities by \$1,665,548 as of August 31, 2018. Of this amount, \$1,513,474 is unrestricted and available to meet the Station's ongoing obligations to its creditors and provide for general operating funds. \$28,810 is restricted under the CPB grant, to be used only to acquire or produce nationally distributed programming. The remaining \$123,264 is held for investments in capital assets, net of depreciation.

The Station ended the fiscal year with an increase of \$232,871 in its net position.

Financial Analysis

Statements of Net Position and Activities

The statements of net position and activities are provided on a comparative basis.

As noted earlier, net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the Station, assets exceeded liabilities by \$1,665,548 as of August 31, 2018.

| | Net Position | | | |
|--------------------------|--------------|--------------|------------|----------|
| | 2018 | 2017 | Difference | % Change |
| Current and other assets | \$ 1,548,084 | \$ 1,370,796 | \$ 177,288 | 12.93% |
| Restricted assets | 28,810 | 29,152 | (342) | (1.17)% |
| Capital assets, net | 123,264 | 63,850 | 59,414 | 93.05% |
| Total assets | 1,700,158 | 1,463,798 | 236,360 | 16.15% |
| Total liabilities | 34,610 | 31,121 | 3,489 | 11.21% |
| Net position | \$ 1,665,548 | \$ 1,432,677 | \$ 232,871 | 16.25% |

| | Activities | |
|---------------------------------|--------------|--------------|
| | 2018 | 2017 |
| Revenues | \$ 1,372,319 | \$ 1,211,142 |
| Expenditures | 1,139,448 | 1,090,396 |
| Change in net position | 232,871 | 120,746 |
| Net position, beginning of year | 1,432,677 | 1,311,931 |
| Net position, end of year | \$ 1,665,548 | \$ 1,432,677 |

Statements of Governmental Fund Revenue and Expenditures

During the current fiscal year, the Station's governmental fund balance increased by \$176,946. The key elements of the change in the Station's fund balance for the year ended August 31, 2018, are as follows:

- Total revenue increased \$63,977 (5.28%) over the prior year. Our individual giving program remains strong and the number of major donors to the Station increased. Support from the business and nonprofit community was down for the second consecutive year. One of our underwriting representatives left mid-year, impacting overall volume.
- Programming expenses decreased by \$24,018 (12.67%) from the previous year. We discontinued our affiliation with PRI and were able to save the associated costs of carrying their programming.
- Broadcast and engineering costs decreased by \$7,036 (1.12%) from the previous year. Our operational costs are stable, but we have built efficiencies, where possible, to reduce overall expenditures.

- Membership expenses increased by \$111,980 (88.84%) from the previous year. We replaced our full-time fundraiser mid-year with a person who was classified at a higher salary. We also received professional fundraising in-kind gifts of \$97,200 during 2018, 90% of which supported membership services. Postage costs were higher due to increased volume of direct mail, and we continued to invest in our membership database.
- Underwriting expenses decreased \$30,625 (15.91%) from the previous year. With the departure of one underwriting representative, base salaries were saved. In addition, decreased underwriting revenues also resulted in lower commissions paid to the remaining representative.

| | 2018 | 2017 | Difference | % Change |
|---|---------------------|---------------------|------------------|--------------|
| Individual contributions | \$ 474,827 | \$ 342,198 | \$ 132,629 | 38.76% |
| Underwriting | 413,228 | 479,781 | (66,553) | (13.87)% |
| Community service grant from Corporation for Public Broadcasting | 115,040 | 112,270 | 2,770 | |
| Support from Seattle Public Schools | 142,053 | 130,872 | 11,181 | 8.54% |
| Indirect support from Seattle Public Schools | 116,129 | 130,842 | (14,713) | (11.24)% |
| In-kind contributions | 97,200 | | | |
| Contribution of facilities from Seattle Public Schools | 13,842 | 15,179 | (1,337) | |
| Total | <u>\$ 1,372,319</u> | <u>\$ 1,211,142</u> | <u>\$ 63,977</u> | <u>5.28%</u> |
| | 2018 | 2017 | Difference | % Change |
| Programming | \$ 165,565 | \$ 189,583 | \$ (24,018) | (12.67)% |
| Broadcasting and engineering | 629,973 | 627,289 | 2,684 | 0.43% |
| Membership | 238,025 | 126,045 | 111,980 | 88.84% |
| Underwriting | 161,810 | 192,435 | (30,625) | (15.91)% |
| Total | <u>\$ 1,195,373</u> | <u>\$ 1,135,352</u> | <u>\$ 60,021</u> | <u>5.29%</u> |

