

**INDEPENDENT TELEVISION  
SERVICE, INC.  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018  
(With Independent Auditors' Report Thereon)**



**GRANT & SMITH, LLP**  
*Certified Public Accountants*

**INDEPENDENT TELEVISION SERVICE, INC.  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

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**GRANT & SMITH, LLP**  
*Certified Public Accountants*



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Independent Television Service, Inc  
San Francisco, California

We have audited the accompanying financial statements of Independent Television Service, Inc (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. 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 Independent Television Service, Inc as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Report on Summarized Comparative Information

We have previously audited the Independent Television Service, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Oakland, California  
January 9, 2018



**INDEPENDENT TELEVISION SERVICE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2018**  
**(Summarized Totals for 2017)**

<b>ASSETS</b>	<b>2018</b>			<b>2017</b>
	<b>Unrestricted Fund</b>	<b>Temporarily Restricted Fund</b>	<b>Total</b>	<b>Total</b>
<b>Current Assets</b>				
Cash & Cash Equivalents (Note 2)	\$ 3,314,054	\$ 791,855	\$ 4,105,909	\$ 4,694,056
Investments (Note 3)	1,339,914		1,339,914	924,201
Grants Receivables - CPB (Note 4)		13,910,509	13,910,509	13,797,834
Grants Receivables - Other (Note 4)		3,035,000	3,035,000	3,007,292
Prepaid Expenses & Deposits	112,085		112,085	112,085
Total Current Assets	4,766,053	17,737,364	22,503,417	22,535,468
<b>Fixed Assets</b>				
Office Furniture & Equipment (Note 5)	89,021		89,021	89,021
Leasehold Improvements (Note 5)	1,281,276		1,281,276	1,277,281
Less: Accumulated Depreciation	(408,423)		(408,423)	(271,839)
Net Fixed Assets	961,874		961,874	1,094,463
<b>Total Assets</b>	\$ 5,727,927	\$ 17,737,364	\$ 23,465,291	\$ 23,629,931
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts Payable & Accrued Expenses	\$ 365,117	\$ 486,960	\$ 852,077	\$ 1,075,680
Accrued Vacation	400,669		400,669	395,288
Contracts Payable (Note 6)		6,066,478	6,066,478	6,457,710
Current Portion of Loan Payable (Note 7)	106,902		106,902	111,226
Total Current Liabilities	872,688	6,553,438	7,426,126	8,039,904
<b>Non-Current Liabilities</b>				
Non Current Portion of Loan Payable (Note 7)	848,008		848,008	945,559
Total Non-Current Liabilities	848,008		848,008	945,559
<b>Net Assets (Note 8)</b>	4,007,231	11,183,926	15,191,157	14,644,468
<b>Total Liabilities &amp; Net Assets</b>	\$ 5,727,927	\$ 17,737,364	\$ 23,465,291	\$ 23,629,931

See accompanying Notes.

**INDEPENDENT TELEVISION SERVICE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**  
**(Summarized Totals for 2017)**

	<b>2018</b>			<b>2017</b>
	<b>Unrestricted Funds</b>	<b>Temporarily Restricted Funds</b>	<b>Total All Funds</b>	<b>Total</b>
<b>Support &amp; Revenue</b>				
Corporation for Public Broadcasting	\$ 2,200,000	\$ 15,166,667	\$ 17,366,667	\$ 17,200,920
Grants & Contributions		3,148,500	3,148,500	3,325,500
Investment Income Net	29,878		29,878	57,318
Ancillary Income	346,456		346,456	294,988
Other Income	-		-	30,450
Net Assets Released from Restriction (Note 9)	18,272,865	(18,272,865)		
<b>Total Support &amp; Revenue</b>	<b>20,849,199</b>	<b>42,302</b>	<b>20,891,501</b>	<b>20,909,176</b>
<b>Operating Expenses</b>				
Program Services:				
Licensing Fees and Production Costs	9,658,060		9,658,060	9,228,816
Communication	4,669,251		4,669,251	4,677,581
Programming	866,021		866,021	867,584
Business Affairs	613,581		613,581	600,709
Special Projects	2,209,501		2,209,501	4,212,177
Management & General	2,215,886		2,215,886	2,201,834
Other	112,512		112,512	130,356
<b>Total Expenses</b>	<b>20,344,812</b>		<b>20,344,812</b>	<b>21,919,057</b>
Changes in Net Assets	504,387	42,302	546,689	(1,009,881)
Net Assets, Beginning of Year	3,502,844	11,141,624	14,644,468	15,654,349
Net Assets, End of Year	<u>\$ 4,007,231</u>	<u>\$ 11,183,926</u>	<u>\$ 15,191,157</u>	<u>\$ 14,644,468</u>

