

**INDEPENDENT TELEVISION
SERVICE, INC.
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
(With Independent Auditors' Report Thereon)**

**INDEPENDENT TELEVISION SERVICE, INC.
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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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, 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant & Smith LLP

Oakland, California

February 3, 2020



INDEPENDENT TELEVISION SERVICE, INC.
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2019
(Summarized Totals for 2018)

ASSETS	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Current Assets				
Cash & Cash Equivalents (Note 2)	\$ -	\$ 6,999,177	\$ 6,999,177	\$ 4,105,909
Investments (Note 3)	4,235,851	3,007,048	7,242,899	1,339,914
Grants Receivables - CPB (Note 4)		10,994,467	10,994,467	13,910,509
Grants Receivables - Other (Note 4)		775,000	775,000	3,035,000
Prepaid Expenses & Deposits	114,145		114,145	112,085
Total Current Assets	4,349,996	21,775,692	26,125,688	22,503,417
Fixed Assets				
Office Furniture & Equipment (Note 5)	89,021		89,021	89,021
Leasehold Improvements (Note 5)	1,281,276		1,281,276	1,281,276
Less: Accumulated Depreciation	(536,550)		(536,550)	(408,423)
Net Fixed Assets	833,747		833,747	961,874
Total Assets	\$ 5,183,743	\$ 21,775,692	\$ 26,959,435	\$ 23,465,291
LIABILITIES & NET ASSETS				
Current Liabilities				
Accounts Payable & Accrued Expenses	\$ 452,754	\$ 336,430	\$ 789,184	\$ 852,077
Accrued Vacation	414,581		414,581	400,669
Contracts Payable (Note 6)		5,843,709	5,843,709	6,066,478
Current Portion of Loan Payable (Note 7)	111,907		111,907	106,902
Total Current Liabilities	979,242	6,180,139	7,159,381	7,426,126
Non-Current Liabilities				
Non Current Portion of Loan Payable (Note 7)	839,441		839,441	954,910
Less Current Portion of Loan Payable	(111,907)		(111,907)	(106,902)
Total Non-Current Liabilities	727,534		727,534	848,008
Net Assets (Note 8)	3,476,967	15,595,553	19,072,520	15,191,157
Total Liabilities & Net Assets	\$ 5,183,743	\$ 21,775,692	\$ 26,959,435	\$ 23,465,291

INDEPENDENT TELEVISION SERVICE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(Summarized Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total All Funds	Total
Support & Revenue				
Corporation for Public Broadcasting	\$ -	\$ 17,772,371	\$ 17,772,371	\$ 17,366,667
Grants & Contributions	5,005	6,558,500	6,563,505	3,148,500
Investment Income Net	136,493		136,493	29,878
Ancillary Income	157,539		157,539	346,456
Other Income	12,879		12,879	
Net Assets Released from Restrictions (Note 9)	19,919,244	(19,919,244)		
Total Support & Revenue	20,231,160	4,411,627	24,642,787	20,891,501
Operating Expenses				
Program Services:				
Licensing Fees & Production Costs	8,723,304		8,723,304	9,658,061
Communication	4,635,752		4,635,752	4,669,253
Programming	1,062,660		1,062,660	866,021
Business Affairs	513,814		513,814	613,581
Special Projects	2,783,714		2,783,714	2,209,500
Management & General	2,200,541		2,200,541	2,215,884
Other	841,639		841,639	112,512
Total Expenses	20,761,424		20,761,424	20,344,812
Changes in Net Assets	(530,264)	4,411,627	3,881,363	546,689
Net Assets, Beginning of Year	4,007,231	11,183,926	15,191,157	14,644,468
Net Assets, End of Year	\$ 3,476,967	\$ 15,595,553	\$ 19,072,520	\$ 15,191,157

