

**DULUTH-SUPERIOR AREA EDUCATIONAL  
TELEVISION CORPORATION AND AFFILIATE  
COMBINED FINANCIAL REPORT  
SEPTEMBER 30, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Esterbrook Scott Sigmarelli Peterson Smithson, Ltd.*

Duluth, Minnesota  
January 14, 2019

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

**COMBINED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2018 AND 2017**

<u>ASSETS</u>	2018	2017
<b>CURRENT ASSETS:</b>		
Cash	\$ 680,822	\$ 88,568
Underwriting revenue receivable	45,522	39,033
Grants receivable	73,434	362,238
Prepaid expenses	16,948	9,054
Total current assets	816,726	498,893
 <b>PROPERTY AND EQUIPMENT:</b>		
Land	13,863	13,863
Buildings	1,624,181	1,681,654
Broadcasting equipment	7,161,127	6,723,417
Office equipment	157,146	142,591
Vehicles	62,724	62,724
Total cost	9,019,041	8,624,249
Less: Accumulated depreciation	(7,226,017)	(6,821,929)
Net property and equipment	1,793,024	1,802,320
 <b>OTHER ASSETS:</b>		
Investments	14,893,179	14,641,992
Unconditional promise to give	101	68,342
Prepaid lease expense, net of amortization	29,188	35,692
Total other assets	14,922,468	14,746,026
Total assets	\$ 17,532,218	\$ 17,047,239

<b><u>LIABILITIES AND NET ASSETS</u></b>	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 85,166	\$ 72,251
Accrued expenses	106,356	123,281
Amounts held on behalf of others	14,925	14,925
Total current liabilities	<u>206,447</u>	<u>210,457</u>
<b>NET ASSETS:</b>		
Unrestricted:		
Available for operations	2,211,006	1,969,817
Designated for long-term investment	14,862,330	14,636,992
Total unrestricted net assets	<u>17,073,336</u>	<u>16,606,809</u>
Temporarily restricted	252,435	229,973
Total net assets	<u>17,325,771</u>	<u>16,836,782</u>
Total liabilities and net assets	<u>\$ 17,532,218</u>	<u>\$ 17,047,239</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, 2018 AND 2017**

	2018		
<u><b>OPERATING</b></u>	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND OTHER SUPPORT:</b>			
Contributions and grants	\$ 1,815,096	\$ 700,026	\$ 2,515,122
Legacies and bequests	17,344	-	17,344
Underwriting income	206,770	-	206,770
Production and other income	6,144	-	6,144
Rental income	72,304	-	72,304
Investment income	241,402	-	241,402
In-kind income - materials and facilities	13,627	-	13,627
Net assets released from restriction	<u>677,564</u>	<u>(677,564)</u>	<u>-</u>
Total revenues and other support	<u>3,050,251</u>	<u>22,462</u>	<u>3,072,713</u>
<b>EXPENSES:</b>			
Program services -			
Programming and production	1,551,469	-	1,551,469
Broadcasting	869,974	-	869,974
Program information	<u>99,914</u>	<u>-</u>	<u>99,914</u>
Total program services	<u>2,521,357</u>	<u>-</u>	<u>2,521,357</u>
Supporting services -			
Management and general	527,946	-	527,946
Fund-raising and membership	<u>379,549</u>	<u>-</u>	<u>379,549</u>
Total supporting services	<u>907,495</u>	<u>-</u>	<u>907,495</u>
Total expenses	<u>3,428,852</u>	<u>-</u>	<u>3,428,852</u>
Change in net assets from operating activities	<u>(378,601)</u>	<u>22,462</u>	<u>(356,139)</u>
 <u><b>NONOPERATING</b></u>			
Contributions and grants	-	43,686	43,686
Gains on investments	801,442	-	801,442
Loss on asset disposition	-	-	-
Net assets released from restriction	<u>43,686</u>	<u>(43,686)</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>845,128</u>	<u>-</u>	<u>845,128</u>
Change in net assets	466,527	22,462	488,989
<b>NET ASSETS:</b>			
Beginning of year	<u>16,606,809</u>	<u>229,973</u>	<u>16,836,782</u>
End of year	<u>\$ 17,073,336</u>	<u>\$ 252,435</u>	<u>\$ 17,325,771</u>