Requests for Information

This financial report is designed to present the user (listeners, taxpayers, and other interested parties) with a general overview of the Station's finances and to demonstrate the Station's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: JoLynn Berge, Assistant Superintendent for Business & Finance, Seattle Public Schools. The address is 2445 Third Avenue S, Seattle, WA 98124.

KNHC C89.5 RADIO STATION

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION

August 31, 2018

| ASSETS | <u>General Fund</u> | <u>Adjustments (Note 1)</u> | <u>Statement of Net Position</u> |
|---|---------------------|---------------------------------|--------------------------------------|
| Cash and Cash Equivalents | \$ 507,990 | \$ - | \$ 507,990 |
| Underwriting Receivable, net of allowance | 54,173 | | 54,173 |
| Due from Seattle Public Schools | <u>985,921</u> | | <u>985,921</u> |
| Total current assets | 1,548,084 | | 1,548,084 |
| Restricted Assets | | | |
| Due from Seattle Public Schools | 28,810 | | 28,810 |
| Capital Assets | | | |
| Broadcasting equipment, net | | <u>123,264</u> | <u>123,264</u> |
| Total assets | <u>\$ 1,576,894</u> | <u>\$ 123,264</u> | <u>\$ 1,700,158</u> |
| | | | |
| LIABILITIES | | | |
| Accrued Payroll Liabilities - long-term | \$ - | \$ 34,610 | \$ 34,610 |
| | | | |
| FUND BALANCE/NET POSITION | | | |
| Fund Balance | | | |
| Restricted for special projects | 28,810 | (28,810) | |
| Assigned | 199,500 | (199,500) | |
| Unassigned | <u>1,348,584</u> | <u>(1,348,584)</u> | |
| Total fund balance | <u>1,576,894</u> | <u>(1,576,894)</u> | |
| Total liabilities and fund balance | <u>\$ 1,576,894</u> | | |
| Net Position | | | |
| Net investment in capital assets | | 123,264 | 123,264 |
| Restricted for special projects | | 28,810 | 28,810 |
| Unrestricted | | <u>1,513,474</u> | <u>1,513,474</u> |
| Total net position | | <u>1,665,548</u> | <u>1,665,548</u> |
| Total liabilities and net position | | <u>\$ 123,264</u> | <u>\$ 1,700,158</u> |

See Notes to Financial Statements

KNHC C89.5 RADIO STATION

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION

August 31, 2017

| ASSETS | <u>General Fund</u> | <u>Adjustments (Note 1)</u> | <u>Statement of Net Position</u> |
|---|---------------------|---------------------------------|--------------------------------------|
| Cash and Cash Equivalents | \$ 133,303 | \$ - | \$ 133,303 |
| Due from Seattle Public Schools | <u>1,237,493</u> | | <u>1,237,493</u> |
| Total current assets | 1,370,796 | | 1,370,796 |
| Restricted Assets | | | |
| Due from Seattle Public Schools | 29,152 | | 29,152 |
| Capital Assets | | | |
| Broadcasting equipment, net | | <u>63,850</u> | <u>63,850</u> |
| Total assets | <u>\$ 1,399,948</u> | <u>\$ 63,850</u> | <u>\$ 1,463,798</u> |
| | | | |
| LIABILITIES | | | |
| Accrued Payroll Liabilities - long-term | \$ - | \$ 31,121 | \$ 31,121 |
| | | | |
| FUND BALANCE/NET POSITION | | | |
| Fund Balance | | | |
| Restricted for special projects | 29,152 | (29,152) | |
| Assigned | 300,000 | (300,000) | |
| Unassigned | <u>1,070,796</u> | <u>(1,070,796)</u> | |
| Total fund balance | <u>1,399,948</u> | <u>(1,399,948)</u> | |
| Total liabilities and fund balance | <u>\$ 1,399,948</u> | | |
| Net Position | | | |
| Net investment in capital assets | | 63,850 | 63,850 |
| Restricted for special projects | | 29,152 | 29,152 |
| Unrestricted | | <u>1,339,675</u> | <u>1,339,675</u> |
| Total net position | | <u>1,432,677</u> | <u>1,432,677</u> |
| Total liabilities and net position | | <u>\$ 63,850</u> | <u>\$ 1,463,798</u> |