*See accompanying Notes.*

**INDEPENDENT TELEVISION SERVICE INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**  
(Summarized Totals for 2017)

	2018						2017			
	Licensing Fees and Production Costs	Communications	Programming	Business Affairs	Special Projects	Total Program Expenses	Management & General	Other	Total	Total
<b>EXPENSES</b>										
Licensing Agreements	\$ 8,454,196				\$ 26,321	\$ 8,480,517			\$ 8,480,517	\$ 8,111,142
Salaries, Benefits and Taxes	922,538	2,938,837	622,205	474,163	882,532	5,840,275	1,525,578		7,365,853	7,554,541
Conferences, Meetings & Special Events	20,137	196,364	20,661	1,813	26,528	265,503	76,365		341,868	417,617
Equipment Costs	3,022	39,128	4,995	57,779	193,063	297,987	158,763		456,750	574,077
Insurance Expense					608	608	70,607		71,215	63,271
Interest Expense							43,352		43,352	47,482
Office Expenses	2,181	8,736	233	138	24,542	35,830	14,077		49,907	73,628
Office Lease and Storage	91,440	239,696	45,720	38,100	13,269	428,225	238,957		667,182	642,898
Outreach Expenses	12,512	78,635		1,744	101,010	193,994	5,467		199,461	1,034,904
Packaging	2,034	115,694	390		260,381	378,499			378,499	505,869
Panels/Readers			42,016			42,016			42,016	36,103
Postage and Delivery	10,235	13,120	657	242	3,643	27,897	2,455		30,352	43,821
Producer Orientation & Handbook			81,704			81,704			81,704	71,506
Professional Services	50,729	241,165	8,192	32,840	554,112	887,038	60,399	\$ 112,512	1,059,949	1,430,771
Promotion & Web		708,730		1,727	50,162	760,619	2,579		763,198	900,893
Telephone/Fax	1,248	1,530	689		37,283	40,750			47,909	50,777
Travel Expenses	87,788	87,616	38,559	5,035	36,047	254,952	10,128		265,080	359,757
<b>TOTAL EXPENSES</b>	<b>\$ 9,658,060</b>	<b>\$ 4,669,251</b>	<b>\$ 866,021</b>	<b>\$ 613,581</b>	<b>\$ 2,209,501</b>	<b>\$ 18,016,414</b>	<b>\$ 2,215,886</b>	<b>\$ 112,512</b>	<b>\$ 20,344,812</b>	<b>\$ 21,919,057</b>

See accompanying Notes.  
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**INDEPENDENT TELEVISION SERVICE, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**  
**(Summarized Totals for 2017)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 546,689	\$ (1,009,881)
Adjustments to Reconcile to Changes in Net Assets to Net Cash Provided by Operating Activities:		
<i>Increases/(Decreases) in Operating Assets</i>		
Depreciation	136,584	140,803
Accounts Receivable	-	14,800
Grants Receivable	(140,383)	2,461,470
<i>Increases/(Decreases) in Liabilities</i>		
Accounts Payable & Accrued Vacation	(218,222)	283,517
Loans Payable	(101,875)	(89,563)
Contracts Payable	(391,232)	(1,163,025)
Total Adjustment	(715,128)	1,648,002
<b>Net Cash Provided/(Used) by Operating Activities</b>	(168,439)	638,121
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
<b>Investing Activities</b>		
Sale/(Purchase) of Investments	(415,713)	104,137
(Purchase)/Disposal of Equipment & Improvements	(3,995)	(4,365)
<b>Net Cash Provided/(Used) by Investing Activities</b>	(419,708)	99,772
<b>Net Increase/(Decrease) in Cash and Equivalents</b>	(588,147)	737,893
<b>Cash and Equivalents, Beginning of Year</b>	4,694,056	3,956,163
<b>Cash and Equivalents, End of Year</b>	\$ 4,105,909	\$ 4,694,056
<i>Supplemental Disclosure of Cash Flow Information</i>		
Interest Expenses Paid	\$ 43,352	\$ 47,482
Taxes Paid	320	2,236

