

FINANCIAL STATEMENTS

**NORTHEASTERN EDUCATIONAL
TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

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November 16, 2018

To the Board of Directors
Northeastern Educational Television of Ohio, Inc.
dba Western Reserve Public Media
Kent, Ohio

Independent Auditor's Report

We have audited the accompanying financial statements of Northeastern Educational Television of Ohio, Inc. dba Western Reserve Public Media (NETO) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 NETO as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hill, Barth & King LLC

Certified Public Accountants

STATEMENTS OF FINANCIAL POSITION

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 565,882	\$ 130,604
Accounts receivable less allowance of \$100,692 in 2018 and \$89,535 in 2017	264,472	255,126
Prepaid expenses and other current assets	<u>22,755</u>	<u>23,274</u>
TOTAL CURRENT ASSETS	853,109	409,004
Property and equipment, net	<u>822,556</u>	<u>493,347</u>
TOTAL ASSETS	<u>\$ 1,675,665</u>	<u>\$ 902,351</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Lines of credit	\$ 0	\$ 100,000
Accounts payable, accrued expenses and other liabilities	278,309	400,155
Accrued vacations	65,982	56,972
Deferred revenue, current portion	352,851	22,041
Current maturities of long-term debt	<u>4,785</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	701,927	579,168
Long-term debt, less current maturities	15,852	0
Deferred revenue, net of current portion	<u>19,250</u>	<u>22,000</u>
TOTAL LIABILITIES	<u>737,029</u>	<u>601,168</u>
Net assets:		
Unrestricted	839,152	182,951
Temporarily restricted	<u>99,484</u>	<u>118,232</u>
TOTAL NET ASSETS	<u>938,636</u>	<u>301,183</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,675,665</u>	<u>\$ 902,351</u>

See accompanying notes to financial statements

STATEMENTS OF ACTIVITIES

NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA

Years ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenue and support:						
Ohio BEMC - General	\$ 295,156	\$ 0	\$ 295,156	\$ 287,547	\$ 0	\$ 287,547
Ohio BEMC - Education	162,976	0	162,976	168,017	0	168,017
EdTech - Education	225,028	0	225,028	129,937	0	129,937
Other grants	0	0	0	3,700	0	3,700
Membership income	1,780,529	0	1,780,529	1,727,402	0	1,727,402
Local schools	47,449	0	47,449	34,352	0	34,352
Corporation for Public Broadcasting	973,183	0	973,183	884,338	0	884,338
Ohio Ready to Learn	32,188	0	32,188	33,500	0	33,500
Ohio Biennium	0	0	0	49,250	0	49,250
Underwriting income and private support	141,228	99,484	240,712	178,789	118,232	297,021
FCC repack reimbursement	38,291	0	38,291	0	0	0
Other contribution income	157,021	0	157,021	0	0	0
Channel sharing income	330,000	0	330,000	0	0	0
Rental income	525,648	0	525,648	565,682	0	565,682
Net unrealized and realized loss on investments	(52)	0	(52)	0	0	0
Other income	11,143	0	11,143	15,484	0	15,484
In-kind contributions and services	795,192	0	795,192	851,416	0	851,416
Net assets released from restrictions	118,232	(118,232)	0	118,416	(118,416)	0
TOTAL OPERATING REVENUE AND SUPPORT	5,633,212	(18,748)	5,614,464	5,047,830	(184)	5,047,646
Operating expenses:						
Administration	555,709	0	555,709	519,200	0	519,200
Broadcasting	467,775	0	467,775	475,211	0	475,211
Development	769,916	0	769,916	770,789	0	770,789
Educational services	198,581	0	198,581	194,037	0	194,037
PTV programming	1,579,172	0	1,579,172	1,504,489	0	1,504,489
Communications	241,548	0	241,548	253,430	0	253,430
Grounds costs	78,877	0	78,877	70,648	0	70,648
Interest	3,768	0	3,768	8,941	0	8,941
Provision for doubtful accounts	164,140	0	164,140	160,039	0	160,039
In-kind contributions and services	795,192	0	795,192	851,416	0	851,416
TOTAL OPERATING EXPENSES	4,854,678	0	4,854,678	4,808,200	0	4,808,200
Capital expenses:						
Depreciation	122,333	0	122,333	209,024	0	209,024
TOTAL EXPENSES	4,977,011	0	4,977,011	5,017,224	0	5,017,224
INCREASE (DECREASE) IN NET ASSETS	656,201	(18,748)	637,453	30,606	(184)	30,422
Net assets, beginning of year	182,951	118,232	301,183	152,345	118,416	270,761
Net assets, end of year	\$ 839,152	\$ 99,484	\$ 938,636	\$ 182,951	\$ 118,232	\$ 301,183