See Notes to Financial Statements

KNHC C89.5 RADIO STATION

STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2018

| | <u>General Fund</u> | <u>Adjustments (Note 1)</u> | <u>Statement of Activities</u> |
|--|---------------------|---------------------------------|------------------------------------|
| Revenues | | | |
| Individual contributions | \$ 474,827 | \$ - | \$ 474,827 |
| Underwriting | 413,228 | | 413,228 |
| Community service grant from | | | |
| Corporation for Public Broadcasting | 115,040 | | 115,040 |
| Support from Seattle Public Schools | 142,053 | | 142,053 |
| Indirect support from Seattle Public Schools | 116,129 | | 116,129 |
| In-kind contributions | 97,200 | | 97,200 |
| Contribution of facilities from Seattle | | | |
| Public Schools | 13,842 | | 13,842 |
| | <hr/> | <hr/> | <hr/> |
| Total revenues | 1,372,319 | | 1,372,319 |
| Expenditures/Expenses | | | |
| Programming | 165,565 | (58,793) | 106,772 |
| Broadcasting and engineering | 629,973 | 1,819 | 631,792 |
| Membership | 238,025 | 712 | 238,737 |
| Underwriting | 161,810 | 337 | 162,147 |
| | <hr/> | <hr/> | <hr/> |
| Total expenditures/expenses | 1,195,373 | (55,925) | 1,139,448 |
| Net change in fund balance | 176,946 | (176,946) | |
| Change in net position | | <u>\$ 232,871</u> | 232,871 |
| Fund Balance/Net Position, beginning of year | <hr/> 1,399,948 | | <hr/> 1,432,677 |
| Fund Balance/Net Position, end of year | <u>\$ 1,576,894</u> | | <u>\$ 1,665,548</u> |

See Notes to Financial Statements

KNHC C89.5 RADIO STATION

STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2017

| | <u>General Fund</u> | <u>Adjustments (Note 1)</u> | <u>Statement of Activities</u> |
|--|---------------------|---------------------------------|------------------------------------|
| Revenues | | | |
| Individual contributions | \$ 342,198 | \$ - | \$ 342,198 |
| Underwriting | 479,781 | | 479,781 |
| Community service grant from | | | |
| Corporation for Public Broadcasting | 112,270 | | 112,270 |
| Support from Seattle Public Schools | 130,872 | | 130,872 |
| Indirect support from Seattle Public Schools | 130,842 | | 130,842 |
| Contribution of facilities from Seattle | | | |
| Public Schools | 15,179 | | 15,179 |
| | <hr/> | <hr/> | <hr/> |
| Total revenues | 1,211,142 | | 1,211,142 |
| Expenditures/Expenses | | | |
| Programming | 189,583 | (25,427) | 164,156 |
| Broadcasting and engineering | 627,289 | (21,203) | 606,086 |
| Membership | 126,045 | 1,112 | 127,157 |
| Underwriting | 192,435 | 562 | 192,997 |
| | <hr/> | <hr/> | <hr/> |
| Total expenditures/expenses | 1,135,352 | (44,956) | 1,090,396 |
| Net change in fund balance | 75,790 | (75,790) | |
| Change in net position | | <u>\$ 120,746</u> | 120,746 |
| Fund Balance/Net Position, beginning of year | <u>1,324,158</u> | | <u>1,311,931</u> |
| Fund Balance/Net Position, end of year | <u>\$ 1,399,948</u> | | <u>\$ 1,432,677</u> |

