

**DULUTH-SUPERIOR AREA EDUCATIONAL
TELEVISION CORPORATION AND AFFILIATE
COMBINED FINANCIAL REPORT
SEPTEMBER 30, 2016 AND 2015**

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION AND
AFFILIATE**

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ESTERBROOKS · SCOTT · SIGNORELLI
PETERSON · SMITHSON, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Duluth-Superior Area Educational Television Corporation
The Beck Foundation of DSAET
Duluth, Minnesota

We have audited the accompanying combined financial statements of Duluth-Superior Area Educational Television Corporation and Affiliate, which comprise the combined statement of financial position as of September 30, 2016 and 2015, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Duluth-Superior Area Educational Television Corporation and Affiliate as of September 30, 2016 and 2015, 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.

Esterbrook Scott Signorelli Peterson Smithson, Ltd.

Duluth, Minnesota
November 23, 2016

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015**

<u>ASSETS</u>	2016	2015
CURRENT ASSETS:		
Cash	\$ 87,866	\$ 458,885
Accounts receivable	100	293
Underwriting revenue receivable	38,150	51,201
Grants receivable	328,431	25,047
Prepaid expenses	8,803	8,471
Total current assets	463,350	543,897
 PROPERTY AND EQUIPMENT:		
Land	13,863	13,863
Buildings	1,624,181	1,508,381
Broadcasting equipment	7,949,371	8,768,064
Office equipment	371,560	371,560
Vehicles	62,724	62,724
Total cost	10,021,699	10,724,592
Less: Accumulated depreciation	(7,865,830)	(7,766,575)
Net property and equipment	2,155,869	2,958,017
 OTHER ASSETS:		
Investments	13,211,630	12,340,182
Prepaid lease expense, net of amortization	42,196	48,700
Total other assets	13,253,826	12,388,882
 Total assets	 \$ 15,873,045	 \$ 15,890,796

<u>LIABILITIES AND NET ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 33,830	\$ 23,790
Accrued expenses	110,656	102,277
Amounts held on behalf of others	14,925	14,925
Total current liabilities	<u>159,411</u>	<u>140,992</u>
NET ASSETS:		
Unrestricted:		
Available for operations	2,273,752	3,147,727
Designated for long-term investment	<u>13,206,630</u>	<u>12,335,184</u>
Total unrestricted net assets	15,480,382	15,482,911
Temporarily restricted	<u>233,252</u>	<u>266,893</u>
Total net assets	<u>15,713,634</u>	<u>15,749,804</u>
Total liabilities and net assets	<u>\$ 15,873,045</u>	<u>\$ 15,890,796</u>

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	2016		
	Unrestricted	Temporarily Restricted	Total
<u>OPERATING</u>			
REVENUE AND OTHER SUPPORT:			
Contributions and grants	\$ 1,567,635	\$ 710,125	\$ 2,277,760
Legacies and bequests	64,821	-	64,821
Underwriting income	301,383	-	301,383
Production and other income	10,467	-	10,467
Rental income	63,449	-	63,449
Investment income	193,844	-	193,844
In-kind income - materials and facilities	13,098	-	13,098
Net assets released from restriction	<u>703,766</u>	<u>(703,766)</u>	<u>-</u>
Total revenues and other support	<u>2,918,463</u>	<u>6,359</u>	<u>2,924,822</u>
EXPENSES:			
Program services -			
Programming and production	1,608,078	-	1,608,078
Broadcasting	890,042	-	890,042
Program information	<u>128,077</u>	<u>-</u>	<u>128,077</u>
Total program services	<u>2,626,197</u>	<u>-</u>	<u>2,626,197</u>
Supporting services -			
Management and general	373,871	-	373,871
Fund-raising and membership	<u>371,315</u>	<u>-</u>	<u>371,315</u>
Total supporting services	<u>745,186</u>	<u>-</u>	<u>745,186</u>
Total expenses	<u>3,371,383</u>	<u>-</u>	<u>3,371,383</u>
Change in net assets from operating activities	<u>(452,920)</u>	<u>6,359</u>	<u>(446,561)</u>
<u>NONOPERATING</u>			
Contributions and grants	-	43,686	43,686
Gains (losses) on investments	884,636	-	884,636
Gain on asset disposition	-	-	-
Impairment loss	(517,931)	-	(517,931)
Net assets released from restriction	<u>83,686</u>	<u>(83,686)</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>450,391</u>	<u>(40,000)</u>	<u>410,391</u>
Change in net assets	(2,529)	(33,641)	(36,170)
NET ASSETS:			
Beginning of year	<u>15,482,911</u>	<u>266,893</u>	<u>15,749,804</u>
End of year	<u>\$ 15,480,382</u>	<u>\$ 233,252</u>	<u>\$ 15,713,634</u>