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

Years ended June 30, 2018 and 2017

	2018	2017
Operating activities:		
Increase in net assets	\$ 637,453	\$ 30,422
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	122,333	209,024
Gain on disposition of asset	(3,700)	0
Provision for doubtful accounts	164,140	160,039
Changes in operating assets and liabilities:		
Accounts receivable	(173,486)	(131,905)
Prepaid expenses and other current assets	519	(4,155)
Accounts payable, accrued expenses and other liabilities	(121,846)	110,612
Accrued vacations	9,010	(3,172)
Deferred revenue	328,060	(15,951)
NET CASH PROVIDED BY OPERATING ACTIVITIES	962,483	354,914
Investing activities:		
Purchase of property and equipment	(423,644)	(56,537)
NET CASH USED IN INVESTING ACTIVITIES	(423,644)	(56,537)
Financing activities:		
Net payments on lines of credit	(100,000)	(250,000)
Payments on long-term debt	(3,561)	(2,310)
NET CASH USED IN FINANCING ACTIVITIES	(103,561)	(252,310)
NET INCREASE IN CASH AND CASH EQUIVALENTS	435,278	46,067
Cash and cash equivalents, beginning of year	130,604	84,537
Cash and cash equivalents, end of year	\$ 565,882	\$ 130,604
Cash paid for interest	\$ 3,768	\$ 8,941

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

Northeastern Educational Television of Ohio, Inc. dba Western Reserve Public Media (NETO) was incorporated in July 1971 as a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is a consortium of the University of Akron, Kent State University and Youngstown State University (the Consortium). NETO operates two public television stations, WNEO, Channel 45 and WEAO, Channel 49.

Cash and Cash Equivalents:

NETO considers all short-term liquid investments with maturities, when purchased, of 90 days or less to be cash equivalents. NETO maintains its cash and cash equivalents in accounts which, at times, may exceed federally insured limits. NETO has not experienced any significant losses in such accounts. Uninsured balances totaled \$296,497 and \$-0- at June 30, 2018 and 2017, respectively. Management of NETO believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. The potential risk is limited to the amounts recorded in the financial statements. Receivables are considered past due based on various contractual terms. Management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment:

Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Depreciation is provided to allocate the cost of these assets over their estimated useful lives and is computed under the straight-line method.

Net Asset Classifications:

To ensure compliance with restrictions placed on the resources available to NETO, net assets are maintained in three classifications: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications (Continued):

Temporarily restricted net assets contain grantor or donor-imposed restrictions that limit the use of the net assets to a specific time period or purpose. NETO may use or expend the net assets as specified by the grantor or donor. The restrictions expire either by the passage of time or by the actions of NETO, that satisfy the restrictions of the grantor or donor.

Permanently restricted net assets contain grantor or donor-imposed restrictions that stipulate that the principal amount of the contribution be maintained permanently, but permits NETO to expend part or all of the income derived from the permanently restricted net assets for either specified or unspecified purposes. NETO had no permanently restricted net assets as of June 30, 2018 and 2017.

Revenue Recognition:

NETO records the following unconditional contributions as revenue based on their fair value at the date of contribution: cash, promises to give, and gifts of long-lived and other assets. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions have been met.