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

These financial statements present KNHC-FM C89.5 Radio ("the Station"), an aggregated fund of Seattle Public Schools ("SPS"). The Station has been on the air in Seattle, Washington, since 1971 and is operated by SPS professional staff with assistance from students of Nathan Hale High School as part of a radio broadcasting course.

Reporting Entity

The Station is governed by the School Board of SPS and is included in the governmental funds of SPS. The financial statements present only the financial position and changes in financial position of the Station and do not purport to and do not present fairly the financial position of SPS as of August 31, 2018 and 2017, or the changes in its financial position, including its net pension obligations and related deferred inflows and outflows, for the year then ended. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

For financial reporting purposes, the Station includes C89.5-KNHC Public Radio Association (blended component unit) ("the Association"), a Washington State nonprofit tax-exempt organization affiliated with the Station. The Association is governed by a separate Board of Directors from SPS and exists exclusively to generate financial support for the Station. The Association's financial data, which is made up of cash and underwriting receivables, is included in the financial statements of the Station.

Government-Wide and Fund Financial Statements

Combined government-wide and fund-basis financial statements have been presented, with eliminations and adjustments included as part of the statements. The government-wide financial statements include the financial activities of the overall government whereas the fund financial statements provide information about specific funds, with the emphasis on major governmental funds. The Station has elected to present combined government-wide and fund-basis financial statements because it has only one all-purpose governmental fund.

The financial transactions of the Station are blended into the governmental funds of SPS. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenue, and expenditures.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements for the Station are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds for the Station are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Adjustments and Eliminations

As noted above, the fund-basis financial statements and the government-wide financial statements each use a different basis of accounting. The adjustments and eliminations presented on the financial statements represent the amounts needed to reconcile the fund-basis financial statements with the government-wide financial statements. The following is a brief description of the reconciling adjustments:

1. The fund-basis financial statements report capital outlays as current expenditures whereas in the government-wide financial statements, the cost of those assets is capitalized and allocated over their estimated useful lives and is reported as depreciation expense.
2. Termination benefits are not due and payable in the current period and, therefore, are not reported in the fund-basis statements until paid. On the government-wide basis, these liabilities are included as liabilities on the statement of net position, and the change in liability from the prior fiscal year is reflected as an addition to or reduction of the current period's expense.

Cash and Cash Equivalents

A significant amount of the Station's cash and cash equivalents are maintained by SPS where they are pooled with SPS' funds. The Station's cash and cash equivalents pooled with SPS' funds are not separately identifiable, and are therefore presented within "Due from SPS" on the government-wide and fund financial statements. Cash and cash equivalents presented on the government-wide and fund financial statements represent those held by the Association at a bank separate from SPS and are in excess of FDIC limits. Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. At August 31, 2018 and 2017, the carrying amount of cash was \$507,990 and \$133,303, respectively, which equals the bank balance.

Receivables

All underwriting fees are generated from companies located in the Pacific Northwest. These receivables are stated at their outstanding principal balances.

Management reviews underwriting receivables on a regular basis and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. Management has recognized an allowance for uncollectible contributions receivable of \$5,390 at August 31, 2018. Underwriting receivables at August 31, 2017, were a component of amounts due from SPS.

Due from Seattle Public Schools

"Due from SPS" represents assets, including cash and cash equivalents, and underwriting receivable at held by SPS at August 31, 2017, as well as liabilities, including accounts payable and accrued expenses, assumed by SPS. As all assets and liabilities of the Station are pooled with SPS in the fund accounting of SPS, when the Station generates revenue and support, "Due from SPS" increases, and when expenses are incurred, "Due from SPS" decreases.

