

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2019 AND 2018

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
BEMIDJI, MINNESOTA
SEPTEMBER 30, 2019 AND 2018

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-18



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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Northern Minnesota Public Television, Inc.
Bemidji, Minnesota**

We have audited the accompanying financial statements of Northern Minnesota Public Television, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, 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 Northern Minnesota Public Television, Inc. as of September 30, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ending September 30, 2019, Northern Minnesota Public Television, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. Our opinion is not modified with respect to these matters.

Miller McDonald, Inc.

January 6, 2020
Bemidji, Minnesota

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 284,593	\$ 152,270
Accounts Receivable	20,442	18,152
Grants Receivable	113,180	117,938
Contributions Receivable, net	62,890	51,372
Prepaid Expenses	30,753	396,472
Total Current Assets	<u>511,858</u>	<u>736,204</u>
 <u>Property and Equipment</u>		
Land	92,754	92,754
Building and Leasehold Improvements	3,982,198	3,837,719
Antenna, Transmitter, and Other		
Broadcasting Equipment	6,315,739	6,356,724
Furniture, Fixtures, and		
Administrative Equipment	104,576	104,576
	<u>10,495,267</u>	<u>10,391,773</u>
Less: Accumulated Depreciation	6,746,274	6,639,351
Total Property and Equipment (net)	<u>3,748,993</u>	<u>3,752,422</u>
 <u>Other Assets</u>		
Contributions Receivable	6,220	-
Investments	890,869	746,029
Total Other Assets	<u>897,089</u>	<u>746,029</u>
 <u>Total Assets</u>	<u>\$ 5,157,940</u>	<u>\$ 5,234,655</u>

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
<u>Current Liabilities</u>		
Accounts Payable	\$ 7,343	\$ 3,000
Accrued Payroll, Taxes, and Withholdings	54,967	55,203
Deferred Support and Revenues	443	23,550
Refundable Grant Advances	-	13,116
Total Current Liabilities	<u>62,753</u>	<u>94,869</u>
<u>Long-Term Liabilities</u>		
Accrued PTO	<u>81,570</u>	<u>83,102</u>
<u>Net Assets</u>		
Without Donor Restrictions:		
Operating	686,012	663,782
Board Designated - Endowment	327,727	315,106
Property and Equipment	<u>3,748,993</u>	<u>3,752,422</u>
Total Net Assets Without Donor Restrictions	4,762,732	4,731,310
With Donor Restrictions	<u>250,885</u>	<u>325,374</u>
Total Net Assets	<u>5,013,617</u>	<u>5,056,684</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 5,157,940</u>	<u>\$ 5,234,655</u>

See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<u>Changes in Net Assets Without Donor Restrictions</u>		
<u>Revenue and Gains</u>		
Contributions		
KAWE	\$ 220,624	\$ 235,940
KAWB	246,223	107,902
Other	72,178	78,716
Total Contributions	539,025	422,558
Corporation for Public Broadcasting		
Community Service Grants and Supplemental	814,357	800,919
Interconnect	12,515	12,301
State of Minnesota Grants	678,588	660,927
Private Foundation Grants	48,228	25,000
Other Grants	28,596	48,803
Development and Special Events	40,294	31,715
Donated Professional Services	4,850	5,700
Production Income	32,491	50,060
Underwriting Income	248,082	273,505
Tower Rental	73,177	71,286
Interest Income	3,642	3,297
Investment Return	41,519	37,711
Other Income	965	848
Total Revenue and Gains Without Donor Restrictions	2,566,329	2,444,630
Net Assets Released from Restrictions	76,261	36,644
Total Revenue, Gains, and Other Support Without Donor Restrictions	2,642,590	2,481,274
<u>Expenses</u>		
Program Services		
Programming and Production	1,346,152	1,316,131
Broadcasting	473,633	552,316
Public Information and Promotion	75,283	103,868
Total Program Services	1,895,068	1,972,315
Supporting Services		
Management and General	348,583	317,968
Fund-Raising and Membership Development	293,068	295,643
Underwriting and Grant Solicitation	74,449	81,512
Total Supporting Services	716,100	695,123
Total Expenses	2,611,168	2,667,438