2017		
Unrestricted	Temporarily Restricted	Total
\$ 1,645,922	\$ 688,617	\$ 2,334,539
89,682	-	89,682
207,978	-	207,978
12,172	-	12,172
65,324	-	65,324
223,997	-	223,997
13,324	-	13,324
<u>691,896</u>	<u>(691,896)</u>	<u>-</u>
<u>2,950,295</u>	<u>(3,279)</u>	<u>2,947,016</u>
1,617,531	-	1,617,531
875,646	-	875,646
129,087	-	129,087
<u>2,622,264</u>	<u>-</u>	<u>2,622,264</u>
457,219	-	457,219
<u>280,457</u>	<u>-</u>	<u>280,457</u>
<u>737,676</u>	<u>-</u>	<u>737,676</u>
<u>3,359,940</u>	<u>-</u>	<u>3,359,940</u>
<u>(409,645)</u>	<u>(3,279)</u>	<u>(412,924)</u>
-	43,686	43,686
1,427,650	-	1,427,650
(4,211)	-	(4,211)
<u>43,686</u>	<u>(43,686)</u>	<u>-</u>
<u>1,467,125</u>	<u>-</u>	<u>1,467,125</u>
1,057,480	(3,279)	1,054,201
<u>15,549,329</u>	<u>233,252</u>	<u>15,782,581</u>
<u>\$ 16,606,809</u>	<u>\$ 229,973</u>	<u>\$ 16,836,782</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, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from contributions, grants, and underwriting	\$ 3,133,478	\$ 2,641,800
Cash received from other revenues	78,448	77,596
Cash paid to employees and suppliers	(2,996,899)	(2,866,972)
Interest and dividends received	241,402	223,997
Income taxes paid	(8,215)	(1,163)
Net cash provided by operating activities	448,214	75,258
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(452,265)	(71,844)
Refund of property purchased	46,050	-
Proceeds from sale of investments	2,620,557	2,447,592
Purchases of investments	(2,070,302)	(2,450,304)
Net cash provided by (used for) investing activities	144,040	(74,556)
 <b>NET INCREASE IN CASH</b>	592,254	702
 <b>CASH - Beginning of year</b>	88,568	87,866
 <b>CASH - End of year</b>	\$ 680,822	\$ 88,568

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, 2018 AND 2017**

	2018	2017
Reconciliation of change in net assets to net cash provided		
by operating activities:		
Change in net assets	\$ 488,989	\$ 1,054,201
Adjustments to reconcile to net cash provided:		
Depreciation and amortization	410,592	439,109
Loss on disposition of assets	-	4,211
Gain on investments	(801,442)	(1,427,650)
(Increase) decrease in:		
Accounts receivable	-	100
Underwriting revenue receivable	(6,489)	(883)
Grants receivable	288,804	(33,807)
Prepaid expenses	(7,894)	(251)
Unconditional promise to give	68,241	605
Increase (decrease) in:		
Accounts payable and accrued expenses	7,413	39,623
Net cash provided by operating activities	\$ 448,214	\$ 75,258

**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, 2018 AND 2017**

**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, 2018 and 2017 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, 2018 and 2017 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  
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**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, 2018 and 2017 was \$404,088 and \$432,605, 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  
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**NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**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, 2018 and 2017 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 \$7,436 and \$6,079 in 2018 and 2017, 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 2015.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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

***Reclassification -***

Certain amounts in the 2017 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 WDSE-TV. 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, 2018 AND 2017

**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, 2018 and 2017 were as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 254,927	\$ 254,927	\$ 398,570	\$ 398,570
U.S. Government and agency bonds and notes	811,766	788,669	622,866	628,844
Corporate bonds	869,275	841,991	736,598	721,727
Mutual bond funds	1,452,844	1,386,671	1,742,357	1,773,211
Real estate funds	1,288,701	1,367,599	1,189,121	1,264,122
Mutual stock funds	3,761,335	6,068,583	3,916,431	6,233,318
Publicly held corporate stock	1,323,553	2,721,957	1,253,937	2,247,045
Alternative investments	1,458,791	1,462,782	1,350,735	1,375,155
<b>Totals</b>	<b>\$ 11,221,192</b>	<b>\$ 14,893,179</b>	<b>\$ 11,210,615</b>	<b>\$ 14,641,992</b>

Investment return is summarized as follows:

	2018	2017
Interest and dividend income, net of custodial and advisory fees - operating	\$ 241,402	\$ 223,997
Realized and unrealized investment gains – non-operating	801,442	1,427,650
<b>Total investment return</b>	<b>\$ 1,042,844</b>	<b>\$ 1,651,647</b>

