

AUDITED FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST  
COUNCIL, INC.  
COOKEVILLE, TENNESSEE

June 30, 2019 and 2018

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C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Upper Cumberland Broadcast Council, Inc.  
Cookeville, Tennessee

**Report on the Financial Statements**

I have audited the accompanying financial statements of Upper Cumberland Broadcast Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Emphasis of a Matter**

After the issuance of the financial statements, it was discovered that the Upper Cumberland Broadcast Council, Inc. had not recorded its proportionate share of net pension liability for the one employee that is a member of the TCRS (Tennessee Consolidated Retirement System). Accounting principles generally accepted in the United States of America require that a proportionate share of net pension liability be recorded on the books of any organization that has a defined benefit pension plan.

### **Basis for Qualified Opinion**

Management was made aware of the issue described in the above paragraph, but they decided not to change the financial statements. The effects on the accompanying financial statements of the failure to record the net pension liability have not been determined.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Upper Cumberland Broadcast Council, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*David Melton, CPA*

Certified Public Accountant  
McMinnville, Tennessee  
January 9, 2020  
August 31, 2020

STATEMENT OF FINANCIAL POSITION

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 246,850	\$ 183,745
Accounts receivable	24,858	13,227
Memberships receivable	-	2,020
Grants receivable	7,018	39,015
Prepaid expenses	31,238	31,207
Investments	46,949	44,988
TOTAL CURRENT ASSETS	356,913	314,202
<u>NON-CURRENT ASSETS</u>		
Property and equipment, net	1,319,464	1,280,613
Deposits	12,600	12,600
TOTAL NONCURRENT ASSETS	1,332,064	1,293,213
TOTAL ASSETS	\$ 1,688,977	\$ 1,607,415
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 24,647	\$ 38,585
Accrued payroll	47,122	41,960
Payroll deductions payable	3,632	3,133
Line of credit	215,258	123,000
Accrued compensated absences	38,402	37,272
Accrued interest	1,557	409
Unearned grant revenue	33,861	-
Unearned rental income - current	10,048	10,049
Current portion of long-term debt & lease	31,360	27,470
TOTAL CURRENT LIABILITIES	405,887	281,878
<u>NON-CURRENT LIABILITIES</u>		
Long-term note payable (net of current portion)	15,311	24,474
Long-term lease (net of current portion)	3,432	-
\$268,000 principal amount, noninterest bearing note, less unamortized discount based on imputed interest rate of 2.336% , \$32,304 (net of current portion)	197,868	217,003
Unearned rental income - deferred	48,297	58,345
TOTAL NONCURRENT LIABILITIES	264,908	299,822
TOTAL LIABILITIES	670,795	581,700
<u>NET ASSETS</u>		
Net assets without donor restrictions (operating)	731,504	862,808
Net assets without donor restrictions (board designated)	219,476	128,425
Net assets with donor restrictions	67,202	34,482
TOTAL NET ASSETS	1,018,182	1,025,715
TOTAL LIABILITIES AND NET ASSETS	\$ 1,688,977	\$ 1,607,415

See independent auditor's report and notes to financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For the years ended June 30, 2019 and 2018