At August 31, 2018 and 2017, SPS also holds \$28,810 and \$29,152, respectively, restricted for special projects received under a community service grant from the Corporation for Public Broadcasting.

Capital Assets and Depreciation

Capital assets purchased or acquired by the Station with a value over \$5,000 are recorded at cost. Contributed assets are recorded at fair value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on broadcasting equipment is calculated on the straight-line basis with estimated useful lives of 5 or 10 years. Depreciation expense is allocated evenly between programming and broadcasting and engineering expense functions.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred inflows or outflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows represent a use of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. The Station had no activities that meet the definition of deferred inflows or outflows in the government funds or government-wide financial statements at August 31, 2018 or 2017.

Compensated Absences

It is the Station's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since SPS does not have a policy to pay any amounts when employees separate from service with SPS. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured (e.g., as a result of employee resignations and retirements).

In-Kind Contributions

Donations of goods or services are recorded at their estimated fair value at the date of donation. Such donations are reported as unassigned or unrestricted support unless the donor has restricted the donated asset or services to a specific purpose. During the year ended August 31, 2018, the Station received in-kind contributions of professional fundraising and other services with an estimated value of \$97,200. There were no in-kind contributions (other than those from barter transactions or SPS) during the year ended August 31, 2017.

The Station occasionally enters into barter agreements where the Station provides underwriting to local businesses for services. Barter transactions are reported at the estimated fair value of the services received. Revenue is reported when the sponsorship spots are broadcast, and the services received are reported when received as expenditures/expenses. Barter transactions amounted to \$13,860 during the year ended August 31, 2017. There were no barter transactions during the year ended August 31, 2018.

Support from Seattle Public Schools

SPS provided \$142,053 and \$130,872 of its general fund resources to cover certain payroll costs of the Station during the years ended August 31, 2018 and 2017, respectively.

Indirect Support from Seattle Public Schools

The Station receives office, studio, and other indirect support from SPS. Indirect administrative support from SPS consists of allocated costs based on a formula developed by the Corporation for Public Broadcasting. The amount of indirect support of \$116,129 and \$130,842 was included as revenue and has been allocated to various programmatic expense categories for the years ended August 31, 2018 and 2017, respectively.

Contribution of Facilities from Seattle Public Schools

The Station receives the use of its station space without charge from SPS. The value of facilities contributed is determined by SPS based on an allocation of total operating costs for the complete facility.

Net Position/Fund Balances

Net position of the Station is classified in three components for government-wide presentation:

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. At August 31, 2018 and 2017, the Station had \$28,810 and \$29,152, respectively, of its net position restricted for special projects under a community service grant from the Corporation for Public Broadcasting.
- Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

The Station first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Fund balance of the Station is classified in the governmental fund financial statements as follows:

- Nonspendable fund balance consists of amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be kept intact. There were no nonspendable funds at August 31, 2018 or 2017; therefore, this classification has not been presented.
- Restricted fund balance consists of amounts that are restricted for specific purposes. These restrictions are either (a) imposed externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed through constitutional provisions or enabling legislation. At August 31, 2018 and 2017, the Station had \$28,810 and \$29,152, respectively, of its fund balance restricted for special projects under a community service grant from the Corporation for Public Broadcasting.
- Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal actions of the government's highest level of decision-making authority. These amounts cannot be used for any other purpose unless SPS removes or changes the specific use by taking the same type of action it used to commit those amounts. The School Board is SPS' highest level of authority. All actions concerning the approval, elimination, or modifications of fund balances will be accomplished through a resolution of budgetary reallocations. There were no committed funds at August 31, 2018 or 2017; therefore, this classification has not been presented.
- Assigned fund balance consists of amounts that are constrained by the Station intended to be used for specific purposes, but are neither restricted nor committed. The authority for making an assignment is not required to be SPS' highest decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regards to committed fund balances. SPS management staff will have the overall responsibilities for monitoring these balances. At August 31, 2018 and 2017, the Station had \$199,500 and \$300,000, respectively, of assigned fund balances to meet budgetary requirements for the following fiscal year of the Station.
- Unassigned fund balance is the residual classification for the general fund. The general fund is the only fund to report a positive unassigned fund balance.

