

**KNHC C89.5 RADIO STATION**

FINANCIAL REPORT

AUGUST 31, 2019

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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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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*

January 27, 2020

## **KNHC C89.5 RADIO STATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Years Ended August 31, 2019 and 2018

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, 2019 and 2018. 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 \$1,792,348 as of August 31, 2019. Of this amount, \$1,674,173 is unrestricted and available to meet the Station's ongoing obligations to its creditors and provide for general operating funds. \$29,226 is restricted under the CPB grant, to be used only to acquire or produce nationally distributed programming. The remaining \$116,402 is held for investments in capital assets, net of depreciation.

The Station ended the fiscal year with an increase of \$126,800 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 \$1,792,348 as of August 31, 2019.

	Net Position			
	2019	2018	Difference	% Change
Current and other assets	\$ 1,674,173	\$ 1,548,084	\$ 126,089	8.14%
Restricted assets	29,226	28,810	416	1.44%
Capital assets, net	116,402	123,264	(6,862)	(5.57)%
Total assets	1,819,801	1,700,158	119,643	7.04%
Total liabilities	27,453	34,610	(7,157)	(20.68)%
Net position	<u>\$ 1,792,348</u>	<u>\$ 1,665,548</u>	<u>\$ 126,800</u>	<u>7.61%</u>

  

	Activities	
	2019	2018
Revenues	\$ 1,102,452	\$ 1,372,319
Expenditures	975,652	1,139,448
Change in net position	126,800	232,871
Net position, beginning of year	1,665,548	1,432,677
Net position, end of year	<u>\$ 1,792,348</u>	<u>\$ 1,665,548</u>

### Statements of Governmental Fund Revenue and Expenditures

During the current fiscal year, the Station's governmental fund balance increased by \$126,505. The key elements of the change in the Station's fund balance for the year ended August 31, 2019, are as follows:

- Total revenue decreased \$269,867 (19.67%) from the prior year. The Station's individual giving program remains consistent. The Station has increased the number of individual donors making gifts of \$1,000 or more per year, but overall retention rate has declined slightly, and reversing that trend, along with lapsed member recapture, are priorities of the membership department. Support from the business and nonprofit communities was down for the third consecutive year. The Station's lone underwriting representative left at the beginning of the fiscal year, and the Station was not able to find and hire a replacement until February, which impacted the Station's underwriting revenue.
- Programming expenses increased by \$18,758 (11.33%) from the previous year. The Station's licensee renegotiated contracts, resulting in salary increases. In addition, the Station invested in program research for the first time.

- Broadcast and engineering costs decreased by \$89,352 (14.18%) from the previous year. After the departure of their long-time Operations Manager, the Station was able to combine job duties with another staff person to reduce costs. With the reduction of income, they also delayed upgrades of some equipment.
- Membership expenses decreased by \$91,869 (38.60%) from the previous year. The majority of this decrease is the result of a significant in-kind donation in 2018, which was not received in 2019. In addition, the Station reduced the amount of money spent on thank you gifts.
- Underwriting expenses decreased \$56,963 (35.20%) from the previous year. Without a full-time underwriting representative for nearly five months and the decreased underwriting revenues, lower commissions were paid.

	2019	2018	Difference	% Change
Individual contributions	\$ 435,195	\$ 474,827	\$ (39,632)	(8.35)%
Underwriting	279,215	413,228	(134,013)	(32.43)%
Community service grant from Corporation for Public Broadcasting	114,183	115,040	(857)	(0.74)%
Support from Seattle Public Schools	148,114	142,053	6,061	4.27%
Indirect support from Seattle Public Schools	95,517	116,129	(20,612)	(17.75)%
In-kind contributions	14,140	97,200	(83,060)	(85.45)%
Contribution of facilities from Seattle Public Schools	16,088	13,842	2,246	16.23%
Total	<u>\$ 1,102,452</u>	<u>\$ 1,372,319</u>	<u>\$ (269,867)</u>	<u>(19.67)%</u>
	2019	2018	Difference	% Change
Programming	\$ 184,323	\$ 165,565	\$ 18,758	11.33%
Broadcasting and engineering	540,621	629,973	(89,352)	(14.18)%
Membership	146,156	238,025	(91,869)	(38.60)%
Underwriting	104,847	161,810	(56,963)	(35.20)%
	<u>\$ 975,947</u>	<u>\$ 1,195,373</u>	<u>\$ (219,426)</u>	<u>(18.36)%</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, 2019

