

AUDITED FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST
COUNCIL, INC.
COOKEVILLE, TENNESSEE

June 30, 2018 and 2017

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C O N T E N T S

Audited Financial Statements:

Independent Auditor's Report	Page 3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses.....	7
Statement of Cash Flows	8
Notes to Financial Statements	9

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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, 2018 and 2017, 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.

Opinion

In my opinion, 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, 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.

Other Matters

Summarized Comparative Information and Prior Period Adjustment

The statement of functional expenses is shown with 2017 comparative totals only. Also, the 2017 financial statements were restated due to a prior period adjustment. These facts do not change my opinion on the financial statements.

David Melton, CPA

Certified Public Accountant

McMinnville, Tennessee

November 29, 2018

STATEMENT OF FINANCIAL POSITION

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 183,745	\$ 103,832
Accounts receivable	13,227	30,092
Memberships receivable	2,020	-
Grants receivable	39,015	20,322
Prepaid expenses	31,207	-
Investments	44,988	9,550
TOTAL CURRENT ASSETS	<u>314,202</u>	<u>163,796</u>
Property and equipment, net	1,280,613	1,162,671
Deposits	<u>12,600</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,607,415</u>	<u>\$ 1,326,467</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 38,585	\$ 17,234
Accrued payroll	41,960	36,935
Payroll deductions payable	3,133	2,976
Line of credit	123,000	-
Accrued compensated absences	37,272	32,536
Accrued interest	409	-
Unearned rental income - current	10,049	10,049
Current portion of long-term debt	<u>27,470</u>	<u>8,412</u>
TOTAL CURRENT LIABILITIES	<u>281,878</u>	<u>108,142</u>
<u>NON-CURRENT LIABILITIES</u>		
Long-term note payable (net of current portion)	24,474	33,251
\$268,000 principal amount, noninterest bearing note, less unamortized discount based on imputed interest rate of 2.336% , \$32,304 (net of current portion)	217,003	-
Unearned rental income - deferred	<u>58,345</u>	<u>68,393</u>
TOTAL NONCURRENT LIABILITIES	<u>299,822</u>	<u>101,644</u>
TOTAL LIABILITIES	<u>581,700</u>	<u>209,786</u>
<u>NET ASSETS</u>		
Unrestricted net assets (operating)	862,808	1,028,346
Unrestricted net assets (board designated)	128,425	25,097
Temporarily restricted net assets	<u>34,482</u>	<u>63,238</u>
TOTAL NET ASSETS	<u>1,025,715</u>	<u>1,116,681</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,607,415</u>	<u>\$ 1,326,467</u>

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, 2018 and 2017

	Unrestricted	Temporarily Restricted	2018 Total	Unrestricted	Temporarily Restricted	2017 Total
<u>SUPPORT AND REVENUE</u>						
State of Tennessee - Appropriation	\$ 430,793	\$ -	\$ 430,793	\$ 430,793	\$ -	430,793
Corp. for Public Broadcasting:						
Community service grant	618,839	-	618,839	608,914	-	608,914
Interconnection grant	11,808	-	11,808	11,515	-	11,515
Healthy station grant	56,250	18,750	75,000	-	-	-
Emergency relief funds	-	-	-	-	-	-
Universal Service Support Grant	132,942	-	132,942	133,322	-	133,322
American graduate grant	-	-	-	6,777	-	6,777
Ready-to-learn grant	77,248	-	77,248	122,293	-	122,293
Other grants	228,396	-	228,396	71,481	2,039	73,520
Local government	48,000	-	48,000	35,000	-	35,000
Donated facilities	65,952	-	65,952	65,952	-	65,952
In-kind	40,269	-	40,269	46,419	-	46,419
Auction revenue	100,080	-	100,080	105,172	-	105,172
Development event revenue	98,906	-	98,906	99,997	-	99,997
Royalties	1,688	-	1,688	768	-	768
Membership revenue	189,544	-	189,544	210,270	-	210,270
40 for 22 Campaign	100,567	-	100,567	-	-	-
Contributions	31,882	-	31,882	31,590	-	31,590
Underwriting revenue	82,518	-	82,518	101,909	-	101,909
Productions	28,682	-	28,682	25,021	-	25,021
Broadcast revenue	60,561	-	60,561	58,026	-	58,026
Engineering services	44,964	-	44,964	25,100	-	25,100
Rental revenues	10,048	-	10,048	10,048	-	10,048
Net realized and unrealized gains (losses)	-	-	-	-	-	-
on investments	2,294	-	2,294	(1,630)	-	(1,630)
Net gain (loss) on asset disposals	-	-	-	(21,263)	-	(21,263)
Miscellaneous income	6,980	-	6,980	2,021	-	2,021
Net assets released from restrictions	47,506	(47,506)	-	36,389	(36,389)	-
Total public support, revenues, and reclassifications	<u>2,516,717</u>	<u>(28,756)</u>	<u>2,487,961</u>	<u>2,215,884</u>	<u>(34,350)</u>	<u>2,181,534</u>
<u>EXPENSES</u>						
Production and programming	997,320	-	997,320	748,692	-	748,692
Broadcast and technical	435,394	-	435,394	424,284	-	424,284
Education and outreach	102,439	-	102,439	187,482	-	187,482
Membership	94,873	-	94,873	85,733	-	85,733
Development and fundraising	293,626	-	293,626	325,075	-	325,075
Management and general	655,275	-	655,275	762,898	-	762,898
Total expenses	<u>2,578,927</u>	<u>-</u>	<u>2,578,927</u>	<u>2,534,164</u>	<u>-</u>	<u>2,534,164</u>
Change in net assets	(62,210)	(28,756)	(90,966)	(318,280)	(34,350)	(352,630)
Net assets at beginning of year	1,053,443	63,238	1,116,681	1,434,881	97,588	1,532,469
Prior period adjustment	-	-	-	(63,158)	-	(63,158)
NET ASSETS AT END OF YEAR	\$ <u>991,233</u>	\$ <u>34,482</u>	\$ <u>1,025,715</u>	\$ <u>1,053,443</u>	\$ <u>63,238</u>	\$ <u>1,116,681</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

