

**DULUTH-SUPERIOR AREA EDUCATIONAL
TELEVISION CORPORATION AND AFFILIATE**
COMBINED FINANCIAL REPORT
SEPTEMBER 30, 2017 AND 2016

**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 (a nonprofit organization) and Affiliate, which comprise the combined statement of financial position as of September 30, 2017 and 2016, 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 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 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, 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.

Esterbrook Scott Signorelli Peterson Smithson, Ltd.

Duluth, Minnesota
December 15, 2017

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016**

<u>ASSETS</u>	2017	2016
CURRENT ASSETS:		
Cash	\$ 88,568	\$ 87,866
Accounts receivable	-	100
Underwriting revenue receivable	39,033	38,150
Grants receivable	362,238	328,431
Prepaid expenses	9,054	8,803
Total current assets	498,893	463,350
 PROPERTY AND EQUIPMENT:		
Land	13,863	13,863
Buildings	1,681,654	1,624,181
Broadcasting equipment	6,723,417	7,949,371
Office equipment	142,591	371,560
Vehicles	62,724	62,724
Total cost	8,624,249	10,021,699
Less: Accumulated depreciation	(6,821,929)	(7,865,830)
Net property and equipment	1,802,320	2,155,869
 OTHER ASSETS:		
Investments	14,641,992	13,211,630
Unconditional promise to give	68,342	68,947
Prepaid lease expense, net of amortization	35,692	42,196
Total other assets	14,746,026	13,322,773
 Total assets	 \$ 17,047,239	 \$ 15,941,992

<u>LIABILITIES AND NET ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 72,251	\$ 33,830
Accrued expenses	123,281	110,656
Amounts held on behalf of others	<u>14,925</u>	<u>14,925</u>
Total current liabilities	<u>210,457</u>	<u>159,411</u>
NET ASSETS:		
Unrestricted:		
Available for operations	1,969,817	2,342,699
Designated for long-term investment	<u>14,636,992</u>	<u>13,206,630</u>
Total unrestricted net assets	16,606,809	15,549,329
Temporarily restricted	<u>229,973</u>	<u>233,252</u>
Total net assets	<u>16,836,782</u>	<u>15,782,581</u>
Total liabilities and net assets	<u>\$ 17,047,239</u>	<u>\$ 15,941,992</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, 2017 AND 2016**

	2017		
	Unrestricted	Temporarily Restricted	Total
<u>OPERATING</u>			
REVENUE AND OTHER SUPPORT:			
Contributions and grants	\$ 1,645,922	\$ 688,617	\$ 2,334,539
Legacies and bequests	89,682	-	89,682
Underwriting income	207,978	-	207,978
Production and other income	12,172	-	12,172
Rental income	65,324	-	65,324
Investment income	223,997	-	223,997
In-kind income - materials and facilities	13,324	-	13,324
Net assets released from restriction	<u>691,896</u>	<u>(691,896)</u>	<u>-</u>
Total revenues and other support	<u>2,950,295</u>	<u>(3,279)</u>	<u>2,947,016</u>
EXPENSES:			
Program services -			
Programming and production	1,617,531	-	1,617,531
Broadcasting	875,646	-	875,646
Program information	<u>129,087</u>	<u>-</u>	<u>129,087</u>
Total program services	<u>2,622,264</u>	<u>-</u>	<u>2,622,264</u>
Supporting services -			
Management and general	457,219	-	457,219
Fund-raising and membership	<u>280,457</u>	<u>-</u>	<u>280,457</u>
Total supporting services	<u>737,676</u>	<u>-</u>	<u>737,676</u>
Total expenses	<u>3,359,940</u>	<u>-</u>	<u>3,359,940</u>
Change in net assets from operating activities	<u>(409,645)</u>	<u>(3,279)</u>	<u>(412,924)</u>
<u>NONOPERATING</u>			
Contributions and grants	-	43,686	43,686
Gains on investments	1,427,650	-	1,427,650
Loss on asset disposition	(4,211)	-	(4,211)
Impairment loss	-	-	-
Net assets released from restriction	<u>43,686</u>	<u>(43,686)</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>1,467,125</u>	<u>-</u>	<u>1,467,125</u>
Change in net assets	1,057,480	(3,279)	1,054,201
NET ASSETS:			
Beginning of year	<u>15,549,329</u>	<u>233,252</u>	<u>15,782,581</u>
End of year	<u>\$ 16,606,809</u>	<u>\$ 229,973</u>	<u>\$ 16,836,782</u>