2015		
Unrestricted	Temporarily Restricted	Total
\$ 1,520,773	\$ 661,862	\$ 2,182,635
3,220	-	3,220
235,815	-	235,815
9,879	-	9,879
74,959	-	74,959
244,469	-	244,469
12,990	-	12,990
<u>675,838</u>	<u>(675,838)</u>	<u>-</u>
<u>2,777,943</u>	<u>(13,976)</u>	<u>2,763,967</u>
1,587,444	-	1,587,444
909,933	-	909,933
137,629	-	137,629
<u>2,635,006</u>	<u>-</u>	<u>2,635,006</u>
381,261	-	381,261
<u>303,394</u>	<u>-</u>	<u>303,394</u>
684,655	-	684,655
<u>3,319,661</u>	<u>-</u>	<u>3,319,661</u>
<u>(541,718)</u>	<u>(13,976)</u>	<u>(555,694)</u>
-	83,686	83,686
(876,518)	-	(876,518)
300	-	300
-	-	-
<u>43,686</u>	<u>(43,686)</u>	<u>-</u>
<u>(832,532)</u>	<u>40,000</u>	<u>(792,532)</u>
(1,374,250)	26,024	(1,348,226)
<u>16,857,161</u>	<u>240,869</u>	<u>17,098,030</u>
<u>\$ 15,482,911</u>	<u>\$ 266,893</u>	<u>\$ 15,749,804</u>

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributions, grants, and underwriting	\$ 2,397,317	\$ 2,739,077
Cash received from other revenues	74,109	86,255
Cash paid to employees and suppliers	(2,880,981)	(2,816,024)
Interest and dividends received	193,844	244,469
Income taxes paid	(5,592)	(9,813)
Net cash provided by operating activities	(221,303)	243,964
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(162,905)	(176,815)
Proceeds from sale of investments	268,718	421,094
Purchases of investments	(255,529)	(244,328)
Proceeds from sales of assets	-	300
Net cash provided by (used for) investing activities	(149,716)	251
CASH FLOWS FROM FINANCING ACTIVITIES:		
Grants for acquisition of property and equipment	-	83,686
Net cash provided by financing activities	-	83,686
 NET INCREASE IN CASH	 (371,019)	 327,901
 CASH - Beginning of year	 458,885	 130,984
 CASH - End of year	 \$ 87,866	 \$ 458,885

See notes to combined financial statements.

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COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Reconciliation of change in net assets to net cash provided		
by operating activities:		
Change in net assets	\$ (36,170)	\$ (1,348,226)
Adjustments to reconcile to net cash provided:		
Depreciation and amortization	453,625	485,712
(Gain) loss on disposition of assets	-	(300)
Impairment loss	517,931	-
(Gain) loss on investments	(884,636)	876,518
Grants for acquisition of property and equipment	-	(83,686)
(Increase) decrease in:		
Accounts receivable	193	1,417
Underwriting revenue receivable	13,051	(1,951)
Grants receivable	(303,384)	319,358
Prepaid expenses	(332)	(291)
Increase (decrease) in:		
Accounts payable and accrued expenses	18,419	(4,587)
Net cash provided by operating activities	\$ (221,303)	\$ 243,964

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Organization -

The Duluth-Superior Area Educational Television Corporation is a non-profit Minnesota corporation which operates non-commercial public television station WDSE-TV in Duluth, Minnesota. The financial statements include the accounts of The Beck Foundation of DSAET, a non-profit Minnesota corporation which provides financial support for WDSE-TV. All significant inter-organization accounts and transactions have been eliminated.