See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>Change in Net Assets Without Donor Restrictions</u>	<u>31,422</u>	<u>(186,164)</u>
<u>Change in Net Assets With Donor Restrictions</u>		
Grants	1,772	-
Net Assets Released from Restriction	<u>(76,261)</u>	<u>(36,644)</u>
<u>Change in Net Assets With Donor Restrictions</u>	<u>(74,489)</u>	<u>(36,644)</u>
<u>Change in Net Assets</u>	<u>(43,067)</u>	<u>(222,808)</u>
<u>Net Assets at Beginning of Year</u>	<u>5,056,684</u>	<u>5,279,492</u>
<u>Net Assets at End of Year</u>	<u>\$ 5,013,617</u>	<u>\$ 5,056,684</u>

See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019

	Program Services			Total Program Services
	Programming and Production	Broadcasting	Public Information and Promotion	
Salaries	\$ 545,303	\$ 156,380	\$ 39,099	\$ 740,782
Salary Related Benefits	121,779	35,817	9,552	167,148
Donated Professional Services	-	-	-	-
Supplies and Postage	12,632	2,611	1,345	16,588
Telephone	10,567	2,414	1,585	14,566
Travel and Conferences	2,104	1,065	-	3,169
Utilities	8,917	50,906	2,360	62,183
Professional Services	13,288	7,343	1,741	22,372
Equipment Maintenance and Repair	25,047	19,088	1,163	45,298
Insurance	18,955	19,143	1,923	40,021
Printing and Publications	-	-	-	-
Membership Fees and Dues	17,146	-	-	17,146
Advertising and Promotion	-	-	7,650	7,650
Program Acquisitions	409,749	-	-	409,749
Program Production Costs	75,651	27,478	-	103,129
Office and Tower Site Rental	7,260	25,116	-	32,376
Special Events	-	-	-	-
Miscellaneous	-	-	-	-
Fund-Raising Expenses	-	-	-	-
Subawards	-	28,596	-	28,596
Depreciation	77,754	97,676	8,865	184,295
	<u>\$ 1,346,152</u>	<u>\$ 473,633</u>	<u>\$ 75,283</u>	<u>\$ 1,895,068</u>

Supporting Services				
Management and General	Fund-Raising and Membership Development	Underwriting and Grant Solicitation	Total Supporting Services	Total
\$ 179,948	\$ 98,080	\$ 46,940	\$ 324,968	\$ 1,065,750
40,593	21,490	9,552	71,635	238,783
4,850	-	-	4,850	4,850
18,475	15,215	224	33,914	50,502
1,785	1,585	1,785	5,155	19,721
3,830	2,755	4,918	11,503	14,672
3,147	2,884	-	6,031	68,214
13,014	-	-	13,014	35,386
9,413	1,421	2,500	13,334	58,632
2,607	3,930	1,525	8,062	48,083
-	11,199	-	11,199	11,199
42,770	-	-	42,770	59,916
-	-	-	-	7,650
-	-	-	-	409,749
-	-	-	-	103,129
4,840	-	-	4,840	37,216
-	49,776	-	49,776	49,776
5,212	635	-	5,847	5,847
-	77,163	-	77,163	77,163
-	-	-	-	28,596
18,099	6,935	7,005	32,039	216,334
<u>\$ 348,583</u>	<u>\$ 293,068</u>	<u>\$ 74,449</u>	<u>\$ 716,100</u>	<u>\$ 2,611,168</u>