2016		
Unrestricted	Temporarily Restricted	Total
\$ 1,567,635	\$ 710,125	\$ 2,277,760
133,768	-	133,768
301,383	-	301,383
10,467	-	10,467
63,449	-	63,449
193,844	-	193,844
13,098	-	13,098
<u>703,766</u>	<u>(703,766)</u>	<u>-</u>
<u>2,987,410</u>	<u>6,359</u>	<u>2,993,769</u>
1,608,078	-	1,608,078
890,042	-	890,042
<u>128,077</u>	<u>-</u>	<u>128,077</u>
<u>2,626,197</u>	<u>-</u>	<u>2,626,197</u>
373,871	-	373,871
<u>371,315</u>	<u>-</u>	<u>371,315</u>
745,186	-	745,186
<u>3,371,383</u>	<u>-</u>	<u>3,371,383</u>
<u>(383,973)</u>	<u>6,359</u>	<u>(377,614)</u>
-	43,686	43,686
884,636	-	884,636
-	-	-
(517,931)	-	(517,931)
<u>83,686</u>	<u>(83,686)</u>	<u>-</u>
<u>450,391</u>	<u>(40,000)</u>	<u>410,391</u>
66,418	(33,641)	32,777
<u>15,482,911</u>	<u>266,893</u>	<u>15,749,804</u>
<u>\$ 15,549,329</u>	<u>\$ 233,252</u>	<u>\$ 15,782,581</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, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributions, grants, and underwriting	\$ 2,641,800	\$ 2,397,317
Cash received from other revenues	77,596	74,109
Cash paid to employees and suppliers	(2,866,972)	(2,880,981)
Interest and dividends received	223,997	193,844
Income taxes paid	(1,163)	(5,592)
Net cash provided by (used for) operating activities	75,258	(221,303)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(71,844)	(162,905)
Proceeds from sale of investments	2,447,592	1,904,248
Purchases of investments	(2,450,304)	(1,891,059)
Net cash used for investing activities	(74,556)	(149,716)
NET INCREASE (DECREASE) IN CASH	702	(371,019)
CASH - Beginning of year	87,866	458,885
CASH - End of year	\$ 88,568	\$ 87,866

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
Reconciliation of change in net assets to net cash provided		
by operating activities:		
Change in net assets	\$ 1,054,201	\$ 32,777
Adjustments to reconcile to net cash provided:		
Depreciation and amortization	439,109	453,625
Loss on disposition of assets	4,211	-
Impairment loss	-	517,931
(Gain) loss on investments	(1,427,650)	(884,636)
(Increase) decrease in:		
Accounts receivable	100	193
Underwriting revenue receivable	(883)	13,051
Grants receivable	(33,807)	(303,384)
Prepaid expenses	(251)	(332)
Unconditional promise to give	605	(68,947)
Increase (decrease) in:		
Accounts payable and accrued expenses	39,623	18,419
Net cash provided by (used for) operating activities	\$ 75,258	\$ (221,303)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Property and equipment included in accounts payable	\$ 11,423	\$ -
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See notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016 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, 2017 and 2016 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.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

**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, 2017 and 2016 was \$432,605 and \$447,122, 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.

Promises to Give -

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

**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, 2017 and 2016 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 \$6,079 and \$5,592 in 2017 and 2016, 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 2014.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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

Reclassification -

Certain amounts in the 2016 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.

Pending Accounting Standards -

The Financial Accounting Standards Board (FASB) has issued several accounting standard updates not yet implemented by the School. Listed below are the accounting standards updates which may impact future financial statements of WDSE-TV.

Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities* The amendments in this ASU, issued August 2016, will be effective for WDSE-TV beginning with its year ending September 30, 2019. This Update will make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. The ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. WDSE-TV is assessing the impact this standard will have on its financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. WDSE-TV is assessing the impact this new standard will have on its financial statements.

2. INVESTMENTS:

The historical cost and fair values of investments at September 30, 2017 and 2016 were as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 398,570	\$ 398,570	\$ 190,686	\$ 190,686
U.S. Government and agency bonds and notes	622,866	628,844	547,721	565,285
Corporate bonds	736,598	721,727	828,829	826,656
Mutual bond funds	1,742,357	1,773,211	1,934,058	1,747,232
Real estate funds	1,189,121	1,264,122	1,406,821	1,341,919
Mutual stock funds	3,916,431	6,233,318	4,157,776	5,603,129
Publicly held corporate stock	1,253,937	2,247,045	1,164,927	1,883,662
Alternative investments	1,350,735	1,375,155	1,096,489	1,053,061
Totals	\$ 11,210,615	\$ 14,641,992	\$ 11,327,307	\$ 13,211,630

Investment return is summarized as follows:

	2017	2016
Interest and dividend income, net of custodial and advisory fees - operating	\$ 223,997	\$ 193,844
Realized and unrealized investment gains – non-operating	1,427,650	884,636
Total investment return	\$ 1,651,647	\$ 1,078,480

Expenses related to investment income, such as custodial and advisory fees, amounted to \$43,259 and \$33,644 for the years ended September 30, 2017 and 2016, respectively, and have been netted against investment revenues in the accompanying statements of activities.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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.