Basis of Presentation -

The financial statements have been prepared on the accrual basis of accounting.

WDSE-TV is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of the three net asset categories follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of WDSE-TV or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by WDSE-TV. Generally, the donors of these assets permit WDSE-TV to use all or part of the income earned on related investments for general or specific purposes. At September 30, 2016 and 2015 there were no permanently restricted net assets.

Revenue Recognition -

WDSE-TV reports gifts of cash and other assets as restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents -

WDSE-TV considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents. At September 30, 2016 and 2015 WDSE-TV had no cash equivalents.

Accounts and Underwriting Receivables -

Receivables are stated at the amount management expects to collect from outstanding balances. Based on management's assessments of the credit history with customers and others having outstanding balances, it has concluded that realization losses on balances outstanding at the year-end will be immaterial.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

Property and Equipment -

Expenditures for minor additions of equipment are charged to expense when incurred. Expenditures for land, buildings, major improvements and equipment additions are capitalized and recorded as additions to unrestricted net assets. Property and equipment are stated at cost, except for those assets acquired by donation, which are stated at fair value at the date of the gift. Depreciation is calculated by the straight-line method over the estimated useful lives of the depreciable assets. Depreciation recorded during the fiscal years ending September 30, 2016 and 2015 was \$447,122 and \$479,208, respectively.

Investments -

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values based on quoted prices in active markets (Level 1 measurements) in the statements of financial position. Certain alternative investments are stated at net asset values as determined by the investment fund (Level 3 measurements). See Note 3 for discussion on fair value measurements. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities.

Pledges -

WDSE-TV engages in fund-raising campaigns manifested by offering special television programs and on-air and mail fund-raising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the statements of financial position. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities. This usage is consistent with appeals for contributions and pledges.

Program Underwriting -

Program underwriting is recorded from signed agreements. WDSE-TV considers these contributions and receivables are recorded for the full amount of the signed underwriting agreement. Program underwriting related to purchased programs is recognized as unrestricted net assets.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

Donated equipment -

Gifts of land, buildings, and equipment are recorded as contributions at their fair value at the date of donation. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Production Revenue -

WDSE-TV uses the percentage-of-completion method of accounting for independently funded production programming, whereby the cumulative production revenue earned equals the ratio of costs incurred to the estimated total costs at completion applied to the total committed revenues from outside sponsors. Production costs include charges by subcontractors plus all direct labor and other direct costs. Indirect and general and administrative expenses are charged to expense as incurred. Cost estimates on programs are reviewed periodically as the work progresses and adjustments, if needed, are reflected in the period in which the estimates are revised.

Production activities funded internally by WDSE-TV generally do not involve a contractual commitment to provide a product or service to or on behalf of a “customer” or independent funding party. Therefore, contract accounting for production costs is not generally appropriate in such circumstances. Production costs for these programs are capitalized and amortized over the expected useful lives of the programs, with the unamortized production costs shown at estimated net realizable value. At September 30, 2016 and 2015 there were no such productions that will significantly benefit future periods.

Income Taxes -

WDSE-TV is exempt from income taxes, under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Minnesota statutes. However, income from certain activities not directly related to WDSE-TV’s tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled \$5,592 and \$8,450 in 2016 and 2015, respectively.

Uncertain Tax Positions -

WDSE-TV follows the recognition requirements of uncertain tax positions as required by generally accepted accounting principles. WDSE-TV believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. WDSE-TV is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013.

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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

Reclassification -

Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform with the current year financial statements. Such reclassification had no effect on net earnings or net assets as previously reported.

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.

Operations -

WDSE-TV has reported its activities as operating or nonoperating. Operating activities are an integral part of the programs, services and mission of WDSE-TV. Nonoperating activities do not directly affect the programs and services of WDSE-TV such as items associated with acquisition of property and equipment and gain (loss) on investments.

Subsequent Events -

In preparing these financial statements, WDSE-TV has evaluated events and transactions for potential recognition or disclosure through November 23, 2016, which is the date the financial statements were issued.