	Unrestricted	Restricted	2019 Total	Unrestricted	Restricted	2018 Total
<u>SUPPORT AND REVENUE</u>						
State of Tennessee - Appropriation	\$ 471,243	\$	\$ 471,243	\$ 430,793	\$	\$ 430,793
Corp. for Public Broadcasting:						
Community service grant	620,465		620,465	618,839		618,839
Interconnection grant	11,815		11,815	11,808		11,808
Healthy station grant	75,000		75,000	56,250	18,750	75,000
Universal Service Support Grant	132,556		132,556	132,942		132,942
Ready-to-learn grant	41,449		41,449	77,248		77,248
Other grants	261,960	34,885	296,845	228,396		228,396
Local government	36,000		36,000	48,000		48,000
Donated facilities	54,960		54,960	65,952		65,952
In-kind	32,957		32,957	40,269		40,269
Fundraising revenue	90,510		90,510	100,080		100,080
Development event revenue	108,776		108,776	98,906		98,906
Royalties	1,268		1,268	1,688		1,688
Membership revenue	198,782		198,782	189,544		189,544
Membership endowment income	79,680		79,680	100,567		100,567
Contributions	17,534	30,274	47,808	31,882		31,882
Underwriting revenue	83,298		83,298	82,518		82,518
Productions	23,650		23,650	28,682		28,682
Broadcast revenue	57,061		57,061	60,561		60,561
Engineering services	2,000		2,000	44,964		44,964
Station data casting revenue	5,000		5,000	-		-
Rental revenues	10,048		10,048	10,048		10,048
Net realized and unrealized gains (losses)						
on investments	1,038		1,038	2,294		2,294
Miscellaneous income	2,304		2,304	6,980		6,980
Net assets released from restrictions	32,439	(32,439)	-	47,506	(47,506)	-
Total public support, revenues, and reclassifications	2,451,793	32,720	2,484,513	2,516,717	(28,756)	2,487,961
<u>EXPENSES</u>						
Production and programming	916,531		916,531	997,320		997,320
Broadcast and technical	465,077		465,077	435,394		435,394
Education and outreach	173,782		173,782	102,439		102,439
Membership	114,336		114,336	94,873		94,873
Development and fundraising	218,935		218,935	293,626		293,626
Management and general	603,385		603,385	655,275		655,275
Total expenses	2,492,046	-	2,492,046	2,578,927	-	2,578,927
Change in net assets	(40,253)	32,720	(7,533)	(62,210)	(28,756)	(90,966)
Net assets at beginning of year	991,233	34,482	1,025,715	1,053,443	63,238	1,116,681
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 950,980</b>	<b>\$ 67,202</b>	<b>\$ 1,018,182</b>	<b>\$ 991,233</b>	<b>\$ 34,482</b>	<b>\$ 1,025,715</b>

See independent auditor's report and notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For year ended June 30, 2019

	Program Services					Supporting Services			Totals
	Production & Programming	Broadcast Engineering & Digital	Education & Outreach	Membership	Total Program Services	Development & Fundraising	Management & General	2019	
<b>Compensation &amp; related expenses</b>									
Compensation	\$ 191,371	\$ 158,339	\$ 79,280	\$ 24,967	\$ 453,957	\$ 91,566	\$ 113,495	\$ 659,018	
Employee benefits	23,485	20,739	5,076	4,202	53,502	11,843	23,903	89,248	
Payroll taxes	11,452	11,367	5,977	1,771	30,567	6,649	11,326	48,542	
<b>Total Compensation &amp; related expenses</b>	<b>226,308</b>	<b>190,445</b>	<b>90,333</b>	<b>30,940</b>	<b>538,026</b>	<b>110,058</b>	<b>148,724</b>	<b>796,808</b>	
Supplies	10,020	4,763	9,877	482	25,142	22,234	8,372	55,748	
Minor equipment	101	2,959	180	43	3,283	608	105	3,996	
Gas & auto expenses	1,352	438	324	-	2,114	404	1,576	4,094	
Items purchased	-	-	-	-	-	3,895	-	3,895	
Purchased and professional services	126,621	105,008	56,068	60,024	347,721	21,996	103,864	473,581	
Printing & publications	18,457	-	2,717	1,065	22,239	9,424	1,281	32,944	
Communications & utilities	2,200	147,303	47	-	149,550	4,235	11,687	165,472	
Special events	-	-	30	3,067	3,097	1,417	152	4,666	
Programming	445,899	-	-	-	445,899	-	-	445,899	
Rent	23,718	4,330	90	-	28,138	18,217	11,143	57,498	
Maintenance	1,096	7,379	-	-	8,475	23	69	8,567	
Membership fees & dues	7,731	237	30	260	8,258	1,749	40,832	50,839	
Meetings, conferences & travel	-	-	-	-	-	-	-	-	
Postage & shipping	6,291	847	13,895	215	21,248	2,804	18,552	42,604	
Premium expense	3,691	631	45	403	4,770	2,003	987	7,760	
Insurance	-	-	-	17,837	17,837	1,877	33,394	17,837	
In-kind donations	-	-	-	-	-	-	87,917	35,271	
Advertising	600	737	66	-	1,403	2,931	968	87,917	
Uncollectible accounts	-	-	-	-	-	1,320	-	5,302	
Interest	-	-	-	-	-	-	-	1,320	
Depreciation expense	-	-	-	-	-	-	12,806	12,806	
Miscellaneous	1,303	-	80	-	1,383	593	660	120,296	
Independent productions	41,143	-	-	-	41,143	-	-	2,636	
Agency account fees	-	-	-	-	-	2,587	-	41,143	
Commissions	-	-	-	-	-	10,560	-	2,587	
	<b>916,531</b>	<b>465,077</b>	<b>173,782</b>	<b>114,336</b>	<b>1,669,726</b>	<b>218,935</b>	<b>603,385</b>	<b>2,492,046</b>	