See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018

	Program Services			Total Program Services
	Programming and Production	Broadcasting	Public Information and Promotion	
Salaries	\$ 525,731	\$ 160,546	\$ 46,916	\$ 733,193
Salary Related Benefits	123,937	37,940	10,117	171,994
Donated Professional Services	-	-	-	-
Supplies and Postage	3,828	9,123	1,462	14,413
Telephone	9,234	2,491	1,621	13,346
Travel and Conferences	2,491	2,125	-	4,616
Utilities	10,606	54,373	2,807	67,786
Professional Services	13,321	7,343	5,093	25,757
Equipment Maintenance and Repair	19,019	23,754	799	43,572
Insurance	17,284	21,079	1,496	39,859
Printing and Publications	-	-	-	-
Membership Fees and Dues	16,328	-	-	16,328
Advertising and Promotion	-	-	24,832	24,832
Program Acquisitions	402,324	-	-	402,324
Program Production Costs	75,491	27,455	-	102,946
Office and Tower Site Rental	6,120	18,300	-	24,420
Special Events	-	-	-	-
Miscellaneous	-	-	-	-
Fund-Raising Expenses	-	-	-	-
Subawards	-	48,803	-	48,803
Depreciation	90,417	138,984	8,725	238,126
	<u>\$ 1,316,131</u>	<u>\$ 552,316</u>	<u>\$ 103,868</u>	<u>\$ 1,972,315</u>

Supporting Services				
Management and General	Fund-Raising and Membership Development	Underwriting and Grant Solicitation	Total Supporting Services	Total
\$ 170,696	\$ 124,868	\$ 52,844	\$ 348,408	\$ 1,081,601
37,940	30,352	12,647	80,939	252,933
5,700	-	-	5,700	5,700
8,709	17,188	48	25,945	40,358
1,997	1,621	1,997	5,615	18,961
2,864	498	3,315	6,677	11,293
3,743	3,431	-	7,174	74,960
15,722	-	-	15,722	41,479
8,602	977	2,624	12,203	55,775
2,188	3,640	1,206	7,034	46,893
-	11,870	-	11,870	11,870
35,241	-	-	35,241	51,569
-	-	-	-	24,832
-	-	-	-	402,324
-	-	-	-	102,946
4,080	-	-	4,080	28,500
-	27,679	-	27,679	27,679
2,595	839	-	3,434	3,434
-	65,849	-	65,849	65,849
-	-	-	-	48,803
17,891	6,831	6,831	31,553	269,679
\$ 317,968	\$ 295,643	\$ 81,512	\$ 695,123	\$ 2,667,438

See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets	\$ (43,067)	\$ (222,808)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	216,334	269,679
Donated Investments	(103,320)	-
(Gain) Loss on Investments	(21,209)	(20,155)
Contributions Received for Capital Project	(123,509)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(2,290)	6,063
Prepaid Expenses	365,719	(9,116)
Contributions Receivable	(17,738)	(3,014)
Grants Receivable	4,758	(115)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	4,343	(4,200)
Accrued Payroll, Taxes, and Withholdings	(236)	1,185
Accrued PTO	(1,532)	8,593
Deferred Support and Revenues	(23,107)	6,030
Refundable Grant Advances	(13,116)	13,116
Net Cash Provided by (Used in) Operating Activities	242,030	45,258
<u>Cash Flows from Investing Activities</u>		
Purchases of Property and Equipment	(212,905)	(47,019)
Redemption of Certificate of Deposit	-	102,015
Purchases of Investments	(168,663)	(35,185)
Proceeds from Sales of Investments	148,352	17,629
Net Cash Provided by (Used in) Investing Activities	(233,216)	36,427
<u>Cash Flows from Financing Activities</u>		
Proceeds from Contributions for Capital Project	123,509	-
Proceeds from Line of Credit	75,000	150,000
Repayment of Line of Credit	(75,000)	(150,000)
Net Cash Provided by (Used in) Financing Activities	123,509	-
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	132,323	81,685
<u>Cash and Cash Equivalents, Beginning of Year</u>	152,270	70,585
<u>Cash and Cash Equivalents, End of Year</u>	\$ 284,593	\$ 152,270