2. INVESTMENTS:

The historical cost and fair values of investments at September 30, 2016 and 2015 were as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 190,686	\$ 190,686	\$ 183,830	\$ 183,830
U.S. Government and agency bonds and notes	547,721	565,285	473,648	499,764
Corporate bonds	828,829	826,656	882,831	882,342
Mutual bond funds	1,934,058	1,747,232	1,991,276	1,618,891
Real estate funds	1,406,821	1,341,919	1,421,965	1,267,392
Mutual stock funds	4,157,776	5,603,129	4,190,096	5,181,231
Publicly held corporate stock	1,164,927	1,883,662	1,036,415	1,712,479
Alternative investments	1,096,489	1,053,061	991,987	994,253
Totals	\$ 11,327,307	\$ 13,211,630	\$ 11,172,048	\$ 12,340,182

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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. INVESTMENTS (CONTINUED):

Investment return is summarized as follows:

	2016	2015
Interest and dividend income, net of custodial and advisory fees - operating	\$ 193,844	\$ 244,469
Realized and unrealized investment gains (losses) – non-operating	884,636	(876,518)
Total investment return	\$ 1,078,480	\$ (632,049)

Expenses related to investment income, such as custodial and advisory fees, amounted to \$33,644 and \$15,955 for the years ended September 30, 2016 and 2015, respectively, and have been netted against investment revenues in the accompanying statements of activities.

3. FAIR VALUE MEASUREMENTS:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that WDSE-TV has the ability to access.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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3. FAIR VALUE MEASUREMENTS (CONTINUED):

Fair values of assets measured on a recurring basis at September 30, 2016 and 2015 are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2016</u>				
Equity securities	\$ 8,828,710	\$ 8,828,710	\$ -	\$ -
Debt securities – U.S.				
Treasury/Agency	565,285	565,285	-	-
Other debt securities	2,573,888	2,573,888	-	-
Money market funds	190,686	190,686	-	-
Alternative investments	1,053,061	861,455	-	191,606
Total	<u>\$ 13,211,630</u>	<u>\$ 13,020,024</u>	<u>\$ -</u>	<u>\$ 191,606</u>
<u>September 30, 2015</u>				
Equity securities	\$ 8,161,102	\$ 8,161,102	\$ -	\$ -
Debt securities – U.S.				
Treasury/Agency	499,764	499,764	-	-
Other debt securities	2,501,233	2,501,233	-	-
Money market funds	183,830	183,830	-	-
Alternative investments	994,253	794,444	-	199,809
Total	<u>\$ 12,340,182</u>	<u>\$ 12,140,373</u>	<u>\$ -</u>	<u>\$ 199,809</u>

WDSE-TV used the following methods and significant assumptions to estimate fair value for assets measured and carried at fair value in the financial statements:

Alternative Investments-

Certain alternative investments are valued using significant unobservable inputs since a quoted market price is unavailable. The value of these investments is determined by fund managers and valuation experts, using relevant market data.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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3. FAIR VALUE MEASUREMENTS (CONTINUED):

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Alternative Investments</u>
October 1, 2014	\$ 105,195
Total gains and losses (realized and unrealized) included in changes in net assets	(5,386)
Purchases, sales, and settlements:	
Sales	100,000
September 30, 2015	199,809
Total gains and losses (realized and unrealized) included in changes in net assets	(8,203)
September 30, 2016	\$ 191,606

The amount of total gains or losses for the year ended September 30, 2016 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date. \$ (8,203)

The amount of total gains or losses for the year ended September 30, 2015 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date. \$ (5,386)

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

4. BOARD-DESIGNATED ENDOWMENT:

Investment assets held by The Beck Foundation have been designated by the boards of WDSE-TV and the Foundation to be functioning as an endowment. None of the net assets of The Beck Foundation are classified as temporarily or permanently restricted due to the lack of any donor restrictions on those net assets. The Beck Foundation's investment policies for endowment assets have the following goals:

- (1) to preserve the purchasing power of the investment assets without putting the funds at imprudent risk,

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NOTES TO COMBINED FINANCIAL STATEMENTS
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4. BOARD-DESIGNATED ENDOWMENT (CONTINUED):

- (2) to support current and future operations of WDSE-TV through a flow of investment income, and
- (3) to provide long-term growth in principal through additional contributions and capital appreciation.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

