

FINANCIAL STATEMENTS

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

June 30, 2017 and 2016



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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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 130,604	\$ 84,537
Accounts receivable less allowance of \$89,535 in 2017 and \$95,544 in 2016	255,126	283,260
Prepaid expenses and other current assets	<u>23,274</u>	<u>19,119</u>
TOTAL CURRENT ASSETS	409,004	386,916
Property and equipment, net	<u>493,347</u>	<u>571,126</u>
TOTAL ASSETS	<u>\$ 902,351</u>	<u>\$ 958,042</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Lines of credit	\$ 100,000	\$ 350,000
Accounts payable, accrued expenses and other liabilities	400,155	214,835
Accrued vacations	56,972	60,144
Deferred revenue, current portion	22,041	59,992
Current maturities of long-term debt	<u>0</u>	<u>2,310</u>
TOTAL CURRENT LIABILITIES	579,168	687,281
Deferred revenue, net of current portion	<u>22,000</u>	<u>0</u>
TOTAL LIABILITIES	<u>601,168</u>	<u>687,281</u>
Net assets:		
Unrestricted	182,951	152,345
Temporarily restricted	<u>118,232</u>	<u>118,416</u>
TOTAL NET ASSETS	<u>301,183</u>	<u>270,761</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 902,351</u>	<u>\$ 958,042</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, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenue and support:						
Ohio BEMC - General	\$ 287,547	\$ 0	\$ 287,547	\$ 287,547	\$ 0	\$ 287,547
Ohio BEMC - Education	168,017	0	168,017	150,612	17,405	168,017
EdTech - Education	129,937	0	129,937	129,937	0	129,937
Other grants	3,700	0	3,700	0	0	0
Membership income	1,727,402	0	1,727,402	1,858,248	0	1,858,248
Local schools	34,352	0	34,352	50,387	0	50,387
Corporation for Public Broadcasting	884,338	0	884,338	892,043	0	892,043
Ohio Ready to Learn	33,500	0	33,500	32,625	0	32,625
Ohio Biennium	49,250	0	49,250	0	0	0
Underwriting income and private support	178,789	118,232	297,021	216,052	99,511	315,563
Rental income	565,682	0	565,682	629,422	0	629,422
Other income	15,484	0	15,484	9,675	0	9,675
In-kind contributions and services	851,416	0	851,416	1,172,396	0	1,172,396
Net assets released from restrictions	118,416	(118,416)	0	70,243	(70,243)	0
TOTAL REVENUE AND SUPPORT	<u>5,047,830</u>	<u>(184)</u>	<u>5,047,646</u>	<u>5,499,187</u>	<u>46,673</u>	<u>5,545,860</u>
Operating expenses:						
Administration	519,200	0	519,200	520,829	0	520,829
Broadcasting	475,211	0	475,211	472,727	0	472,727
Development	770,789	0	770,789	934,091	0	934,091
Educational services	194,037	0	194,037	165,778	0	165,778
PTV programming	1,504,489	0	1,504,489	1,512,140	0	1,512,140
Communications	253,430	0	253,430	237,383	0	237,383
Grounds costs	70,648	0	70,648	66,804	0	66,804
Interest	8,941	0	8,941	10,448	0	10,448
Provision for doubtful accounts	160,039	0	160,039	108,134	0	108,134
In-kind contributions and services	851,416	0	851,416	1,172,395	0	1,172,395
TOTAL OPERATING EXPENSES	<u>4,808,200</u>	<u>0</u>	<u>4,808,200</u>	<u>5,200,729</u>	<u>0</u>	<u>5,200,729</u>
Capital expenses:						
Depreciation	209,024	0	209,024	284,139	0	284,139
TOTAL EXPENSES	<u>5,017,224</u>	<u>0</u>	<u>5,017,224</u>	<u>5,484,868</u>	<u>0</u>	<u>5,484,868</u>
INCREASE (DECREASE) IN NET ASSETS	30,606	(184)	30,422	14,319	46,673	60,992
Net assets, beginning of year	<u>152,345</u>	<u>118,416</u>	<u>270,761</u>	<u>138,026</u>	<u>71,743</u>	<u>209,769</u>
Net assets, end of year	<u>\$ 182,951</u>	<u>\$ 118,232</u>	<u>\$ 301,183</u>	<u>\$ 152,345</u>	<u>\$ 118,416</u>	<u>\$ 270,761</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Increase in net assets	\$ 30,422	\$ 60,992
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	209,024	284,139
Provision for doubtful accounts	160,039	108,134
Changes in operating assets and liabilities:		
Accounts receivable	(131,905)	(243,860)
Prepaid expenses and other current assets	(4,155)	1,174
Accounts payable, accrued expenses and other liabilities	110,612	(98,939)
Accrued vacations	(3,172)	(2,688)
Deferred revenue	(15,951)	(108,857)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>354,914</u>	<u>95</u>
Investing activities:		
Purchase of property and equipment	(56,537)	0
NET CASH USED IN INVESTING ACTIVITIES	<u>(56,537)</u>	<u>0</u>
Financing activities:		
Net payments on lines of credit	(250,000)	(15,000)
Payments on long-term debt	(2,310)	(4,572)
NET CASH USED IN FINANCING ACTIVITIES	<u>(252,310)</u>	<u>(19,572)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,067	(19,477)
Cash and cash equivalents, beginning of year	84,537	104,014
Cash and cash equivalents, end of year	<u>\$ 130,604</u>	<u>\$ 84,537</u>
Cash paid for interest	<u>\$ 8,941</u>	<u>\$ 10,448</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2017 and 2016