Expenses related to investment income, such as custodial and advisory fees, amounted to \$45,609 and \$43,259 for the years ended September 30, 2018 and 2017, 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, 2018 AND 2017

**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, 2018 and 2017 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, 2018</u>				
Equity securities	\$ 10,158,139	\$ 10,158,139	\$ -	\$ -
Debt securities – U.S.				
Treasury/Agency	788,669	788,669	-	-
Other debt securities	2,228,662	2,228,662	-	-
Money market funds	254,927	254,927	-	-
Alternative investments	<u>1,462,782</u>	<u>1,078,170</u>	-	<u>384,612</u>
Total	<u>\$ 14,893,179</u>	<u>\$ 14,508,567</u>	<u>\$ -</u>	<u>\$ 384,612</u>



**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

**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, 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>

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):

	Alternative Investments
October 1, 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	413,033
Total gains and losses (realized and unrealized) included in changes in net assets	<u>(28,421)</u>
September 30, 2018	<u>\$ 384,612</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION  
AND AFFILIATE**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

**3. FAIR VALUE MEASUREMENTS (CONTINUED):**

	Alternative Investments
The amount of total gains or losses for the year ended September 30, 2018 included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	\$ (28,421)
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.	\$ 21,427

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, 2018 AND 2017

**4. BOARD-DESIGNATED ENDOWMENT (CONTINUED):**

Duluth-Superior Area Educational Television Corporation has a policy of appropriating for distribution each year up to 10 percent of its endowment fund's at value of the preceding 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, 2018 and 2017

	2018	2017
Board-designated endowment net assets, beginning of year	\$ 14,636,992	\$ 13,206,630
Investment return:		
Investment income	241,343	223,964
Net appreciation – realized and unrealized	801,442	1,427,650
Total investment return	1,042,785	1,651,614
Contributions	-	74,342
Appropriation of endowment assets for expenditure	(817,447)	(295,594)
Board-designated endowment net assets, end of year	\$ 14,862,330	\$ 14,636,992

**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, 2018 and 2017 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 4½ years.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

**6. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:**

Temporarily restricted net assets consist of the following:

	2018	2017
Gifts and other unexpended revenues and gains restricted to:		
Future program activities	\$ 208,750	\$ 186,287
Acquisition of property and equipment	43,686	43,686
Total	\$ 252,436	\$ 229,973

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

	2018	2017
Cash	\$ 247,436	\$ 5,081
Grants receivable	5,000	224,172
Total	\$ 252,436	\$ 229,973

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

	2018	2017
Long-term investment (primarily for capital additions)	\$ 14,862,330	\$ 14,636,992

**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:

	2018	2017
Program expenditures	\$ 677,564	\$ 691,896
Acquisition of property and equipment	43,686	43,686
Total	\$ 721,250	\$ 735,582
	2018	2017
Operating activities	\$ 677,564	\$ 691,896
Non-operating activities	43,686	43,686
Total	\$ 721,250	\$ 735,582

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**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 each year at September 30, 2018 and 2017, respectively. During the years ended September 30, 2018 and 2017 rental income recognized under these agreements was \$72,304 and \$65,324, respectively. Minimum future rentals at September 30, 2018 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 57,775
2020	32,906
2021	31,930
2022	33,207
2023	34,535
Thereafter	245,809

**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 \$22,309 and \$28,246 were charged to operations for the years ended September 30, 2018 and 2017, respectively.

**10. CONCENTRATION OF REVENUE:**

For the years ended September 30, 2018 and 2017, approximately 28% and 29% respectively, of the organization's operating revenue was provided by grants from the Corporation for Public Broadcasting, and approximately 21% and 23% 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, 2018 was \$469,508. At September 30, 2017 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, 2018 AND 2017**

**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, 2018 and 2017, in-kind income and rental expense recognized under this agreement were \$13,627 and \$13,324, 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 remains ongoing while a further extension is negotiated. The lease contains, among other things, requirements and restrictions regarding insurance, easement rights, and conditions of lease termination.

**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, 2018 AND 2017**

**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, 2018 and 2017, non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$25,450 and 34,353; respectively.

**15. SUBSEQUENT EVENTS:**

In preparing these financial statements, WDSE-TV has evaluated events and transactions for potential recognition or disclosure through January 14, 2019, which is the date the financial statements were issued.