See independent auditor's report and notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For year ended June 30, 2018

	Program Services					Supporting Services			Totals
	Production & Programming	Broadcast Engineering & Digital	Education & Outreach	Membership	Total Program Services	Development & Fundraising	Management & General	2018	
Compensation & related expenses									
Compensation	\$ 194,154	\$ 170,171	\$ 33,085	\$ 17,347	\$ 414,757	\$ 141,930	\$ 108,865	\$ 665,552	
Employee benefits	17,202	18,685	2,742	-	38,629	11,053	24,057	73,739	
Payroll taxes	11,728	12,334	2,519	1,382	27,963	11,343	10,761	50,067	
Total Compensation & related expenses	223,084	201,190	38,346	18,729	481,349	164,326	143,683	789,358	
Supplies	12,945	3,999	9,761	302	27,007	28,130	5,854	60,991	
Minor equipment	875	4,584	-	-	5,459	-	62	5,521	
Gas & auto expenses	1,324	119	443	-	1,886	2,187	2,414	6,487	
Items purchased	-	-	-	-	-	4,013	-	4,013	
Purchased and professional services	244,140	64,731	41,061	55,303	405,235	33,233	97,658	536,126	
Printing & publications	13,391	-	1,125	1,890	16,406	7,071	-	23,477	
Communications & utilities	3,050	135,519	-	-	138,569	5,831	12,201	156,601	
Special events	-	-	3,434	592	4,026	500	1,421	5,947	
Programming	442,024	-	-	-	442,024	-	-	442,024	
Rent	15,339	477	-	-	15,816	21,078	7,181	44,075	
Maintenance	1,207	19,071	-	-	20,278	-	582	20,860	
Membership fees & dues	9,771	175	-	-	9,946	902	34,178	45,026	
Meetings, conferences & travel	24,901	1,914	8,217	1,058	36,090	2,595	17,055	55,740	
Postage & shipping	2,210	921	-	411	3,542	813	1,252	5,607	
Premium expense	-	-	-	16,588	16,588	-	-	16,588	
Insurance	2,592	-	-	-	2,592	2,160	33,958	38,710	
In-kind donations	-	-	-	-	-	-	106,221	106,221	
Advertising	399	-	52	-	451	3,990	468	4,909	
Uncollectible accounts	-	-	-	-	-	2,558	-	2,558	
Interest	-	-	-	-	-	-	-	-	
Depreciation expense	-	-	-	-	-	-	11,639	11,639	
Miscellaneous	68	-	-	-	68	219	179,448	179,448	
Agency account fees	-	-	-	-	-	1,049	-	1,049	
Commissions	-	2,694	-	-	2,694	12,971	-	15,665	
	<u>997,320</u>	<u>435,394</u>	<u>102,439</u>	<u>94,873</u>	<u>1,630,026</u>	<u>293,626</u>	<u>655,275</u>	<u>2,578,927</u>	

See independent auditor's report and notes to financial statements.