ASSETS	<u>General Fund</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Net Position</u>
Cash and Cash Equivalents	\$ 805,515	\$ -	\$ 805,515
Underwriting Receivable, net of allowance	45,456		45,456
Due from Seattle Public Schools	<u>823,202</u>		<u>823,202</u>
Total current assets	1,674,173		1,674,173
Restricted Assets			
Due from Seattle Public Schools	29,226		29,226
Capital Assets			
Broadcasting equipment, net		<u>116,402</u>	<u>116,402</u>
Total assets	<u>\$ 1,703,399</u>	<u>\$ 116,402</u>	<u>\$ 1,819,801</u>
LIABILITIES			
Accrued Payroll Liabilities - long-term	\$ -	\$ 27,453	\$ 27,453
FUND BALANCE/NET POSITION			
Fund Balance			
Restricted for special projects	29,226	(29,226)	
Assigned	509,376	(509,376)	
Unassigned	<u>1,164,797</u>	<u>(1,164,797)</u>	
Total fund balance	<u>1,703,399</u>	<u>(1,703,399)</u>	
Total liabilities and fund balance	<u>\$ 1,703,399</u>		
Net Position			
Net investment in capital assets		116,402	116,402
Restricted for special projects		29,226	29,226
Unrestricted		<u>1,646,720</u>	<u>1,646,720</u>
Total net position		<u>1,792,348</u>	<u>1,792,348</u>
Total liabilities and net position		<u>\$ 116,402</u>	<u>\$ 1,819,801</u>

See Notes to Financial Statements

**KNHC C89.5 RADIO STATION**

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION

August 31, 2018

ASSETS	<u>General Fund</u>	<u>Adjustments (Note 5)</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**

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

For the Year Ended August 31, 2019

	<u>General Fund</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Activities</u>
Revenues			
Individual contributions	\$ 435,195	\$ -	\$ 435,195
Underwriting	279,215		279,215
Community service grant from			
Corporation for Public Broadcasting	114,183		114,183
Support from Seattle Public Schools	148,114		148,114
Indirect support from Seattle Public Schools	95,517		95,517
In-kind contributions	14,140		14,140
Contribution of facilities from Seattle Public Schools	16,088		16,088
	<hr/>		<hr/>
Total revenues	1,102,452		1,102,452
Expenditures/Expenses			
Programming	184,323	2,146	186,469
Broadcasting and engineering	540,621	(769)	539,852
Membership	146,156	(1,397)	144,759
Underwriting	104,847	(275)	104,572
	<hr/>		<hr/>
Total expenditures/expenses	975,947	(295)	975,652
Net change in fund balance	126,505	(126,505)	
Change in net position		<u>\$ 126,800</u>	126,800
Fund Balance/Net Position, beginning of year	<hr/> 1,576,894		<hr/> 1,665,548
Fund Balance/Net Position, end of year	<u>\$ 1,703,399</u>		<u>\$ 1,792,348</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 5)</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/>
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/>
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/>		<hr/>
	1,399,948		1,432,677
Fund Balance/Net Position, end of year	<hr/>		<hr/>
	\$ 1,576,894		\$ 1,665,548

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, 2019 and 2018, or the changes in its financial position, including its net pension obligations and related deferred inflows and outflows, for the years 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, 2019 and 2018, the carrying amount of cash was \$805,515 and \$507,990, 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 \$3,120 and \$5,390 at August 31, 2019 and 2018, respectively.

### **Due from Seattle Public Schools**

"Due from SPS" represents assets, including cash and cash equivalents, 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, 2019 and 2018, SPS also holds \$29,226 and \$28,810, 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, 2019 or 2018.

### **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 years ended August 31, 2019 and 2018, the Station received in-kind contributions of professional fundraising and other services with an estimated value of \$14,140 and \$97,200, respectively.