Temporarily Restricted Contributions:

NETO records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets at June 30, 2018 and 2017 are related to funds restricted both by the passage of time and for specific program broadcasting, production and capital improvements. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted until the assets are purchased.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions and Services:

In-kind contributions and services are recorded as revenue and expenses in the statements of activities. In-kind contributions and services consist primarily of technical and program services donated by the Ohio Broadcast Educational Media Commission (Ohio BEMC), the Consortium and certain broadcast-related activities donated by private sources. Donated services are reported as revenue and support and as assets or expenses only if the services create or enhance a non-monetary asset or would typically need to be purchased by NETO if they had not been contributed, or if the services require specialized skills and are provided by individuals with those skills. These donated services are stated at amounts based on fair value as designated by the contributor.

Use of Estimates:

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

Income Taxes:

NETO qualifies as an organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events:

Management has evaluated all activity of NETO through November 16, 2018 the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 1,920,758	\$ 1,909,058
Furniture and fixtures	196,238	190,846
Equipment	6,797,094	6,458,746
Construction in progress	<u>151,825</u>	<u>77,549</u>
	9,065,915	8,636,199
Less accumulated depreciation	<u>8,243,359</u>	<u>8,142,852</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 822,556</u>	<u>\$ 493,347</u>

NETO funds the purchases of certain assets through donor grants. Certain donors have placed a lien on assets acquired through grants, in which the title reverts to the donor should NETO cease operations within ten years of receiving the grant. The cost of assets subject to these liens totaled \$59,025 and \$531,350 at June 30, 2018 and 2017, respectively, of which the net book value at both June 30, 2018 and 2017 totaled \$-0-. Liens on these assets expire on various dates through August 2021.

NOTE C - LEASES

NETO leases administrative office space, equipment, broadcasting tower space and vehicles under several lease agreements through 2030. Certain operating leases provide that NETO pay taxes, maintenance and insurance applicable to the leased property. Generally, the leases include renewal options for various periods at stipulated rates. Total rental expenses were \$93,925 and \$99,098 in 2018 and 2017, respectively. NETO also leases broadcasting tower space and spectrum to various companies through 2030. These agreements typically include provisions for a monthly payment and may also include contingent rents based upon levels of revenue. Total rental income was \$855,648 and \$565,682 in 2018 and 2017, respectively. NETO entered into an agreement in December 2017 to rent channel space, which is included in rental income in 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE C - LEASES (CONTINUED)

Future minimum lease commitments and revenues for all non-cancellable operating leases with initial or remaining terms in excess of one year at June 30, 2018 are as follows for each of the years ending June 30:

	<u>Payments</u>	<u>Receipts</u>
2019	\$ 51,312	\$ 1,123,847
2020	31,797	1,076,860
2021	17,136	1,130,510
2022	14,537	1,023,971
2023	14,537	698,670
Thereafter	<u>116,297</u>	<u>1,400,796</u>
	<u>\$ 245,616</u>	<u>\$ 6,454,654</u>

NOTE D - LINES OF CREDIT

NETO has two lines of credit with two banks at a collective maximum borrowing base of \$400,000. The lines are due on demand and interest is due monthly at the banks' prime rate (5.00% at June 30, 2018). There was \$-0- and \$100,000 outstanding at June 30, 2018 and 2017, respectively. The lines are collateralized by all business assets.

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Note payable to financial institution, due in monthly installments of \$413 at 0.9% interest, collateralized by vehicle	\$ 20,637	\$ 0
Less current maturities	<u>4,785</u>	<u>0</u>
TOTAL LONG-TERM DEBT	<u>\$ 15,852</u>	<u>\$ 0</u>

Following is a summary of principal amounts due on long-term debt for each of the five years following June 30, 2018:

2019	\$ 4,785
2020	4,828
2021	4,872
2022	4,916
2023	<u>1,236</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE F - BENEFIT PLANS

Substantially all full-time employees of NETO are covered by and are required to contribute to the State Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system administered by the State of Ohio. Employer and employee required contributions to PERS for both retirement benefits and postretirement health care benefits are established by the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. The payroll for employees covered by PERS for the years ended June 30, 2018 and 2017 was approximately \$733,000 and \$684,000, respectively.