STATEMENT OF CASH FLOWS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (7,533)	\$ (90,966)
Adjustments to reconcile change in net assets to net cash (used) / provided in operating activities:		
Depreciation	120,296	179,448
Non-cash transactions	(11,213)	(43,141)
Net investment (gains) losses (net of fees)	(797)	(2,345)
(Increase) Decrease in operating assets:		
Receivables	22,386	(3,848)
Prepaid expenses	(31)	(31,207)
Security deposit	-	(12,600)
Increase (Decrease) in operating liabilities:		
Accounts payable	(13,938)	21,351
Accrued compensated absences	1,130	4,736
Accrued payroll	5,163	5,025
Accrued interest	1,148	409
Unearned grant revenue	33,861	-
Payroll deductions payable	499	157
<b>NET CASH (USED) / PROVIDED BY OPERATING ACTIVITIES</b>	<b>150,971</b>	<b>27,019</b>
Cash flows from investing activities:		
Purchase of equipment	(152,648)	(46,446)
<b>NET CASH (USED) / PROVIDED BY INVESTING ACTIVITIES</b>	<b>(152,648)</b>	<b>(46,446)</b>
Cash flows from capital and related financing activities:		
Borrowing from line of credit	364,258	284,500
Payment on line of credit	(272,000)	(161,500)
Payment on noninterest bearing loan (net of unamortized discount)	(18,693)	(15,248)
Payments on long-term debt	(8,783)	(8,412)
<b>NET CASH (USED) / PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>64,782</b>	<b>99,340</b>
<b>NET (DECREASE) / INCREASE IN CASH</b>	<b>63,105</b>	<b>79,913</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>183,745</b>	<b>103,832</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 246,850</b>	<b>\$ 183,745</b>
Noncash capital and related financing transactions:		
Purchase of equipment by entering into long-term debt		\$ 250,945
Purchase of equipment by entering into a capital lease	\$ 6,500	-
Donation of investments	1,165	33,093

Supplemental disclosure of cash flow information:

Cash paid during the year for interest was \$11,657 and \$11,599 respectively, none of which was capitalized.

See independent auditor's report and notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Organization and Nature of Activities**

The Upper Cumberland Broadcast Council, Inc. (the Council) is a PBS affiliated television station serving the Upper Cumberland region. On January 16, 1986, the Tennessee State Board of Education transferred to the Council all its rights to the Federal Communications Broadcast License in accordance with Chapter 514 of the Tennessee Public Broadcast Act of 1983. No value was assigned by the Council. The Council serves the citizens of the Upper Cumberland region by providing diversified programming and quality instructional programs. The Council's support comes primarily from federal and state government grants and various corporate and individual donors.

##### **Program Services**

**Production & Programing** – Is responsible for producing and selecting the programing that will be aired on WCTE and additional media platforms.

**Broadcast Engineering & Digital** – Deals with the technical side of broadcasting including keeping the equipment running and seeing that the programing is on schedule.

**Education & Outreach** – “WCTE’s educational mission is to make sure all children enter school, graduate and develop a love of learning so they can become life-long learners.”

**Development & Membership** – WCTE encourages viewers to become members. There are two ways to become a member. One is to sign up and pledge a monthly amount of at least \$5 (known as a sustainer) or by making a one-time contribution (with the option to renew annually). Anyone who contributes \$35 or more receives a bi-monthly program guide. Other memberships come with extra benefits including the option of selecting various DVD/Blue Ray CDs. WCTE also hosts special events for support. Companies can support WCTE through program sponsorships.