For years ended June 30, 2018 with comparative totals as of June 30, 2017

	Program Services				Total Program Services	Supporting Services		Totals	
	Production & Programing	Broadcast Engineering & Digital	Education & Outreach	Membership		Development & Fundraising	Management & General	<u>2018</u>	<u>2017</u>
Compensation & related expenses									
Compensation	\$ 194,154	\$ 170,171	\$ 33,085	\$ 17,347	\$ 414,757	\$ 141,930	\$ 108,865	\$ 665,552	\$ 632,290
Employee benefits	17,202	18,685	2,742	-	38,629	11,053	24,057	73,739	72,748
Payroll taxes	11,728	12,334	2,519	1,382	27,963	11,343	10,761	50,067	48,789
Total Compensation & related expenses	223,084	201,190	38,346	18,729	481,349	164,326	143,683	789,358	753,827
Supplies	12,945	3,999	9,761	302	27,007	28,130	5,854	60,991	102,900
Minor equipment	875	4,584	-	-	5,459	-	62	5,521	10,696
Gas & auto expenses	1,324	119	443	-	1,886	2,187	2,414	6,487	4,170
Items purchased	-	-	-	-	-	4,013	-	4,013	12,177
Purchased and professional services	244,140	64,731	41,061	55,303	405,235	33,233	97,658	536,126	336,290
Printing & publications	13,391	-	1,125	1,890	16,406	7,071	-	23,477	20,763
Communications & utilities	3,050	135,519	-	-	138,569	5,831	12,201	156,601	171,279
Special events	-	-	3,434	592	4,026	500	1,421	5,947	10,740
Programming	442,024	-	-	-	442,024	-	-	442,024	433,495
Rent	15,339	477	-	-	15,816	21,078	7,181	44,075	43,557
Maintenance	1,207	19,071	-	-	20,278	-	582	20,860	27,695
Membership fees & dues	9,771	175	-	-	9,946	902	34,178	45,026	44,062
Meetings, conferences & travel	24,901	1,914	8,217	1,058	36,090	2,595	17,055	55,740	52,906
Postage & shipping	2,210	921	-	411	3,542	813	1,252	5,607	6,144
Premium expense	-	-	-	16,588	16,588	-	-	16,588	26,396
Insurance	2,592	-	-	-	2,592	2,160	33,958	38,710	41,327
In-kind donations	-	-	-	-	-	-	106,221	106,221	94,443
Advertising	399	-	52	-	451	3,990	468	4,909	20,512
Uncollectible accounts	-	-	-	-	-	2,558	-	2,558	7,360
Interest	-	-	-	-	-	-	11,639	11,639	1,636
Depreciation expense	-	-	-	-	-	-	179,448	179,448	283,738
Miscellaneous	68	-	-	-	68	219	-	287	7,365
Agency account fees	-	-	-	-	-	1,049	-	1,049	1,393
Commissions	-	2,694	-	-	2,694	12,971	-	15,665	19,293
	<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>	<u>2,534,164</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (90,966)	\$ (352,630)
Adjustments to reconcile change in net assets to net cash (used) / provided in operating activities:		
Depreciation	179,448	283,738
Non-cash transactions	(43,141)	(9,100)
Net investment (gains) losses	(2,345)	1,630
(Increase) Decrease in operating assets:		
Receivables	(3,848)	59,623
Accrued grant revenue	-	56,729
Prepaid expenses	(31,207)	17,419
Security deposit	(12,600)	-
Increase (Decrease) in operating liabilities:		
Accounts payable	21,351	(5,757)
Accrued compensated absences	4,736	4,041
Accrued payroll	5,025	927
Accrued interest	409	-
Payroll deductions payable	157	(690)
NET CASH (USED) / PROVIDED BY OPERATING ACTIVITIES	27,019	55,930
Cash flows from investing activities:		
Reinvestment of interest and dividends	-	13
Purchase of equipment	(46,446)	(11,413)
NET CASH (USED) / PROVIDED BY INVESTING ACTIVITIES	(46,446)	(11,400)
Cash flows from capital and related financing activities:		
Borrowing from line of credit	284,500	150,000
Payment on line of credit	(161,500)	(150,000)
Payment on noninterest bearing loan (net of unamortized discount)	(15,248)	-
Payments on long-term debt	(8,412)	(3,401)
NET CASH (USED) / PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	99,340	(3,401)
NET (DECREASE) / INCREASE IN CASH	79,913	41,129
CASH AT BEGINNING OF YEAR	103,832	62,703
CASH AT END OF YEAR	\$ 183,745	\$ 103,832
Noncash capital and related financing transactions:		
Purchase of equipment by entering into long-term debt	\$ 250,945	\$ 45,000
Donation of vehicles and equipment	-	20,428
Donation of investments	33,093	-