The Station first applies assigned resources when an expenditure is incurred for purposes for which both assigned and unassigned resources are available.

Budget Process

The SPS School Board adopts annual appropriated budgets for the Station. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative unless the Station enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

Excess of Expenditures over Appropriations

For the years ended August 31, 2018 and 2017, non-staff expenditures exceeded appropriations by \$264,190 and \$111,702, respectively.

These overexpenditures were generally funded by revenues that were greater than anticipated and underexpending in other departments in the fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Association is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has received a determination letter stating that it is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

Note 2. Capital Assets

The changes in capital assets of the Station are as follows:

| | Balance, August 31, 2017 | Additions | Retirements | Balance, August 31, 2018 |
|--------------------------------|-----------------------------|------------------|-------------|-----------------------------|
| Broadcasting equipment | \$ 170,100 | \$ 65,389 | \$ - | \$ 235,489 |
| Total capital assets, at cost | 170,100 | 65,389 | | 235,489 |
| Less: accumulated depreciation | 106,250 | 5,975 | | 112,225 |
| Net capital assets | <u>\$ 63,850</u> | <u>\$ 59,414</u> | <u>\$ -</u> | <u>\$ 123,264</u> |

| | Balance, August 31, 2016 | Additions | Retirements | Balance, August 31, 2017 |
|--------------------------------|-----------------------------|------------------|-------------|-----------------------------|
| Broadcasting equipment | \$ 107,541 | \$ 62,559 | \$ - | \$ 170,100 |
| Total capital assets, at cost | 107,541 | 62,559 | | 170,100 |
| Less: accumulated depreciation | 98,508 | 7,742 | | 106,250 |
| Net capital assets | <u>\$ 9,033</u> | <u>\$ 54,817</u> | <u>\$ -</u> | <u>\$ 63,850</u> |

Note 3. Future Lease Obligations

The Station leases broadcasting equipment under a noncancellable operating lease expiring in March 2022. Monthly rent is \$3,276, subject to annual increases based on the Consumer Price Index. Rent expense under this lease was \$38,422 and \$37,654 during the years ended August 31, 2018 and 2017, respectively. Future minimum rentals (excluding annual increases, as amounts are indeterminable) are approximately as follows for the years ending August 31:

| | | |
|------|----|-------------|
| 2019 | \$ | 39,312 |
| 2020 | | 39,312 |
| 2021 | | 39,312 |
| 2022 | | 22,932 |
| | | <hr/> |
| | \$ | 140,868 |
| | | <hr/> <hr/> |

Note 4. Long-Term Obligations

Long-term liability activity related to compensated absences for the years ended August 31, 2018 and 2017, is as follows:

| | | |
|--------------------------|----|--------------------|
| Balance, August 31, 2016 | \$ | 21,260 |
| Change | | <hr/> 9,861 |
| Balance, August 31, 2017 | | 31,121 |
| Change | | <hr/> 3,489 |
| Balance, August 31, 2018 | \$ | <hr/> <hr/> 34,610 |

Note 5. Government-Wide Financial Statement Reconciliation

The Station recognizes certain transactions on the government-wide financial statements that are treated differently on the governmental fund financial statements. The following is a reconciliation of the fund balances/net position and changes in fund balances/net position from the governmental fund financial statements to the government-wide financial statements:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| <u>Governmental Fund Balance Sheet/Statement of Net Position</u> | | |
| Fund balance - general fund | \$ 1,576,894 | \$ 1,399,948 |
| Capital assets - net | 123,264 | 63,850 |
| Accrued vacation | <u>(34,610)</u> | <u>(31,121)</u> |
| Net position - government-wide | <u>\$ 1,665,548</u> | <u>\$ 1,432,677</u> |
| <u>Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities</u> | | |
| Change in fund balance - general fund | \$ 176,946 | \$ 75,790 |
| Capital outlay | 65,389 | 62,559 |
| Depreciation expense | (5,975) | (7,742) |
| Accrued vacation | <u>(3,489)</u> | <u>(9,861)</u> |
| Change in net position - government-wide | <u>\$ 232,871</u> | <u>\$ 120,746</u> |

Note 6. Commitments and Contingencies

SPS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SPS purchases commercial insurance coverage to mitigate such risks.