##### **Public Support and Revenue**

Contributions are recognized when the donor makes a promise to give to the Council that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in restricted net assets. When a restriction expires, restricted net assets are reclassified to unrestricted net asset.

##### **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.

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

##### **Cash and Cash Equivalents cash amount**

For purposes of the statements of cash flows, the Council considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **Receivables and Allowance for Bad Debts**

Receivables consist of amounts due currently from members and sponsors and grantors. Management recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The allowance for bad debts was \$2,800 at June 30, 2019 and June 30, 2018.

##### **Program Fees**

Amounts paid for programs are expensed as incurred as the programs are aired within the same fiscal year.

##### **Advertising**

Advertising is expensed as incurred. Advertising expense as of June 30, 2019, and 2018 was \$5,302 and \$4,909 respectively.

##### **Property and Equipment**

It is the Council's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies restricted net assets to unrestricted at that time.

Depreciation is calculated using the straight-line method and half-year convention over the following estimated useful lives:

Buildings	30 years
Leasehold improvements	10 years
Vehicles	5 years
Furniture, fixtures and equipment	3 – 30 years

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

##### **Compensated Absences**

Employees of the Organization are entitled to be paid for unused vacation days upon termination and retirement. The Organization accrues a liability for vacation at fiscal year-end.

##### **Income Taxes**

The Council is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. For fiscal tax years 2019 and 2018, the council reported zero unrelated business income. The Corporation uses the same accounting methods for income tax and financial reporting.

##### **Fair Value Measures**

The Organization reports its fair value measures using a fair value hierarchy defined by generally accepted accounting principles (GAAP) 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 under GAAP are:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, inputs supported by little or no market activity).

##### **Investments**

Investments in marketable securities are stated at fair value in the statements of financial position. The fair value of equity securities is determined based upon quoted prices in active markets (Level 1 measurements). Realized and unrealized gains and losses are included in the change in net assets and are included in the statements of activities as net realized and unrealized gains (losses) on investments. Estimated fair value has not decreased substantially from reported value as of the report date.

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

##### **New Accounting Pronouncement**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Council, including required disclosures about liquidity and availability of resources. The new standard is effective for the Council's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The council adopted the ASU effective July 1, 2018. Adoption of the ASU resulted in reclassification of temporary restricted net assets to restricted net assets.

##### **Classification of Net Assets**

Net assets of the Council are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets with Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Council. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or applicable state law.

##### **Pensions**

The Council contributes to a pension plan that is administered by the State of Tennessee. The plan is a component of the Public Employee Retirement Plan, an agent, multiple employer defined benefit pension plan. In 1989, the station was transferred to a community licensee and was governed by a local board of directors. At that time, the state of Tennessee, passed a bill that provided for the continuation of certain benefits (pension plan) for employees of publicly owned educational television stations. Currently there is one employee remaining on the plan that the Council makes pension contributions for. The plan is not permitted to accept new participants. The Council's participation in the plan has the following aspects:

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

- a) Assets contributed to a multiple employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If the one covered employee who is active in the plan continues to work for WCTE and the Council continues to make contributions on that employee's covered payroll, then once that employee leaves the employment of the Council, the Council will have no further obligations to make any sort of payments to the plan regardless of how underfunded it may become in the future.
- c) Given the above facts, the Council's contributions to the pension fund each year will be shown as pension expense and no liability will need to be set up on its books.

#### **NOTE 2: SAVINGS INCENTIVE MATCH**

WCTE offers up to a 3% match of employee wage contribution for a simple IRA fund if the employee is eligible. To be eligible, the employee must have earned at least \$5,000 in the prior two years and must be expected to earn \$5,000 in the current year. The Council's contributions for the year ended June 30, 2019 and 2018 were \$5,724 and \$4,038 respectively.