Supplemental disclosure of cash flow information:

Cash paid during the year for interest was \$11,599 and \$1,636 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, 2018 and 2017

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 temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily 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, 2018 and 2017

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, 2018 and \$5,535 at June 30, 2017.

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, 2018, and 2017 was \$4,909 and \$20,512 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 temporarily 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, 2018 and 2017

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

Financial Statement Presentation

The Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Summarized Information

Certain information has been summarized into one total column for the 2017 year in the “Statement of Functional Expenses” on page 7.

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 2018 and 2017, 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).

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

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

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.

NOTE 2: EMPLOYEE BENEFIT PLAN

The State of Tennessee, Public Chapter No. 339, house Bill No. 304, provides for the continuation of certain benefits for employees of publicly owned educational television stations. Certain employees may elect to remain a member of the State of Tennessee Consolidated Retirement System with the Council being responsible for all employer costs incurred as a result of the employees electing to remain a member of the retirement system. The plan is not permitted to accept new participants. Employer contributions for the years 2018 and 2017 were \$14,830 and \$11,389 respectively.

NOTE 3: 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, 2018 and 2017 were \$4,038 and \$5,232 respectively.

NOTE 4: PROPERTY & EQUIPMENT

The following is a summary of property & equipment as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Property and equipment:		
Assets not being depreciated:		
Land	\$ 23,300	\$ 23,300
Assets being depreciated:		
Building and leasehold improvements	115,178	115,179
Broadcast equipment	6,413,380	6,115,990
Automotive equipment	54,614	54,614
	<u>6,606,472</u>	<u>6,309,083</u>
Accumulated depreciation	<u>(5,325,859)</u>	<u>(5,146,412)</u>
Total property and equipment	<u>\$ 1,280,613</u>	<u>\$ 1,162,671</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$179,448 and \$283,738, respectively.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

NOTE 5: 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.

NOTE 6: LINE OF CREDIT

The Council has a \$150,000 unsecured bank line of credit with First Tennessee Bank National Association. \$141,500 was borrowed during the months of July, August and September. The credit line was repaid in full on September 29, 2017. Additional borrowings of \$143,000 were made on the line during February and March with \$20,000 being repaid on June 8, 2018 leaving a balance of \$123,000 at June 30, 2018. Total interest paid and accrued on the loan during the year amounted to \$3,950. The line of credit bears interest at 1% above the lender's base commercial rate index. On June 7, 2018, the credit line was extended to \$250,000.

NOTE 7: 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 exceed the \$250,000 federally insured limit. There were no uninsured balances at June 30, 2018.