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. There were no barter transactions during the years ended August 31, 2019 and 2018.

### **Support from Seattle Public Schools**

SPS provided \$148,114 and \$142,053 of its general fund resources to cover certain payroll costs of the Station during the years ended August 31, 2019 and 2018, 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 \$95,517 and \$116,129 was included as revenue and has been allocated to various programmatic expense categories for the years ended August 31, 2019 and 2018, 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, 2019 and 2018, the Station had \$29,226 and \$28,810, 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, 2019 or 2018; 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, 2019 and 2018, the Station had \$29,226 and \$28,810, 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, 2019 or 2018; 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, 2019 and 2018, the Station had \$509,376 and \$199,500, 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 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, 2019 and 2018, non-staff expenditures exceeded appropriations by \$113,091 and \$264,190, 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, 2018	Additions	Retirements	Balance, August 31, 2019
Broadcasting equipment	\$ 235,489	\$ -	\$ -	\$ 235,489
Total capital assets, at cost	235,489			235,489
Less: accumulated depreciation	112,225	6,862		119,087
Net capital assets	<u>\$ 123,264</u>	<u>\$ (6,862)</u>	<u>\$ -</u>	<u>\$ 116,402</u>

  

	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>

**Note 3. Future Lease Obligations**

The Station leases broadcasting equipment under a noncancellable operating lease expiring in March 2022. Monthly rent is \$3,335, subject to annual increases based on the Consumer Price Index. Rent expense under this lease was \$39,430 and \$38,422 during the years ended August 31, 2019 and 2018, respectively. Future minimum rentals (excluding annual increases, as amounts are indeterminable) are approximately as follows for the years ending August 31:

2020	\$	40,020
2021		40,020
2022		<u>23,345</u>
	\$	<u><u>103,385</u></u>

**Note 4. Long-Term Obligations**

Long-term liability activity related to compensated absences at August 31, 2019 and 2018, is as follows:

Balance, August 31, 2017	\$	31,121
Change		<u>3,489</u>
Balance, August 31, 2018		34,610
Change		<u>(7,157)</u>
Balance, August 31, 2019	\$	<u><u>27,453</u></u>

## 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:

	2019	2018
<u>Governmental Fund Balance Sheet/Statement of Net Position</u>		
Fund balance - general fund	\$ 1,703,399	\$ 1,576,894
Capital assets - net	116,402	123,264
Accrued vacation	(27,453)	(34,610)
	<u>\$ 1,792,348</u>	<u>\$ 1,665,548</u>
 <u>Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities</u>		
Change in fund balance - general fund	\$ 126,505	\$ 176,946
Capital outlay		65,389
Depreciation expense	(6,862)	(5,975)
Accrued vacation	7,157	(3,489)
	<u>\$ 126,800</u>	<u>\$ 232,871</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, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Individual contributions	\$ 310,000	\$ 310,000	\$ 435,195	\$ 125,195
Underwriting	300,000	300,000	279,215	(20,785)
Community service grant from Corporation for Public Broadcasting	115,040	115,040	114,183	(857)
Support from Seattle Public Schools	142,053	142,053	148,114	6,061
Indirect support from Seattle Public Schools	116,129	116,129	95,517	(20,612)
In-kind contributions			14,140	14,140
Contribution of facilities from Seattle Public Schools	13,842	13,842	16,088	2,246
Total revenue	997,064	997,064	1,102,452	105,388
Expenditures				
Programming	205,745	205,745	184,323	21,422
Broadcasting and engineering	465,818	465,818	540,621	(74,803)
Membership	151,976	151,976	146,156	5,820
Underwriting	92,620	92,620	104,847	(12,227)
Total expenditures	916,159	916,159	975,947	(59,788)
<b>Net change in fund balance</b>	<b>\$ 80,905</b>	<b>\$ 80,905</b>	<b>\$ 126,505</b>	<b>\$ 45,600</b>

See Note to 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)
<b>Net change in fund balance</b>	<b>\$ 116,152</b>	<b>\$ 116,152</b>	<b>\$ 176,946</b>	<b>\$ 60,794</b>

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.