*See Accompanying Notes.*

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

Independent Television Service, Inc. was created by the community of independent producers and the Corporation for Public Broadcasting (CPB) under specific authorization of Congress as an independent service, operating in the public interest, to enhance the diversity and innovativeness of television programming available to public broadcasting. The mission of the Independent Television Service, Inc (Organization) is to bring to public television audiences innovative programming that involves creative risks and which address the need of un-served or under-served minority audiences.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when rights to receive are earned, or when services have been provided and expenditures are recorded when obligation to pay is incurred.

Contributions

Generally accepted accounting principles require that the Organization reports information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted contributions are recognized as increases in unrestricted net assets when received. Contribution restricted by donors may be reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by accomplishing the purpose, the temporarily restricted revenues are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions. When restrictions are satisfied in the same period as the receipt of the contribution, the Organization reports both the revenue and the related expense in the unrestricted net asset class.

Use of 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.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Accounts Receivable

Accounts receivable consist of amounts due from funding sources, as described in Note 4, and are considered by management to be fully collectible.

Investments

Generally accepted accounting principles require that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Organization accounts for its equity securities that have readily determinable market values by recording and reporting those securities at fair value. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 3.

Fair Value Measurements

Generally accepted accounting principles (GAAP) provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the input used with each level:

- Level 1 inputs - quoted prices in active markets for identical assets
- Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
- Level 3 inputs - estimates using best information available when there is little or no market

The Organization is required to measure certain investments at fair value in accordance with GAAP. The technique used to measure the fair value of investments is described in Note 3.

Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, accounts receivable and other assets approximate fair values due to the short-term maturities of these assets.

Income Taxes

The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code and has been designated as an organization that is not a private foundation, during an advance-ruling period ending September 30, 1993.

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns for years 2014 through 2016 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

Furniture and Equipment

Furniture and equipment are recorded at cost less accumulated depreciation. The Organization's policy is to capitalize asset purchases over \$500. The Organization capitalizes significant additions and improvements except for equipment purchases funded by foundation grants. Capitalized furniture and equipment are being depreciated using the straight-line half-year convention method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is recorded as expense incurred.

Functional Expense Reporting

The costs of providing the Organization's programs have been summarized on a functional basis in these financial statements. Based on management estimates, costs have been allocated between programs and supporting services as they relate to those functions.

Comparative Information

The financial statements include certain summarized comparative information from the prior year. This information is presented in total and not by net asset class and does not include sufficient detail to be in conformity with generally accepted accounting principles. Such information should be read together with the Organization's financial statements for the year ended September 30, 2017, from which the summarized information was extracted. Certain amounts in the prior year financial statements have been reclassified for comparison purposes to conform to the current year presentation.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The cash balance as of September 30, 2018 consisted of:

Interest Bearing Accounts – Beacon Business Bank	\$ 4,055,071
Money Market Account – Charles Schwab	50,538
Petty Cash	300
Total	<u>\$ 4,105,909</u>

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 2 – CASH AND CASH EQUIVALENTS – (Continued)**

Cash and Cash Equivalents are temporarily restricted until expended by the Organization for the purposes designated by related grant agreements.

At year ended September 30, 2018, the Organization had cash balances held at Beacon Business Bank in excess of limits covered by the Federal Deposit Insurance Corporation (FDIC) by \$3,761,682.

**NOTE 3 - INVESTMENTS**

The Organization's investments consist primarily of corporate notes, bonds and marketable securities. Investments are intended to provide income to be used in the Organization's programs. Restricted investments are used for purposes stipulated by donors, and the unrestricted portion has been designated to be used for management and general expenses. The fair values of investments that are measured on a recurring basis are listed below. The values presented are based on quoted prices in active markets (Level 1 inputs) as follows:

<u>INVESTMENT</u>	<u>COST</u>	<u>FAIR VALUE</u>
U.S T Bills	\$ 747,483	\$ 748,877
CDs	151,916	148,814
Corporate Bonds & Notes	135,115	127,303
Mutual Funds	320,770	314,920
Totals	<u>\$ 1,355,284</u>	<u>\$ 1,339,914</u>