Fair values of assets measured on a recurring basis at September 30, 2017 and 2016 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, 2017</u>				
Equity securities	\$ 9,744,485	\$ 9,744,485	\$ -	\$ -
Debt securities – U.S.				
Treasury/Agency	628,844	628,844	-	-
Other debt securities	2,494,938	2,494,938	-	-
Money market funds	398,570	398,570	-	-
Alternative investments	<u>1,375,155</u>	<u>962,122</u>	-	<u>413,033</u>
Total	<u>\$ 14,641,992</u>	<u>\$ 14,228,959</u>	<u>\$ -</u>	<u>\$ 413,033</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

3. FAIR VALUE MEASUREMENTS (CONTINUED):

	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	<u>1,053,061</u>	<u>861,455</u>	-	<u>191,606</u>
Total	<u>\$ 13,211,630</u>	<u>\$ 13,020,024</u>	<u>\$ -</u>	<u>\$ 191,606</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.

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

	<u>Alternative Investments</u>
October 1, 2015	\$ 199,809
Total gains and losses (realized and unrealized) included in changes in net assets	<u>(8,203)</u>
September 30, 2016	191,606
Total gains and losses (realized and unrealized) included in changes in net assets	21,427
Purchases, sales, and settlements:	
Purchases	<u>200,000</u>
September 30, 2017	<u>\$ 413,033</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

3. FAIR VALUE MEASUREMENTS (CONTINUED):

	Alternative Investments
The amount of total gains or losses for the year ended September 30, 2017 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	<u>\$ 21,427</u>
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.	<u>\$ (8,203)</u>

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,
- (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
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

4. BOARD-DESIGNATED ENDOWMENT (CONTINUED):

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, 2017 and 2016

	2017	2016
Board-designated endowment net assets, beginning of year	\$ 13,206,630	\$ 12,335,184
Investment return:		
Investment income	223,964	193,807
Net appreciation – realized and unrealized	1,427,650	884,636
Total investment return	1,651,614	1,078,443
Contributions	74,342	61,722
Appropriation of endowment assets for expenditure	(295,594)	(268,719)
Board-designated endowment net assets, end of year	\$ 14,636,992	\$ 13,206,630

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, 2017 and 2016 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 5½ years.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

6. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Temporarily restricted net assets consist of the following:

	2017	2016
Gifts and other unexpended revenues and gains restricted to:		
Future program activities	\$ 186,287	\$ 189,566
Acquisition of property and equipment	43,686	43,686
Total	\$ 229,973	\$ 233,252

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

	2017	2016
Cash	\$ 5,081	\$ -
Grants receivable	224,892	233,252
Total	\$ 229,973	\$ 233,252

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

	2017	2016
Long-term investment (primarily for capital additions)	\$ 14,636,992	\$ 13,206,630

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:

	2017	2016
Program expenditures	\$ 691,896	\$ 703,766
Acquisition of property and equipment	43,686	83,686
Total	\$ 735,582	\$ 787,452
	2017	2016
Operating activities	\$ 691,896	\$ 703,766
Non-operating activities	43,686	83,686
Total	\$ 735,582	\$ 787,452

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016, respectively. During the years ended September 30, 2017 and 2016 rental income recognized under these agreements was \$65,324 and \$63,449, respectively. Minimum future rentals at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>		<u>Amount</u>
2018	\$	49,543
2019		29,195
2020		25,891
2021		24,634
2022		25,620
Thereafter		216,289

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 \$28,246 and \$22,633 were charged to operations for the years ended September 30, 2017 and 2016, respectively.

10. CONCENTRATION OF REVENUE:

For the years ended September 30, 2017 and 2016, approximately 29% and 27% respectively, of the organization's operating revenue was provided by grants from the Corporation for Public Broadcasting, and approximately 23% and 24% 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). As of September 30, 2017 and 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016, in-kind income and rental expense recognized under this agreement were \$13,324 and \$13,098, respectively.

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>
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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016, non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$34,353 and \$92,749; 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.

16. CORRECTION OF ERROR:

During 2017, WDSE-TV discovered that it was the beneficiary of a trust upon the death of the donor in May 2016. WDSE-TV was unaware of their status with the trust and no contribution was recognized. Accordingly, WDSE-TV restated its results for the year end September 30, 2016 as follows:

	2016	
	As previously reported	Restated
Contributions and grants	\$ 2,277,760	\$ 2,346,707
Change in net assets	(36,170)	32,777
Unconditional promise to give	\$ -	\$ 68,947
Unrestricted net assets	15,482,911	15,549,329

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

17. SUBSEQUENT EVENTS:

In preparing these financial statements, WDSE-TV has evaluated events and transactions for potential recognition or disclosure through December 15, 2017, which is the date the financial statements were issued.