Duluth-Superior Area Educational Television Corporation has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 8 quarters through September 30 preceding the fiscal year in which the distribution is planned. In establishing this policy, WDSE-TV considered the long-term expected return on its endowment. Accordingly, over the long term, WDSE-TV expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the WDSE-TV's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Composition of and Changes in Endowment Net Assets for the Years Ended September 30, 2016 and 2015

	2016	2015
Board-designated endowment net assets, beginning of year	\$ 12,335,184	\$ 13,382,841
Investment return:		
Investment income	193,807	244,328
Net appreciation (depreciation) – realized and unrealized	884,636	(876,518)
Total investment return	1,078,443	(632,190)
Contributions	61,722	-
Appropriation of endowment assets for expenditure	(268,719)	(415,467)
Board-designated endowment net assets, end of year	\$ 13,206,630	\$ 12,335,184

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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

5. PREPAID LEASE EXPENSE:

During the fiscal year ended September 30, 2003, WDSE-TV entered into a lease agreement for use of fiber cables over a 20-year period. The total required payments under the lease agreement of \$130,000 were paid in full. This amount is being amortized over the life of the agreement on a straight-line basis. During the years ended September 30, 2016 and 2015 amortization expense charges against this lease were \$6,504 each year. Management anticipates a charge to amortization expense of \$6,504 during each of the next 6½ years.

6. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Gifts and other unexpended revenues and gains restricted to:		
Future program activities	\$ 189,566	\$ 183,207
Acquisition of property and equipment	<u>43,686</u>	<u>83,686</u>
Total	<u>\$ 233,252</u>	<u>\$ 266,893</u>

Temporarily restricted net assets are reported in these financial statements as follows:

	<u>2016</u>	<u>2015</u>
Cash	\$ -	\$ 266,893
Grants receivable	<u>233,252</u>	<u>-</u>
Total	<u>\$ 233,252</u>	<u>\$ 266,893</u>

A portion of the unrestricted net assets has been designated by the Board of Directors for specific purposes, as follows:

	<u>2016</u>	<u>2015</u>
Long-term investment (primarily for capital additions)	<u>\$ 13,206,630</u>	<u>\$ 12,335,184</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

7. NET ASSETS RELEASED FROM RESTRICTIONS:

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	2016	2015
Program expenditures	\$ 703,766	\$ 675,838
Acquisition of property and equipment	83,686	43,686
Total	\$ 787,452	\$ 719,524
	2016	2015
Operating activities	\$ 703,766	\$ 675,838
Non-operating activities	83,686	43,686
Total	\$ 787,452	\$ 719,524

8. ARRANGEMENTS FOR LEASING TO OTHERS:

WDSE –TV leases transmitter equipment to customers under operating leases. Equipment cost under operating leases was \$77,895 each year, respectively, and is included in broadcasting equipment in the accompanying statement of financial position. Accumulated depreciation on equipment under operating leases was \$77,895 and \$76,577 at September 30, 2016 and 2015, respectively. During the years ended September 30, 2016 and 2015 rental income recognized under these agreements was \$63,449 and \$74,959, respectively. Minimum future rentals at September 30, 2016 are as follows:

Year Ending September 30,	Amount
2017	\$ 46,367
2018	32,512
2019	29,471
2020	28,424
2021	29,561
Thereafter	249,565

9. TAX DEFERRED ANNUITY RETIREMENT PLANS:

The organization contributes to a voluntary tax-sheltered annuity plan covering participating employees meeting certain service and age requirements. Contributions to the plan of \$22,633 and \$26,272 were charged to operations for the years ended September 30, 2016 and 2015, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

10. CONCENTRATION OF REVENUE:

For the years ended September 30, 2016 and 2015, approximately 27% and 29% respectively, of the organization's operating revenue was provided by grants from the Corporation for Public Broadcasting, and approximately 23% and 26% respectively, was provided by the State of Minnesota.