SPS, in the normal course of its activities, is involved in various claims and pending litigation. In the opinion of management and legal counsel, the disposition of these matters is not expected to have a material adverse effect on the Station's general-purpose financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KNHC C89.5 RADIO STATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended August 31, 2018

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|-------------------|------------------|
| | Original | Final | | |
| Revenue | | | | |
| Individual contributions | \$ 350,350 | \$ 350,350 | \$ 474,827 | \$ 124,477 |
| Underwriting | 350,000 | 350,000 | 413,228 | 63,228 |
| Community service grant from | | | | |
| Corporation for Public Broadcasting | 113,161 | 113,161 | 115,040 | 1,879 |
| Support from Seattle Public Schools | 130,872 | 130,872 | 142,053 | 11,181 |
| Indirect support from Seattle Public Schools | 130,842 | 130,842 | 116,129 | (14,713) |
| In-kind contributions | | | 97,200 | 97,200 |
| Contribution of facilities from Seattle | | | | |
| Public Schools | 15,179 | 15,179 | 13,842 | (1,337) |
| Total revenue | 1,090,404 | 1,090,404 | 1,372,319 | 281,915 |
| Expenditures | | | | |
| Programming | 163,089 | 163,089 | 165,565 | (2,476) |
| Broadcasting and engineering | 457,620 | 457,620 | 629,973 | (172,353) |
| Membership | 185,655 | 185,655 | 238,025 | (52,370) |
| Underwriting | 167,888 | 167,888 | 161,810 | 6,078 |
| Total expenditures | 974,252 | 974,252 | 1,195,373 | (221,121) |
| Net change in fund balance | \$ 116,152 | \$ 116,152 | \$ 176,946 | \$ 60,794 |

See Note to Required Supplementary Information

KNHC C89.5 RADIO STATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended August 31, 2017

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|------------------|---------------------|
| | Original | Final | | |
| Revenue | | | | |
| Individual contributions | \$ 317,500 | \$ 317,500 | \$ 342,198 | \$ 24,698 |
| Underwriting | 650,000 | 650,000 | 479,781 | (170,219) |
| Community service grant from | | | | |
| Corporation for Public Broadcasting | 78,677 | 78,677 | 112,270 | 33,593 |
| Support from Seattle Public Schools | 137,115 | 137,115 | 130,872 | (6,243) |
| Indirect support from Seattle Public Schools | 126,884 | 126,884 | 130,842 | 3,958 |
| Contribution of facilities from Seattle | | | | |
| Public Schools | 14,923 | 14,923 | 15,179 | 256 |
| Total revenue | 1,325,099 | 1,325,099 | 1,211,142 | (113,957) |
| Expenditures | | | | |
| Programming | 176,113 | 176,113 | 189,583 | (13,470) |
| Broadcasting and engineering | 499,559 | 499,559 | 627,289 | (127,730) |
| Membership | 149,236 | 149,236 | 126,045 | 23,191 |
| Underwriting | 207,015 | 207,015 | 192,435 | 14,580 |
| Total expenditures | 1,031,923 | 1,031,923 | 1,135,352 | (103,429) |
| Net change in fund balance | \$ 293,176 | \$ 293,176 | \$ 75,790 | \$ (217,386) |

See Note to Required Supplementary Information

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Method of Accounting

Annual budgets are prepared using the modified accrual basis of accounting. Accordingly, there are no reconciling items between the budgetary basis of accounting and the method used in the fund financial statements.