The current employee total contribution rate is 10.0% of gross salaries and wages and the employer total contribution rate is approximately 14.0% of related gross salaries and wages. NETO's contribution to PERS amounted to \$99,996 in 2018 and \$92,633 in 2017, of which approximately \$-0- and \$6,700, respectively, related to postretirement health care coverage.

NETO also provides its employees with an additional postretirement benefit for accrued and unpaid sick pay. Employees with 10 years of service who are eligible for retirement (as defined by PERS) receive a lump sum payment of 25% of the accrued unpaid sick time up to certain limits. NETO has recorded an accrued benefit cost for sick leave of \$39,429 and \$38,464 at June 30, 2018 and 2017, respectively, which is included in accounts payable, accrued expenses and other liabilities.

NOTE G - NET ASSETS

Temporarily restricted net assets are available for underwriting purposes at June 30, 2018 and 2017 in the amount of \$85,484 and \$103,232, respectively.

Temporarily restricted net assets are available for education programming purposes at June 30, 2018 and 2017 in the amount of \$14,000 and \$15,000, respectively.

Net assets of \$103,232 and \$101,011 relating to underwriting were released from restrictions with the passage of time for the years ended June 30, 2018 and 2017, respectively.

Net assets of \$15,000 and \$17,405 relating to education programming purposes were released from restrictions with the passage of time for the year ended June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE H - TUITION REIMBURSEMENT

NETO provides full tuition benefits for eligible employees, retirees, and their dependents as long as they were employed with the NETO prior to July 1, 2003 and attend one of its consortium universities. It is impractical to estimate the amount of future tuition benefits and, accordingly, no liability has been recorded in the accompanying financial statements. NETO's policy is to recognize the costs of tuition benefits when actually paid on behalf of the employee. The tuition paid and expensed by NETO for the years ended June 30, 2018 and 2017 was \$16,349 and \$22,421, respectively.

NOTE I - COMMUNITY SERVICE GRANTS

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (Grants) to qualifying public telecommunications entities. The Grants are approved by the U.S. Congress each year and could be reduced in the future.

The Grants are reported in the accompanying financial statements as unrestricted net assets; however, certain guidelines must be satisfied in connection with application for and use of the Grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of Grant funds, recordkeeping, audits, financial reporting and licensee status with the Federal Communications Commission (FCC).

NOTE J - CONCENTRATIONS

Grant revenue from one organization for the years ended June 30, 2018 and 2017 totaled \$973,183 and \$884,338, respectively, which was 17% and 18% of total funding revenue for each year, respectively.

NOTE K - NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended June 30, 2018, NETO acquired a vehicle for \$24,198 by issuing a note payable for the same amount.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2018 and 2017

NOTE L - SPECTRUM AUCTION AND FREQUENCY REPACKING

As part of the National Broadband Plan to increase broadband capacity, Congress authorized the FCC to conduct an Incentive Spectrum Auction to reclaim spectrum used by TV stations and repurpose it for use by wireless companies. Both of NETO's television stations, WNEO and WEAO, are located in a spectrum area that the FCC has reclaimed and as a result WNEO and WEAO will be required to vacate their current frequencies (channels 45 and 49) and move to lower ones (channels 24 and 29). The FCC has accepted WNEO and WEAO's repack plan and expenses to move to new frequencies in 2018 (WEAO) and 2019 (WNEO). Congress had initially set aside \$1.75 billion to reimburse stations that are forced to move. This was deemed to be insufficient. As a result, Congress has laid aside an additional \$1 billion that is available if necessary, for a total of \$2.75 billion.

The move will likely result in obsolescence of some of NETO's current equipment, however, the extent and amount of obsolescence cannot be reasonably estimated at this time.