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. 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, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016 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, 2017 and 2016

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 October 17, 2017 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, 2017 and 2016

NOTE B - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,909,058	\$ 1,859,558
Furniture and fixtures	190,846	190,846
Equipment	6,458,746	6,477,517
Construction in progress	<u>77,549</u>	<u>0</u>
	8,636,199	8,527,921
Less accumulated depreciation	<u>8,142,852</u>	<u>7,956,795</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 493,347</u>	<u>\$ 571,126</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 \$531,350 at June 30, 2017 and 2016 of which the net book value at June 30, 2017 and 2016 totaled \$-0- and \$8,613, respectively. 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 \$99,098 and \$135,065 in 2017 and 2016, 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 \$565,682 and \$629,422 in 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

June 30, 2017 and 2016

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, 2017 are as follows for each of the years ending June 30:

	<u>Payments</u>	<u>Receipts</u>
2018	\$ 58,883	\$ 484,215
2019	47,414	424,967
2020	27,899	413,825
2021	14,537	467,475
2022	14,537	360,937
Thereafter	<u>116,297</u>	<u>1,769,466</u>
	<u>\$ 279,567</u>	<u>\$ 3,920,885</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 (4.25% at June 30, 2017). There was \$100,000 and \$350,000 outstanding at June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Note payable to bank, due in monthly installments of \$392 at 2% interest, collateralized by vehicle	\$ 0	\$ 2,310
Less current maturities	<u>0</u>	<u>2,310</u>
TOTAL LONG-TERM DEBT	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

June 30, 2017 and 2016

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, 2017 and 2016 was approximately \$670,000 and \$757,000, 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 \$92,633 in 2017 and \$105,911 in 2016, of which approximately \$6,700 and \$15,100, 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 \$38,464 and \$23,218 at June 30, 2017 and 2016, 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, 2017 and 2016 in the amount of \$103,232 and \$101,011, respectively.

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

Temporarily restricted net assets are available for educational purposes at June 30, 2016 in the amount of \$17,405.

Net assets of \$101,011 and \$70,243 relating to underwriting were released from restrictions with the passage of time for the years ended June 30, 2017 and 2016, respectively.

Net assets of \$17,405 relating to education were released from restrictions with the passage of time for the year ended June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

June 30, 2017 and 2016

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, 2017 and 2016 was \$22,421 and \$16,717, 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, 2017 and 2016 totaled \$884,338 and \$892,043, respectively, which was 18% and 16% of total funding revenue for each year, respectively.

NOTE K - NON-CASH INVESTING ACTIVITIES

Construction in progress additions of \$74,708 were included in accounts payable at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

June 30, 2017 and 2016

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). The \$1.75 billion fund that Congress set aside to reimburse stations that are forced to move has been determined to be insufficient and efforts are underway to increase that fund.

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.