#### **NOTE 3: PROPERTY & EQUIPMENT**

The following is a summary of property & equipment as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Property and equipment:		
Assets not being depreciated:		
Land	\$ 23,300	\$ 23,300
Assets being depreciated:		
Building and leasehold improvements	133,465	115,179
Broadcast equipment	6,554,241	6,413,380
Automotive equipment	54,614	54,614
	<u>6,765,620</u>	<u>6,606,472</u>
Accumulated depreciation	<u>(5,446,156)</u>	<u>(5,325,859)</u>
Total property and equipment	<u>\$ 1,319,464</u>	<u>\$ 1,280,613</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$120,296 and \$179,448, respectively.

#### **NOTE 4: FUNCTIONAL ALLOCATION OF EXPENSES**

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

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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#### **NOTE 5: LINE OF CREDIT**

The Council has a \$250,000 unsecured bank line of credit with First Tennessee Bank National Association. The beginning balance on the loan was \$123,000 with additional borrowing during the months of July and August before being paid off on August 14, 2018. Additional borrowings of \$232,258 were made on the line during November, December, February and March with \$54,000 being repaid on December 21, 2018 leaving a balance of \$128,258 at March 28, 2019. On April 12, 2019 \$50,000 was paid on the line. Additional borrowings of \$87,000 left a balance of \$215,258 as of June 30, 2019. Total interest paid and accrued on the loan during the year amounted to \$5,996. The line of credit bears interest at 1% above the lender's base commercial rate index.

#### **NOTE 6: CONCENTRATIONS**

The Council receives approximately 65% of its revenues from grant funding sources. The Council must make an annual application for these funds and no guarantees exist that these funds will be received.

Financial instruments that potentially subject the Council to concentrations of credit risk consist principally of cash, marketable securities, and receivables.

The Council maintains its cash accounts in commercial banks located in Tennessee. Accounts at each bank are guaranteed by the federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Amounts on deposit at various times through the year in a single financial institution exceeded the \$250,000 federally insured limit. There were no uninsured balances at June 30, 2019.

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Accounts and other receivables are due from a variety of sources concentrated primarily within Tennessee. The grant receivable is amounts due from CPB and the state of Tennessee.

Management believes that the Council is not exposed to any significant credit risk related to the above accounts and therefore, does not require any collateral or other security.

#### **NOTE 7: UNEARNED RENTAL INCOME**

The Council entered into a couple of leases, over the years, in which the rent was paid with a lump-sum-up-front payment. The Council has shown these amounts as liabilities and has been recognizing the income ratable over the years. Rental income recognized for 2019 and 2018 is \$10,048 for each year.

The Council's unearned rental income at June 30, 2019 and 2018 was \$68,394 and \$58,345 respectively and includes both leases.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

**NOTE 8: DONATED MATERIALS, FACILITIES AND SERVICES**

Contributions received are recorded as unrestricted, or restricted support depending on the existence or nature of any donor restrictions.

The Council utilizes donated facilities from Tennessee Technological University. These facilities consist of office and studio space. The estimated fair rental value as of June 30, 2019 and June 30, 2018 was \$54,164 (10 months) and \$65,952 (12 months) respectively. The estimated fair rental is based upon current market conditions within the local area.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recorded \$ 6,415 and \$9,293 in donated services in the years ended June 30, 2019 and 2018, respectively all of which was charged to management and general expenses. Additionally, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but those services did not meet the criteria for recognition and have not been recognized in these financial statements.