**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, 2018 and 2017, and have issued our report thereon dated January 14, 2019, 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, 2018 of Duluth-Superior Area Educational Television Corporation and Affiliate (pages 21), and the schedules of assets, liabilities, and net assets (page 22) and revenues and expenses (page 23) 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, 2017, from which the summarized information was derived.

*Esterbrooks Scott Signorelli Peterson Smithson, Ltd.*

Duluth, Minnesota  
January 14, 2019

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION  
AND AFFILIATE**  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018 WITH COMPARATIVE TOTALS FOR  
2017

	Program Services			
	Program and Production	Broadcasting	Program Information	Total Program Services
Salaries, payroll taxes and employee benefits	\$ 715,781	\$ 444,613	\$ 44,891	\$ 1,205,285
Professional services	13,260	14,549	3,000	30,809
Program acquisition	490,517	-	-	490,517
Program production	60,142	-	-	60,142
Membership	270	-	-	270
Fundraising	3,399	-	578	3,977
Advertising	3,516	250	42,186	45,952
Office, postage and printing	240	2,529	7,000	9,769
Insurance	-	3,053	-	3,053
Rent	-	55,766	-	55,766
Repairs and maintenance	544	58,012	343	58,899
Utilities	575	134,126	-	134,701
Travel	3,046	16,173	903	20,122
Training, dues and subscriptions	-	-	-	-
Miscellaneous	-	499	-	499
Depreciation and amortization	260,179	140,404	1,013	401,596
Income tax expense	-	-	-	-
	\$ 1,551,469	\$ 869,974	\$ 99,914	\$ 2,521,357
Total Expenses	\$ 1,551,469	\$ 869,974	\$ 99,914	\$ 2,521,357

Supporting Services			Total	
Management and General	Fundraising and Membership	Total Supporting Services	2018	2017
\$ 193,612	\$ 156,516	\$ 350,128	\$ 1,555,413	\$ 1,673,525
143,085	-	143,085	173,894	70,897
-	-	-	490,517	476,730
-	-	-	60,142	54,763
37,173	1,866	39,039	39,309	34,669
-	147,447	147,447	151,424	115,520
4,608	50	4,658	50,610	49,365
24,453	55,934	80,387	90,156	88,264
68,627	-	68,627	71,680	69,503
-	-	-	55,766	55,557
5,247	10,230	15,477	74,376	74,885
18,095	-	18,095	152,796	127,629
18,763	3,733	22,496	42,618	19,552
45	-	45	45	884
1,579	-	1,579	2,078	3,009
5,223	3,773	8,996	410,592	439,109
7,436	-	7,436	7,436	6,079
<u>\$ 527,946</u>	<u>\$ 379,549</u>	<u>\$ 907,495</u>	<u>\$ 3,428,852</u>	<u>\$ 3,359,940</u>

See independent auditors' report on supplementary financial information.

**THE BECK FOUNDATION OF DSAET**  
**SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS**  
**SEPTEMBER 30, 2018 AND 2017**

<u><b>ASSETS</b></u>	2018	2017
Investments	\$ 14,866,526	\$ 14,631,845
Accrued investment income	26,653	10,147
Total assets	\$ 14,893,179	\$ 14,641,992
<u><b>LIABILITIES AND NET ASSETS</b></u>		
Due to WDSE-TV	\$ 30,849	\$ 5,000
Total liabilities	30,849	5,000
Net assets -		
Unrestricted:		
Designated for long-term investment	14,862,330	14,636,992
Total net assets	14,862,330	14,636,992
Total liabilities and net assets	\$ 14,893,179	\$ 14,641,992

See independent auditors' report on supplementary financial information.

**THE BECK FOUNDATION OF DSAET**  
**SCHEDULE OF REVENUES AND EXPENSES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
REVENUE:		
Contributions and bequests	\$ -	\$ 74,342
Interest	58,689	37,365
Dividends	228,263	229,858
Net gains on investments	801,442	1,427,650
Total revenues	1,088,394	1,769,215
EXPENSES:		
Program services		
Grants to Duluth-Superior Area Educational Television Corporation	802,098	290,000
	802,098	290,000
Management and general -		
Investment fees	45,609	43,259
Professional services	15,349	5,000
Conferences, travel, training	-	594
	60,958	48,853
Total expenses	863,056	338,853
Change in net assets	225,338	1,430,362
NET ASSETS, Beginning of year	14,636,992	13,206,630
NET ASSETS, End of year	\$ 14,862,330	\$ 14,636,992

See independent auditors' report on supplementary financial information.