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid for Interest	\$ 65	\$ 444
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See Accompanying Notes to Financial Statements.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

1. **Summary of Significant Accounting Policies**

Organization – Northern Minnesota Public Television, Inc. (the Organization) is a nonprofit Minnesota Corporation which operates two non-commercial public television stations (KAWE and KAWB) in Bemidji and Brainerd, Minnesota. The Organization’s support comes primarily from public contributions, underwriting, and grants. Approximately 31% and 33% of the Organization’s support came from the Corporation for Public Broadcasting for the years ended September 30, 2019 and 2018, respectively. Approximately 26% and 27% of support for the years ended September 30, 2019 and 2018 came from various grants from the State of Minnesota.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Change in Accounting Principle – In the fiscal year ending September 30, 2019, the Organization adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirement and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of September 30, 2018 is as follows:

	<u>Prior Presentation</u>	<u>Reclassified</u>	<u>ASU 2016-14 Presentation</u>
<u>Net Assets:</u>			
Unrestricted	\$ 4,731,310	\$ (4,731,310)	\$ -
Temporarily Restricted	325,374	(325,374)	-
Without Donor Restrictions	-	4,731,310	4,731,310
With Donor Restrictions	-	325,374	325,374
Total Net Assets	<u>\$ 5,056,684</u>	<u>\$ -</u>	<u>\$ 5,056,684</u>

Classification of Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Without Donor Restrictions – Net assets not subject to donor-imposed restrictions. Items that affect this net asset category primarily consist of annual pledge contributions, certain grants, special events, underwriting and production income, tower rent, and investment income. Net assets that the governing board has designated, from net assets without donor restrictions, amounts used for specific purposes.

With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor) restrictions that will be met either by actions of the Organization or by the passage of time. Items that affect this category are contributions with donor-imposed restrictions that have not yet been met in the year of receipt.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid investments or debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Revenue Recognition – Grants and other contributions of cash and other assets are reported as net assets with donor restrictions support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Donated Goods, Facilities, and Professional Services – Donated goods, facilities, and professional services are recognized as revenue without donor restrictions when received and an equal amount of expense is recognized in various expense categories on the statement of activities. Donated professional services are recorded at estimated fair value if they create or enhance a non-financial asset or require specialized skills and are performed by people with those skills and would otherwise be purchased. For the years ended September 30, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements were \$4,850 and \$5,700, respectively.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Capital Assets – Capital asset purchases are capitalized at cost. It is the Organization’s policy to capitalize expenditures for these items, with a \$1,500 minimum threshold. Expenditures for repairs and maintenance are expensed as incurred. Donated capital assets are recorded at fair value at the date contributed. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Income Taxes – The Organization has been classified as an other-than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on unrelated business income.

The Organization follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization’s financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at September 30, 2019 and 2018. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Organization’s policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Accounts and Contributions Receivable – Accounts and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collections efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts for the years ended September 30, 2019 and 2018 was \$11,931 and \$11,824 respectively.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Advertising – The Organization expenses advertising costs as incurred. Advertising expense for the years ended September 30, 2019 and 2018 was \$7,650 and \$24,832, respectively.

Functional Allocation of Expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Directly identifiable expenses are charged to programs and supporting services accordingly. Salaries and benefits related to more than one function are based on estimates of time and effort. Certain shared costs are allocated based on estimates of program usage. Building depreciation is based on a square footage basis and leasehold improvements on estimates of usage.

Date of Management’s Review – In preparing these financial statements, the Organization evaluated events and transactions for potential recognition or disclosure through January 6, 2020, the date the financial statements were available to be issued.