11. CONCENTRATION OF CREDIT RISK

The organization maintains its cash balances at institutions insured by the Federal Deposit Insurance Corporation (FDIC). Total uninsured cash balances at September 30, 2015 was \$238,877, while at September 30, 2016 there was no uninsured cash balance. The organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

12. LEASE COMMITMENTS:

Lease Site for Building -

A 99-year lease was entered into on January 2, 1976 (effective February 1, 1976) between WDSE-TV and the Regents of the University of Minnesota for a building construction site on the campus of the University of Minnesota, Duluth. The lease was made in consideration of one dollar and the recognized benefit to be derived by the University from the proximity of an educational television station.

The lease contains, among other things, various significant restrictions and requirements concerning easement rights, use of the facility, potential tax assessments, and conditions of lease termination.

The lease provision relative to default of the lease covenants provides that in the event of default in any of the covenants of the lease to be kept by WDSE-TV, the University may terminate the lease by thirty days' notice specifying such default, and if at the end of such period such default is not cured, the lease shall terminate and the University may re-enter and take possession within a reasonable time thereafter.

During the years ended September 30, 2016 and 2015, in-kind income and rental expense recognized under this agreement were \$13,098 and \$12,990, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

12. LEASE COMMITMENTS (CONTINUED):

Lease of Tower and Building Space –

On September 2, 2008, WDSE-TV entered into a 5-year lease of tower and building space. The lessor is WDIO-TV, LLC and the tower and building are located in Hibbing, Minnesota. The lease agreement requires monthly payments which vary from \$2,736 to \$3,247, with adjustments annually and at the beginning of any renewal terms. The lease was renewed in 2013 for one additional period of 5 years. The lease contains, among other things, requirements and restrictions regarding insurance, easement rights, and conditions of lease termination.

Minimum future rental commitments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 46,732
2018	44,552

13. FEDERAL GRANTS – REVERSIONARY INTERESTS:

The United States Department of Commerce has awarded WDSE-TV grants for the purchase of digital master control equipment, production equipment, and tower improvements. The federal share of the cost of these projects was \$905,985. The grantor will retain a reversionary interest in the property for a period of ten years from the completion of the projects. The ten-year period will expire approximately at the end of calendar year 2019.

14. NONMONETARY TRANSACTIONS:

WDSE-TV enters into exchange transactions to provide program underwriting for operating expenses such as advertising and supplies. During the year ended September 30, 2016 and 2015, non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$92,749 and \$41,050; respectively.

15. IMPACT OF CHANGING TECHNOLOGY:

On June 12, 2009, WDSE-TV ended analog broadcasts on channel 8 and WDSE-DT transitioned from its assigned pre-transition channel, UHF channel 38, to its assigned post-transition channel 8. Transmission assets used exclusively for originating broadcasts on channel 38 having a net book value as of June 12, 2009 of \$517,931 were taken out of service on that date. WDSE-TV acquired and held a construction permit for operation on channel 38 and held these assets in anticipation for reuse. That construction permit was suspended by the FCC for the duration of the spectrum auction and subsequent repacking. Under even the least ambitious of the FCC's announced clearing targets, however, channel 38 and frequencies adjacent to the 614 to 620 MHz band will not be available for television broadcast post-auction. WDSE-TV now estimates that efforts to dispose of these assets will net little or nothing in excess of the costs of removal, and accordingly has elected to write off the book value of these assets at this time. As a result, an impairment loss was recognized during the year ended September 30, 2016 in the amount \$517,931.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

SUPPLEMENTARY FINANCIAL INFORMATION

ESTERBROOKS · SCOTT · SIGNORELLI
PETERSON · SMITHSON, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION

To the Boards of Directors
Duluth-Superior Area Educational Television Corporation
The Beck Foundation of DSAET
Duluth, Minnesota

We have audited the combined financial statements of Duluth-Superior Area Educational Television Corporation and Affiliate as of and for the years ended September 30, 2016 and 2015, and have issued our report thereon dated November 23, 2016, which contained an unqualified opinion on those financial statements; appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended September 30, 2016 of Duluth-Superior Area Educational Television Corporation and Affiliate (pages 20), and the schedules of assets, liabilities, and net assets (page 21) and revenues and expenses (page 22) are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole, except for certain prior-year summarized information in the schedule of functional expenses and schedules of program expenses. Such information within these schedules does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Esterbrooks Scott Signorelli Peterson Smithson, Ltd.