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.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

NOTE 8: DONATED MATERIALS, FACILITIES AND SERVICES

Contributions received are recorded as unrestricted, temporarily restricted or permanently 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, 2018 and June 30, 2017 was \$65,952 each year. 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 \$9,293 and \$9,690 in donated services in the years ended June 30, 2018 and 2017, 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, 2018:

	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 \$27,000.	<u>\$33,251</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>\$268,000</u>	<u>\$32,304</u>	<u>\$235,696</u>

Maturities of the note payable are as follows:

<u>Years ending June 30.</u>	<u>Principal</u>	<u>Unamortized Discount</u>	<u>Net</u>
2019	\$32,777	\$5,307	\$27,470
2020	33,157	4,865	28,292
2021	33,553	4,413	29,140
2022	29,764	3,951	25,813
2023	24,000	3,477	20,523
Thereafter	<u>148,000</u>	<u>10,291</u>	<u>137,709</u>
Total	<u>\$301,251</u>	<u>\$32,304</u>	<u>\$268,947</u>

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

NOTE 10: INTEREST COST

Total interest cost incurred during 2018 and 2017 was \$11,639 and \$1,636, respectively, none of which was capitalized.

NOTE 11: SUBSEQUENT EVENTS

After the statement of financial position date, the Council borrowed an additional \$46,000 in July and August. The credit line was repaid in full, on August 14, 2018, in the amount of \$168,000 with interest.

A direct appropriation grant from the State of Tennessee has been received in August 2018 in the amount of \$430,793. Three grants from the Corporation of Public Broadcasting totaling \$764,836 are pending the completion of certain legal paper work and financial reporting. Subsequent events have been evaluated for accrual and/or disclosure through November 29, 2018, the date the financial statements were available to be released.

NOTE 12: TOWER RENTAL

The Corporation receives revenue for tower rental under three operating leases with remaining terms of 6 months, 17 months (with option to extend for an additional two years) and 97 months (with an option for lessee to extend for an additional two terms of ten years each). All three 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>	
2019	\$ 30,861
2020	27,561
2021	26,061
2022	26,061
2023	<u>26,061</u>
	<u>\$ 136,605</u>

NOTE 13: 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,	
2019	\$7,024
2020	<u>3,367</u>
	<u>\$10,391</u>

Minimum lease expense was \$5,164 and \$5,314 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

NOTE 14: 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 15: STRATEGIC PLANNING ACCOUNT / ENDOWMENT

The Organization turned 40 years old during the 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. Eventually the board would like to use the funds from the *strategic planning* account to establish an endowment fund. During the year the Organization raised \$100,567 in contributions from the drive, including \$33,284 that were in-kind donations of securities.

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).”

NOTE 16: PRIOR PERIOD ADJUSTMENT

Upon review of lease agreements, a determination was made that a lease obligation had not been properly accounted for in the financial statements. On August 1, 2006 a lease was signed that in consideration of an upfront payment of \$100,000 the Organization would provide “288 square feet of building space in the WCTE transmitter building,” up until July 1, 2033, at which time a monthly rental payment would be required.

A prior period adjustment has been made to the financial statements to show the effect of the above transaction. The result is a reduction in “unrestricted net assets” of \$63,158 and a corresponding increase in “unearned rental income – deferred”.

NOTE 17: UNEARNED RENTAL INCOME

As of July 1, 2005, the Council entered a fifteen-year contract to lease a transmitter building and related improvements located on property the Council owns in Putnam County, Tennessee. The terms of the contract stated that the Council received all rents for the contract period upfront.

As noted above in note 16, a second lease agreement was signed on August 1, 2006 with similar terms.

The Council’s unearned rental income at June 30, 2018 and 2017 was \$68,394 and \$78,442 respectively and includes both leases.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2018 and 2017

NOTE 18: 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, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2018</u>			
U.S. Corporate equities	\$ 18,674	\$ --	\$ --
Mutual Funds	22,243	--	--
Bank Deposit Program	4,071	--	--
Total	<u>\$ 44,988</u>	<u>\$ --</u>	<u>\$ --</u>
<u>2017</u>			
U.S. Corporate equities	\$ 6,673	\$ --	\$ --
Bank Deposit Program	2,877	--	--
Total	<u>\$ 9,550</u>	<u>\$ --</u>	<u>\$ --</u>

Investments earned the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 394	\$ 235
Unrealized gains (losses)	598	(1,865)
Realized gains (losses)	1,302	0
	<u>\$ 2,294</u>	<u>\$ (1,630)</u>

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