In November 2017 WDSE-TV entered into an agreement with a contractor to finance the installation of additional lines costing \$57,473 over a 5 year period. WDSE-TV had paid \$46,050 to the contractor which will be reimbursed as part of the agreement.

**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, 2017 and 2016, and have issued our report thereon dated December 15, 2017, 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, 2017 of Duluth-Superior Area Educational Television Corporation and Affiliate (pages 22), and the schedules of assets, liabilities, and net assets (page 23) and revenues and expenses (page 24) 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, 2016, from which the summarized information was derived.

Esterbrooks Scott Signorelli Peterson Smithson, Ltd.

Duluth, Minnesota
December 15, 2017

DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017 WITH COMPARATIVE TOTALS FOR
2016

	Program Services			
	Program and Production	Broadcasting	Program Information	Total Program Services
Salaries, payroll taxes and employee benefits	\$ 712,595	\$ 486,884	\$ 64,107	\$ 1,263,586
Professional services	7,866	-	-	7,866
Program acquisition	476,730	-	-	476,730
Program production	29,033	-	-	29,033
Membership	-	45	-	45
Fund-raising	-	-	-	-
Advertising	-	-	48,376	48,376
Office and postage	34,479	24,322	8,918	67,719
Printing	-	-	500	500
Insurance	28,665	20,464	2,597	51,726
Rent	5,495	46,156	498	52,149
Repairs and maintenance	7,971	61,248	722	69,941
Utilities	22,483	89,851	1,950	114,284
Travel	4,680	4,270	-	8,950
Training, dues and subscriptions	839	-	-	839
Miscellaneous	938	184	-	1,122
Depreciation and amortization	285,757	142,222	1,419	429,398
Income tax expense	-	-	-	-
	-	-	-	-
Total Expenses	\$ 1,617,531	\$ 875,646	\$ 129,087	\$ 2,622,264

Management and General	Supporting Services		Total	
	Fund-raising and Membership	Total Supporting Services	2017	2016
\$ 296,598	\$ 113,341	\$ 409,939	\$ 1,673,525	\$ 1,599,991
58,031	5,000	63,031	70,897	18,089
-	-	-	476,730	494,417
-	25,730	25,730	54,763	65,255
34,624	-	34,624	34,669	32,691
-	115,520	115,520	115,520	181,510
-	989	989	49,365	47,370
14,473	5,522	19,995	87,714	91,168
-	50	50	550	-
12,884	4,893	17,777	69,503	78,848
2,470	938	3,408	55,557	54,342
3,583	1,361	4,944	74,885	106,458
9,672	3,673	13,345	127,629	126,858
9,835	767	10,602	19,552	12,635
45	-	45	884	590
1,887	-	1,887	3,009	1,944
7,038	2,673	9,711	439,109	453,625
6,079	-	6,079	6,079	5,592
<u>\$ 457,219</u>	<u>\$ 280,457</u>	<u>\$ 737,676</u>	<u>\$ 3,359,940</u>	<u>\$ 3,371,383</u>

See independent auditors' report on supplementary financial information.

THE BECK FOUNDATION OF DSAET
SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Investments	\$ 14,631,845	\$ 13,203,014
Accrued investment income	<u>10,147</u>	<u>8,616</u>
Total assets	<u>\$ 14,641,992</u>	<u>\$ 13,211,630</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Due to WDSE-TV	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Total liabilities	<u>5,000</u>	<u>5,000</u>
Net assets -		
Unrestricted:		
Designated for long-term investment	<u>14,636,992</u>	<u>13,206,630</u>
Total net assets	<u>14,636,992</u>	<u>13,206,630</u>
Total liabilities and net assets	<u>\$ 14,641,992</u>	<u>\$ 13,211,630</u>

See independent auditors' report on supplementary financial information.

THE BECK FOUNDATION OF DSAET
SCHEDULE OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
REVENUE:		
Contributions and bequests	\$ 74,342	\$ 61,722
Interest	37,365	15,045
Dividends	229,858	212,407
Net gains on investments	1,427,650	884,636
Total revenues	1,769,215	1,173,810
EXPENSES:		
Program services		
Grants to Duluth-Superior Area Educational Television Corporation	290,000	263,694
	290,000	263,694
Management and general -		
Investment fees	43,259	33,645
Professional services	5,000	5,000
Conferences, travel, training	594	25
	48,853	38,670
Total expenses	338,853	302,364
Change in net assets	1,430,362	871,446
NET ASSETS, Beginning of year	13,206,630	12,335,184
NET ASSETS, End of year	\$ 14,636,992	\$ 13,206,630

See independent auditors' report on supplementary financial information.