Duluth, Minnesota
November 23, 2016

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016 WITH COMPARATIVE TOTALS FOR
2015

	Program Services			
	Program and Production	Broadcasting	Program Information	Total Program Services
Salaries, payroll taxes and employee benefits	\$ 669,402	\$ 460,320	\$ 62,970	\$ 1,192,692
Professional services	8,344	-	-	8,344
Program acquisition	494,417	-	-	494,417
Program production	29,972	-	-	29,972
Membership	-	-	-	-
Fund-raising	-	-	-	-
Advertising	-	-	47,370	47,370
Office and postage	34,559	25,474	9,686	69,719
Printing	-	-	-	-
Insurance	32,353	23,285	3,062	58,700
Rent	5,374	45,112	509	50,995
Repairs and maintenance	7,299	93,923	691	101,913
Utilities	24,112	85,775	2,239	112,126
Travel	7,433	5,097	-	12,530
Training, dues and subscriptions	270	-	320	590
Scholarships	-	-	-	-
Miscellaneous	1,111	498	-	1,609
Depreciation and amortization	293,432	150,558	1,230	445,220
Income tax expense	-	-	-	-
Total Expenses	<u>\$ 1,608,078</u>	<u>\$ 890,042</u>	<u>\$ 128,077</u>	<u>\$ 2,626,197</u>

Management and General	Supporting Services		Total	
	Fund-raising and Membership	Total Supporting Services	2016	2015
\$ 279,243	\$ 128,056	\$ 407,299	\$ 1,599,991	\$ 1,563,143
4,745	5,000	9,745	18,089	21,409
-	-	-	494,417	476,989
-	35,283	35,283	65,255	61,311
32,691	-	32,691	32,691	30,436
-	181,510	181,510	181,510	124,970
-	-	-	47,370	55,394
15,092	6,357	21,449	91,168	88,851
-	-	-	-	181
14,193	5,955	20,148	78,848	79,572
2,358	989	3,347	54,342	53,690
3,202	1,343	4,545	106,458	132,049
10,378	4,354	14,732	126,858	124,418
105	-	105	12,635	6,570
-	-	-	590	364
-	-	-	-	3,525
335	-	335	1,944	2,627
5,937	2,468	8,405	453,625	485,712
<u>5,592</u>	<u>-</u>	<u>5,592</u>	<u>5,592</u>	<u>8,450</u>
<u>\$ 373,871</u>	<u>\$ 371,315</u>	<u>\$ 745,186</u>	<u>\$ 3,371,383</u>	<u>\$ 3,319,661</u>

See independent auditors' report on supplementary financial information.

THE BECK FOUNDATION OF DSAET
SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2016 AND 2015

<u>ASSETS</u>	2016	2015
Investments	\$ 13,203,014	\$ 12,320,289
Accrued investment income	8,616	19,893
Total assets	\$ 13,211,630	\$ 12,340,182
<u>LIABILITIES AND NET ASSETS</u>		
Due to WDSE-TV	\$ 5,000	\$ 4,998
Total liabilities	5,000	4,998
Net assets -		
Unrestricted:		
Designated for long-term investment	13,206,630	12,335,184
Total net assets	13,206,630	12,335,184
Total liabilities and net assets	\$ 13,211,630	\$ 12,340,182

See independent auditors' report on supplementary financial information.

THE BECK FOUNDATION OF DSAET
SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
REVENUE:		
Contributions and bequests	\$ 61,722	\$ -
Interest	15,045	38,553
Dividends	212,407	221,730
Net gains (losses) on investments	884,636	(876,518)
Total revenues	1,173,810	(616,235)
EXPENSES:		
Program services		
Grants to Duluth-Superior Area Educational Television Corporation	263,694	410,468
	263,694	410,468
Management and general -		
Investment fees	33,645	15,955
Professional services	5,000	4,999
Conferences, travel, training	25	-
	38,670	20,954
Total expenses	302,364	431,422
Change in net assets	871,446	(1,047,657)
NET ASSETS, Beginning of year	12,335,184	13,382,841
NET ASSETS, End of year	\$ 13,206,630	\$ 12,335,184

See independent auditors' report on supplementary financial information.