**NOTE 9: LONG-TERM DEBT**

Long-term debt consists of the following at June 30, 2019:

	Principal		
Note payable to Progressive Savings Bank due in monthly installments of \$837, including interest at 4.25%, expiring in January 2022. The note is secured by a Harmonic encoding system with a book value of \$18,000.	<u>\$24,468</u>		
	Principal	Unamortized Discount	Net
Note payable to Hitachi Kokusai Electric Comark LLC, noninterest bearing note issued in connection with acquisition of equipment, due August 2029 (discount is based on imputed interest rate of 2.336%)	<u>\$244,000</u>	<u>\$26,997</u>	<u>\$217,003</u>

Maturities of the note payable are as follows:

<u>Years</u> <u>ending June</u> <u>30,</u>	<u>Principal</u>	<u>Unamortized</u> <u>Discount</u>	<u>Net</u>
2020	\$33,157	\$4,865	\$28,292
2021	33,553	4,413	29,140
2022	29,758	3,951	25,807
2023	24,000	3,477	20,523
2024	24,000	2,993	21,007
Thereafter	<u>124,000</u>	<u>7,298</u>	<u>116,702</u>
Total	<u>\$268,468</u>	<u>\$26,997</u>	<u>\$241,471</u>



## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

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#### **NOTE 10: CAPITAL LEASE**

The Organization is leasing an encoder under a 24-month capital lease. The fair-market value of the equipment is \$6,500. As of June 30, 2019, no payments have been made on the lease. Future minimum lease payments under the lease are as follows:

<u>Years</u> <u>ending June 30</u>	<u>Lease</u> <u>Payment</u>	<u>Portion</u> <u>Considered</u> <u>Interest</u>	<u>Net</u> <u>Payments</u>
2020	\$3,647	\$579	\$3,068
2021	3,647	215	3,432
Total Minimum Lease Payments	7,294	794	6,500
Less: Portion Considered Interest	794		
	<u>6,500</u>		

#### **NOTE 11: OPERATING LEASE COMMITMENTS**

The Council is obligated under various non-cancelable leases for office equipment and an automobile in approximate annual amounts. Minimum lease commitments under these leases are as follows:

For the year ending June 30,	
2020	<u>\$3,367</u>
	<u>\$3,367</u>

Minimum lease expense was \$5,741 and \$5,164 for the fiscal years ended June 30, 2019 and 2018, respectively.

#### **NOTE 12: OTHER COMMITMENTS AND CONTINGENCIES**

Certain contracts and grants received by the Organization are subject to audit or review by the grantor/payer agencies. Because of these audits or reviews, the Organization may be required to repay a portion of grant or contract funds received. However, management does not believe any liability related to its grants and contracts would be material.

#### **NOTE 13: STRATEGIC PLANNING ACCOUNT / ENDOWMENT**

The Organization turned 40 years old during the 2018 fiscal year and the board instituted a special fundraising drive known as “40 for 22.” All amounts received under the “40 for 22” campaign are deposited into the *strategic planning* account. The board is going to use the funds from the *strategic planning* account to establish an endowment fund. During the year the Organization raised \$79,680 in contributions from the drive.

The funds are still considered unrestricted for reporting purposes, but the internal restriction is shown on the statement of financial position as “Unrestricted net assets (board designated).”

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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**NOTE 14: TOWER RENTAL**

The Corporation receives revenue for tower rental under two operating leases with remaining terms of 5 months (with option to extend for an additional two years) and 85 months (with an option for lessee to extend for an additional two terms of ten years each). Both leases allow for an increase in price based on an inflation index.

Future minimum rentals under the above leases for the next five years are as follows:

<u>Year Ending June 30</u>	
2020	27,561
2021	26,061
2022	26,061
2023	26,061
2024	26,061
	<u>\$ 136,605</u>

**NOTE 15: LIQUIDITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets at year-end:	
Cash	\$ 246,850
Accounts receivable	24,858
Grants receivable	7,018
Investments	<u>46,494</u>
Total financial Assets	<u>325,220</u>
Less amounts not available to be used for general expenditures within one year:	
Cash	246,850
Investments	34,559
Accounts receivable	<u>5,269</u>
Financial assets not available to be used within one year	<u>286,678</u>
Financial assets available to meet general expenditures within one year	<u>\$ 38,542</u>