2. **Contributions Receivable**

Contributions receivable at September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 74,821	\$ 63,196
Receivable in one to five years	<u>6,220</u>	<u>-</u>
Receivable before any discounts and allowance	81,041	63,196
Less allowance for uncollectible contributions	<u>(11,931)</u>	<u>(11,824)</u>
Net Contributions at September 30	<u>\$ 69,110</u>	<u>\$ 51,372</u>

Contributions receivable over one year are discounted at the Mid-Term Applicable Federal Rate at year-end when material. There were no contributions discounted for the years ended September 30, 2019 and 2018.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

3. Board Designated Endowment

As part of its investment portfolio, on September 22, 2004, the Board of Directors approved the formation of an endowment fund, and designated \$120,000 of net assets without donor restrictions to be transferred to the newly created fund in order to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Since the inception of the endowment fund, contributions have occasionally been added to the endowment fund. In addition, since the inception of the fund, the Board decided that the possible use of any proceeds of the endowment fund would be decided annually. To date, the Board has elected not to use any of the proceeds of the fund, but rather to re-invest 100% of any gains to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted the total rate of return investment policy that emphasizes both capital appreciation and income. Consideration is also given to increasing the level of income to offset the effect of inflation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Moderate market value volatility is expected.

Composition of and changes in endowment net assets, at fair value, for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowment Net Assets, Beginning of Year	\$ 315,106	\$ 290,496
Investment Income, Net of Fees	8,295	6,516
Unrealized Gains (Losses)	2,888	16,415
Realized Gains (Losses)	1,438	1,679
Endowment Net Assets, End of Year	<u>\$ 327,727</u>	<u>\$ 315,106</u>

4. Fair Value Measurements and Investments

U.S. generally accepted accounting principles provide the framework for measuring fair value and provide a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. A three-tier fair value hierarchy is provided determined by the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets
- Level 2 – Observable inputs such as quoted prices in active markets for similar assets or other observable inputs
- Level 3 – Significant unobservable inputs

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

The Organization's investments consist of exchange traded funds (ETFs) and are classified as Level 1 investments where fair value is determined by quoted prices in active markets for identical assets. At September 30, 2019 and 2018, they are as follows:

<u>Investments:</u>	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
ETFs - Board Designated Endowment	\$ 279,685	\$ 327,727	\$ 269,953	\$ 315,106
ETFs	531,307	563,142	418,667	430,923
	<u>\$ 810,992</u>	<u>\$ 890,869</u>	<u>\$ 688,620</u>	<u>\$ 746,029</u>

Investment return is summarized as follows:

	<u>Without Donor Restrictions</u>	
	<u>2019</u>	<u>2018</u>
Interest, Dividends, Capital Gain Distributions	\$ 20,310	\$ 17,556
Realized Gain (Loss)	(1,258)	2,876
Unrealized Gain (Loss)	22,467	17,279
	<u>\$ 41,519</u>	<u>\$ 37,711</u>

5. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and deposits in excess of insured limits.

The Organization maintains its cash in both checking and money market accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

6. Accrued Paid Time Off

Employees have a maximum amount of PTO that can be accrued and paid out to them upon separation of employment. The actual liability to the Organization is the lesser of an employee's hours actually built up, or the maximum hours that could be paid out based on the number of years employed. The PTO accrued at September 30, 2019 and 2018 was \$81,570 and \$83,102, respectively.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

7. Lease Commitments and Rent Expense

The Organization entered into a five-year lease agreement with Paskvan Real Estate, LLP for tower sites at \$975 per quarter. The lease provisions provide for automatic renewal for up to three five-year terms, and can be cancelled by either party with proper written notice prior to the proposed termination date. The lease is currently in its second term. Rent expense related to the lease for each of the years ended September 30, 2019 and 2018, totaled \$3,900.

The Organization entered into a ten-year lease agreement for office space beginning April 1, 2019. Base rent is \$1,000 per month the first five years and \$900 per month the second five years, plus triple net fees based on square footage. Rent expense for the years ended September 30, 2019 and 2018 totaled \$12,100 and \$10,200 on its previous lease, respectively.