**NOTE 4 – GRANTS RECEIVABLE**

Grants receivable consisted of the following as of September 30, 2018:

Corporation for Public Broadcasting	<u>\$ 13,910,509</u>
Grants Receivable-Other:	
Public Broadcasting Service	960,000
Ford Foundation	855,000
John D. & Catherine T. Macarthur Foundation	700,000
Wyncote Foundation	200,000
National Endowment of the Arts	120,000
William & Flora Hewlett Foundation	100,000
Park Foundation	100,000
Total Grants Receivable-Other	<u>\$ 2,930,000</u>
Totals	<u>\$ 16,945,509</u>

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 5 – FIXED ASSETS**

Fixed Assets at cost, as of September 30, 2018 consisted of:

Computer Equipment	\$ 76,756
Furniture & Fixtures	7,207
Office Equipment	5,058
Leasehold Improvements	1,281,276
Total Fixed Assets	<u>1,370,297</u>
Less: Accumulated Depreciation	<u>(408,423)</u>
Net Fixed Assets	<u><u>\$ 961,874</u></u>

The Organization incurred \$136,584 in depreciation expense and amortization of leasehold improvement for the fiscal year ending September 30, 2018.

**NOTE 6 – CONTRACTS PAYABLE**

Contracts payable represent producer licensing fees payable to independent producers, for the fiscal year ending September 30, 2018, ITVS committed funds to 25 new productions.

**NOTE 7 – LOAN PAYABLE**

Loan Payable to Beacon Business Bank originated February 8, 2016. The loan bears interest at a rate of 4.25% per annum through the loan's term, ending May 31, 2026. The balance at September 30, 2017 was of \$954,910. Principal maturities of loan payable for the next five fiscal years ending September 30th are as follows:

2019	\$ 106,929
2020	111,563
2021	116,398
2022	121,442
2023	126,704
Thereafter	<u>371,874</u>
Total	<u><u>\$ 954,910</u></u>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

The Net Assets balance as of September 30, 2018 for temporarily restricted funds represents the unspent portion of grants recorded as the current year's increase to net assets balance in accordance with the requirements of Accounting for Contributions Received and Contributions Made. These funds are restricted for use in future fiscal years for the purpose set forth in the grant documents.

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS – (Continued)**

The details of temporarily restricted net assets as of September 30, 2018 are as follows:

CPB Production Funds	\$ 7,139,342
Foundation Special Projects	4,044,584
Total	<u>\$ 11,183,926</u>

**NOTE 9 – NET ASSETS RELEASED FROM RESTRICTION**

Net assets were released from funding restrictions by committing production licensing agreements to independent producers, promoting their shows upon completion, and by producing two television series for Public Television.

Licensing Fees	\$ 8,454,196
Production Support	1,203,865
Communication	4,669,253
Programming	866,021
Business Affairs	613,581
Special Projects	2,465,949
Total	<u>\$ 18,272,865</u>

**NOTE 10 – COMMITMENTS**

ITVS leases an office space at 1435 Folsom Street, San Francisco, CA. which commenced on June 1, 2016 and expires on May 31, 2026. ITVS maintains a security deposit of \$110,000 for leasing of the property. At September 30, 2018, the rental expense is \$523,700.

The Organization's future minimum lease payments are as follows:

<u>September 30,</u>	<u>Property Lease</u>
2019	\$ 539,411
2020	555,593
2021	572,261
2022	589,428
2023	607,111
Thereafter	1,707,301
Total	<u>\$ 4,571,105</u>

**INDEPENDENT TELEVISION SERVICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2018**

**NOTE 11 – SIGNIFICANT CONCENTRATIONS**

ITVS received approximately 83% of its support and revenue from the Corporation for Public Broadcasting.

**NOTE 12 – DEFINED CONTRIBUTION PLAN**

The Organization also has a qualified defined contribution pension plan (403b) covering substantially all employees after attainment of specified periods of service. The plan includes an Organization match of employee's contributions up to 5% of a participant's salary. Pension expense under this plan was approximately \$414,011 in year ended September 30, 2018.

**NOTE 13 – SUBSEQUENT EVENTS**

Management of the Organization has reviewed the results of operations for the period of time from its year end September 30, 2018, through January 9, 2019, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.