The funds in the strategic planning account have been board designated along with two stocks and are not available for general expenditures. However, the board designated amounts could be made available, if necessary. As part of the Council's liquidity management plan, it structures its financial assets to be available as its obligations come due. In addition, the amount in restricted fund balance is not available for general expenditures in the next year.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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**NOTE 16: INTEREST COST**

Total interest cost incurred during 2019 and 2018 was \$12,806 and \$11,639, respectively, none of which was capitalized

**NOTE 17: FAIR VALUE MEASUREMENT**

The following table presents the assets and liabilities recognized in the accompanying statements of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at June 30, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2019</u>			
U.S. Corporate equities	\$ 19,635	\$ --	\$ --
Mutual Funds	22,820	--	--
Cash & Cash Alternatives	4,494	--	--
Total	<u>\$ 46,949</u>	<u>\$ --</u>	<u>\$ --</u>
<u>2018</u>			
U.S. Corporate equities	\$ 18,674	\$ --	\$ --
Mutual Funds	22,243	--	--
Cash & Cash Alternatives	4,071	--	--
Total	<u>\$ 44,988</u>	<u>\$ --</u>	<u>\$ --</u>

Investments earned the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 1,625	\$ 394
Unrealized gains (losses)	(587)	598
Realized gains (losses)	--	1,302
	<u>\$ 1,038</u>	<u>\$ 2,294</u>

Determinations of transfers between levels are made at June 30 of each fiscal year. There were no transfers during either year.

**NOTE 18: DEFINED BENEFIT PENSION PLAN**

**General Information about the Pension Plan**

*Plan description.* State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014 but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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**NOTE 18: DEFINED BENEFIT PENSION PLAN, (continued)**

The TCRS was created by state statute under Title 8, Chapters 34-37, Tennessee Code Annotated. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-InvestmentPolicies>.

*Benefits provided.* Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	X	1.50%	X	Years of Service Credit	X	105%
<b>Plus:</b> Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	X	1.75%		Years of Service Credit		105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Contributions.* Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Council's employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by the Council for the year ended June 30, 2019 and 2018 to the Closed State and Higher Education Employee Pension Plan were \$14,828 and \$14,830 which is 18.62% & 18.82% of covered payroll respectively for 2019 and 2018. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any liability.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2019 and 2018

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**NOTE 18: DEFINED BENEFIT PENSION PLAN, (continued)**

**Pension Liabilities (Assets), Pension Expense (Negative Pension Expense), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension liabilities (assets).* At June 30, 2019 and 2018, the Council did not report a liability (asset) because it will not accrue any liability if it continues to make its prescribed actuarially determined contributions into the plan. At the time the one employee retires that is covered by the TCRS pension plan, it will no longer be required to make any sort of contributions to the plan.

*Pension expense (negative pension expense).* For the years ended June 30, 2019 & 2018, the Council recognized a pension expense (negative pension expense) of \$14,828 and \$14,830, respectively.

*Deferred outflows of resources and deferred inflows of resources.* For the year ended June 30, 2019 and 2018, the Council reported no deferred outflows of resources or deferred inflows of resources related to pensions.

**NOTE 19: SUBSEQUENT EVENTS**

After the statement of financial position date, the Council borrowed an additional \$21,000 in July and August. The credit line was repaid in full, on August 16, 2019 in the amount of \$236,258 plus interest and late fees of \$1,942. In September and October an additional \$120,500 was borrowed and repaid in full on November 29, 2019.

A direct appropriation grant from the State of Tennessee has been received in August 2019 in the amount of \$430,793. Three grants from the Corporation of Public Broadcasting totaling \$785,928 have been finalized with all paperwork completed. One payment has already been received on the grant. On July 22, 2019 one of the board members loaned \$58,715, at 0% interest, to the Council and was repaid on August 16, 2019. In July, the Council, transferred \$190,000 to open the endowment account and start investing the monies received from the "40 for 22" campaign. Subsequent events have been evaluated for accrual and/or disclosure through January 9, 2020, the date the financial statements were available to be released.