The Organization entered into a ten-year lease agreement with the Minnesota Department of Natural Resources for a tower site beginning April 1, 2017. Rent expense for the years ended September 30, 2019 and 2018 totaled \$21,216 and \$14,400, respectively. Future minimum lease payments for years 2020-2027 will consist of an annual base fee of \$2,760 plus a 2% increase beginning in 2020, along with an annual equipment fee of \$19,754. The equipment fee is subject to change each year based on actual pieces of equipment reported.

Future minimum lease payments for the years ending September 30 are as follows:

2020	\$ 37,414
2021	38,471
2022	38,526
2023	38,583
2024	36,092
Thereafter	117,189
	<u>\$306,275</u>

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

8. Property and Equipment

The estimated useful lives and accumulated depreciation balances at September 2019 and 2018, are as follows:

	<u>Estimated Useful Lives</u>	<u>Accumulated Depreciation</u>	
		<u>2019</u>	<u>2018</u>
Building and Leasehold Improvements Antenna, Transmitter, and Other Broadcasting Equipment	6 to 40 Years	\$ 693,407	\$ 626,369
Furniture, Fixtures, and Administrative Equipment	5 to 15 Years	5,977,662	5,950,017
	3 to 7 Years	<u>75,205</u>	<u>62,965</u>
		<u>\$6,746,274</u>	<u>\$6,639,351</u>

9. Line of Credit

The Organization has an agreement with a bank, whereby the Organization has an available line of credit to borrow up to \$150,000 for operating capital. The current agreement expires October 21, 2020 with variable interest at 2% above the bank's base rate. The line of credit is secured by securities held in one of the Organization's brokerage accounts. The balance outstanding at September 30, 2019 and 2018 was \$0.

10. Nonmonetary Transactions

The Organization enters into nonmonetary trade transactions to provide program underwriting for operating expenses such as advertising and supplies. Revenue and expenses are recognized at fair value of the item or service being received, and no gain or loss is recognized. Underwriting revenue and related expenses totaled \$12,850 and \$36,748 for the years ended September 30, 2019 and 2018, respectively.

11. Retirement Plan

The Organization maintains a defined contribution pension plan as defined under Section 401(k) of the U.S. Internal Revenue Code. The plan covers employees 18 or older. The Organization currently provides a 50% match of an employee's contribution up to 1.25%. Employees are immediately vested in both employer and employee contributions. Employer contribution expense for the years ended September 30, 2019 and 2018 totaled \$10,717 and \$10,507, respectively.

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

12. Net Assets with Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Program Future Funds	\$ 249,113	\$ 325,374
Equipment	1,772	-
	<u>\$ 250,885</u>	<u>\$ 325,374</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose for years ending September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Program Future Funds	<u>\$ 76,261</u>	<u>\$ 36,644</u>

13. Financial Assets and Liquidity Resources

As of September 30, 2019, the financial assets and liquidity resources available within one year for general expenditures were as follows:

Financial Assets:	
Cash and Cash Equivalents	\$ 284,593
Investments	890,869
Less those unavailable for general expenditures within one year, due to restriction for purpose:	
Board Designated Endowment	(327,727)
Restricted by Donor for Purpose	(250,885)
Funds Received in Advance	<u>(443)</u>
Cash and Cash Equivalents and Investments Available Within One Year	596,407
Accounts Receivable	20,442
Grants Receivable	113,180
Contributions Receivable (current, net)	<u>62,890</u>
Total Financial Assets Available Within One Year	792,919
Liquidity Resources:	
Bank Line of Credit	<u>150,000</u>
Total Financial Assets and Liquidity Resources Available Within One Year	<u>\$ 942,919</u>

NORTHERN MINNESOTA PUBLIC TELEVISION, INC
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

The Organization's cash flows have variations during the year attributable to the timing of grant receipts, fundraising, and pledge drive efforts. To help manage liquidity, the Organization maintains a line of credit with its bank to draw upon as needed during the year. There was no balance outstanding on this line of credit at September 30, 2019.

14. Commitments and Contingencies

The Organization participates in numerous grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at September 30, 2019 may be impaired. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.