**INDEPENDENT TELEVISION SERVICE INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(Summarized Totals for 2018)**

	2019								2018	
	Licensing Fees & Production Costs	Communications	Programming	Business Affairs	Special Projects	Total Program Expenses	Management & General	Other	Total	Total
EXPENSES										
Licensing Agreements	\$ 7,556,647	\$ -	\$ -	\$ -	\$ 166,510	\$ 7,723,157	\$ -	\$ 719,949	\$ 8,443,106	\$ 8,480,517
Salaries, Benefits & Taxes	941,884	2,975,011	737,016	435,508	863,921	5,953,340	1,534,790		7,488,130	7,365,853
Conferences, Meetings & Special Events	15,517	206,662	19,874	219	82,983	325,255	83,713		408,968	341,868
Equipment Costs	126	35,654	4,995	20,077	606,621	667,473	134,095		801,568	456,750
Insurance Expense							68,129		68,129	71,215
Interest Expense							38,687		38,687	43,352
Office Expenses	4,361	10,359	2,628	1,060	24,408	42,816	15,305		58,121	49,907
Office Lease & Storage	84,480	248,435	61,440	38,400	15,360	448,115	244,091		692,206	667,182
Outreach Expenses	5,446	66,184	488		97,846	169,964	5,003		174,967	199,461
Packaging	1,408	81,595			258,459	341,462			341,462	378,499
Panels/Readers			44,978			44,978			44,978	42,016
Postage and Delivery	9,693	11,024	566		160	21,443	1,972		23,415	30,352
Producer Orientation & Handbook			139,973			139,973			139,973	81,704
Professional Services	22,162	218,834	14,029	13,334	446,377	714,736	64,423	121,690	900,849	1,059,949
Promotion & Web	300	688,299		100	152,844	841,543	2,026		843,569	763,198
Telephone/Fax	938	1,409	426		39,328	42,101	8,307		50,408	47,909
Travel Expenses	80,342	92,286	36,247	5,116	28,897	242,888			242,888	265,080
TOTAL EXPENSES	\$ 8,723,304	\$ 4,635,752	\$ 1,062,660	\$ 513,814	\$ 2,783,714	\$ 17,719,244	\$ 2,200,541	\$ 841,639	\$ 20,761,424	\$ 20,344,812

INDEPENDENT TELEVISION SERVICE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(With Summarized Totals for 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 3,881,363	\$ 546,689
Adjustments to Reconcile to Changes in Net Assets to Net Cash Provided by Operating Activities:		
<i>(Increases)/Decreases in Operating Assets</i>		
Depreciation	128,127	136,584
Grants Receivable	5,176,042	(140,383)
Prepaid & Security Deposit	(2,060)	
<i>Increases/(Decreases) in Liabilities</i>		
Accounts Payable & Accrued Vacation	(48,981)	(218,222)
Loans Payable	(115,469)	(101,875)
Contracts Payable	(222,769)	(391,232)
Total Adjustment	4,914,890	(715,128)
Net Cash Provided/(Used) by Operating Activities	8,796,253	(168,439)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Investing Activities		
Sale/(Purchase) of Investments	(5,902,985)	(415,713)
(Purchase)/Disposal of Equipment & Improvements		(3,995)
Net Cash Provided/(Used) by Investing Activities	(5,902,985)	(419,708)
Net Increase/(Decrease) in Cash and Equivalents	2,893,268	(588,147)
Cash and Equivalents, Beginning of Year	4,105,909	4,694,056
Cash and Equivalents, End of Year	\$ 6,999,177	\$ 4,105,909
<i>Supplemental Disclosure of Cash Flow Information</i>		
Interest Expenses Paid	\$ 38,687	\$ 43,352
Taxes Paid	2,018	320

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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.

Financial Statement Presentation

As required, the accompanying financial statements have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by the classification of net assets and transactions into the following classes of assets:

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time, and may be maintained permanently by the Organization.

The Organization uses net assets with donor restrictions in accordance with donor-imposed restrictions to support specific programs and associated administrative functions. Net assets without donor restrictions are used to support general programs and associated general and administrative functions.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

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

Revenue Recognition

Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) net assets with donor restriction are reclassified to without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions

Generally accepted accounting principles require that the Organization reports information about its financial position and activities in two classes of net assets: without donor restrictions and with donor restrictions. Unrestricted contributions are recognized as increases in net assets without donor restrictions when received. Contribution restricted by donors may be reported as increases in net assets with donor restrictions, 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 net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

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.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

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

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, 2019

**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 2016 through 2018 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, 2018, 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.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS

The cash balance as of September 30, 2019 consisted of:

Interest Bearing Accounts – Beacon Business Bank	\$ 6,764,878
Money Market Account – Charles Schwab	233,999
Petty Cash	300
Total	<u><u>\$ 6,999,177</u></u>

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, 2019, the Organization had cash balances held at Beacon Business Bank in excess of limits covered by the Federal Deposit Insurance Corporation (FDIC) by \$6,514,878.

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	\$ 6,669,564	\$ 6,681,459
CDs	101,380	100,190
Corporate Bonds & Notes	110,437	102,177
Mutual Funds	358,511	359,073
Totals	<u><u>\$ 7,239,892</u></u>	<u><u>\$ 7,242,899</u></u>

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

NOTE 4 – GRANTS RECEIVABLE

Grants receivable consisted of the following as of September 30, 2019:

Corporation for Public Broadcasting	\$ 10,994,467
Grants Receivable-Other:	
Ford Foundation	605,000
Public Broadcasting Service	120,000
National Endowment of the Arts	50,000
Total Grants Receivable-Other	<u>\$ 775,000</u>
Totals	<u>\$ 11,769,467</u>

NOTE 5 – FIXED ASSETS

Fixed Assets at cost, as of September 30, 2019 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	(536,550)
Net Fixed Assets	<u>\$ 833,747</u>

The Organization incurred \$128,127 in depreciation expense and amortization of leasehold improvement for the fiscal year ending September 30, 2019.

NOTE 6 – CONTRACTS PAYABLE

Contracts payable represent producer licensing fees payable to independent producers. For the fiscal year ending September 30, 2019, ITVS committed funds to 20 new full length programs as well as 27 new development, short form and acquired programs.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

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, 2019 was of \$839,441. Principal maturities of loan payable for the next five fiscal years ending September 30th are as follows:

2020	\$	111,906
2021		116,756
2022		121,386
2023		126,647
2024		132,135
Thereafter		230,611
Total	\$	839,441

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

The Net Assets balance as of September 30, 2019 for donor restricted funds represents the unspent portion of grants recorded as the current year and prior 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.

The details of donor restricted net assets as of September 30, 2019 are as follows:

CPB Production Funds	\$	7,370,479
Foundation Special Projects		8,225,074
Total		15,595,553

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

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.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS (Continued)

The details of net assets released from restrictions as of September 30, 2019 are as follows:

Licensing Fees	\$ 7,556,647
Production Support	1,166,657
Communication	4,635,752
Programming	1,062,660
Business Affairs	513,814
Special Projects	2,783,714
Management & General	2,200,000
Total	<u>\$ 19,919,244</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, 2019, the rental expense is \$539,411.

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

<u>September 30,</u>	<u>Property Lease</u>
2020	\$ 555,593
2021	572,261
2022	589,428
2023	607,111
2024	619,133
Thereafter	1,294,542
Total	<u>\$ 4,238,068</u>

NOTE 11 – SIGNIFICANT CONCENTRATIONS

ITVS received approximately 90% of its support and revenue from the Corporation for Public Broadcasting. A significant reduction in the level of this support may have an adverse effect on the Organization's ability to continue its programs and activities, which are funded by this grantor.

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 \$422,760 in year ended September 30, 2019.

INDEPENDENT TELEVISION SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2019

NOTE 13 – LIQUIDITY & AVAILABILITY

Cash and Cash Equivalents	\$ 6,999,177
Investments	7,242,899
Grants & Contract Receivable	<u>11,769,467</u>
Total Liquid Financial Assets	26,011,543
Less: Current Liabilities & Net Assets With Donor Restriction	<u>(22,734,954)</u>
Financial Assets Available to Meet Cash Needs of General Expenditures within One Year	<u>\$ 3,276,589</u>

NOTE 14 – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end September 30, 2019, through February 3, 2020, 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.