

AUDITED FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST  
COUNCIL, INC.  
COOKEVILLE, TENNESSEE

June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Report on Summarized Comparative Information**

I have previously audited the Upper Cumberland Broadcast Council, Inc.'s 2015 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated November 5, 2015. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I also issued my report dated November 14, 2016, on my consideration of the Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and compliance.

*Daniel Melton, CPA*

Certified Public Accountant  
November 14, 2016



STATEMENT OF FINANCIAL POSITION

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 62,703	\$ 99,016
Accounts receivable	40,156	22,871
Memberships receivable	250	1,500
Grants receivable	69,631	6,508
Accrued grant revenue	56,729	40,980
Prepaid Expenses	17,419	-
Investments	11,243	10,073
TOTAL CURRENT ASSETS	<u>258,131</u>	<u>180,948</u>
Property and equipment, net	<u>1,390,830</u>	<u>1,612,518</u>
TOTAL ASSETS	<u>\$ 1,648,961</u>	<u>\$ 1,793,466</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 22,991	\$ 32,285
Accrued Payroll	36,008	26,008
Payroll deductions payable	3,666	3,572
Accrued compensated absences	28,495	24,855
Current portion of long-term lease obligation	-	2,752
Unearned rental income - current	6,334	6,334
TOTAL CURRENT LIABILITIES	<u>97,494</u>	<u>95,806</u>
<u>NON-CURRENT LIABILITIES</u>		
Unearned rental income - deferred	<u>18,999</u>	<u>25,332</u>
TOTAL NONCURRENT LIABILITIES	<u>18,999</u>	<u>25,332</u>
TOTAL LIABILITIES	<u>116,493</u>	<u>121,138</u>
<u>NET ASSETS</u>		
Unrestricted net assets	1,434,880	1,672,328
Temporarily restricted net assets	97,588	-
TOTAL NET ASSETS	<u>1,532,468</u>	<u>1,672,328</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,648,961</u>	<u>\$ 1,793,466</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, 2016 with comparative totals as of June 30, 2015

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<u>SUPPORT AND REVENUE</u>				
State of Tennessee - Appropriation	\$ 430,793	\$	\$ 430,793	\$ 430,793
Corp. for Public Broadcasting:				
Community service grant	615,037		615,037	650,554
Interconnection grant	11,279		11,279	11,769
Local service grant	69,198		69,198	56,967
Emergency relief funds	10,000		10,000	-
BGU Grant	-		-	75,887
American graduate grant	105,304		105,304	79,327
Ready-to-learn grant	89,633		89,633	64,295
PBS Warn grant	-		-	72,070
USDA - Discover the upper Cumberland	31,595		31,595	-
Other grants	44,576	17,672	62,248	44,233
Local government	43,700		43,700	37,700
Donated facilities	65,952		65,952	74,190
In-kind	46,449		46,449	43,528
Auction revenue	94,234		94,234	113,370
Development event revenue	101,944		101,944	81,542
Royalties	2,008		2,008	1,905
Membership revenue	167,651		167,651	143,047
Contributions	37,093	79,916	117,009	16,679
Underwriting revenue	92,768		92,768	121,663
Productions	24,739		24,739	21,805
Broadcast revenue	52,607		52,607	48,153
Rental revenues	6,333		6,333	6,333
Net realized and unrealized gains (losses) on investment	847		847	1,951
Miscellaneous income	841		841	946
Total public support, revenues, and reclassifications	<u>2,144,581</u>	<u>97,588</u>	<u>2,242,169</u>	<u>2,198,707</u>
<u>EXPENSES</u>				
Production and programming	712,162		712,162	744,170
Broadcast and technical	405,237		405,237	395,877
Education and outreach	174,649		174,649	141,583
Membership	80,389		80,389	55,555
Development and fundraising	268,920		268,920	239,035
Management and general	740,672		740,672	781,422
Total expenses	<u>2,382,029</u>	<u>-</u>	<u>2,382,029</u>	<u>2,357,642</u>
Change in net assets	(237,448)	97,588	(139,860)	(158,935)
Net assets at beginning of year	<u>1,672,328</u>	<u>-</u>	<u>1,672,328</u>	<u>1,831,263</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,434,880</u>	<u>\$ 97,588</u>	<u>\$ 1,532,468</u>	<u>\$ 1,672,328</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, 2016 with comparative totals as of June 30, 2015

	Program Services				Total Program Services	Supporting Services		Totals	
	Production & Programing	Broadcast Engineering & Digital	Education & Outreach	Membership		Development & Fundraising	Management & General	<u>2016</u>	<u>2015</u>
Compensation & related expenses									
Compensation	\$ 141,613	\$ 172,469	\$ 69,928	\$ 16,008	\$ 400,018	\$ 133,703	\$ 90,327	\$ 624,048	\$ 540,009
Employee benefits	15,404	14,899	5,653	-	35,956	12,095	18,357	66,408	52,753
Payroll taxes	8,829	14,009	8,110	1,463	32,411	11,499	6,320	50,230	45,062
Total Compensation & related expenses	165,846	201,377	83,691	17,471	468,385	157,297	115,004	740,686	637,824
Supplies	4,431	3,160	7,142	369	15,102	21,557	4,619	41,278	46,992
Minor equipment	3,178	6,311	1,740	420	11,649	1,556	138	13,343	14,224
Gas & auto expenses	837	457	35	-	1,329	665	354	2,348	4,898
Professional services	5,324	-	-	-	5,324	741	83,240	89,305	72,808
Printing & publications	13,379	1,284	5,439	840	20,942	5,888	-	26,830	12,229
Purchased services	70,475	37,739	41,900	30,874	180,988	19,433	17,834	218,255	238,931
Communications & utilities	1,684	139,405	-	-	141,089	5,713	13,103	159,905	184,367
Special events	-	-	11,484	1,862	13,346	6,393	2,158	21,897	9,193
Programming	421,627	-	-	-	421,627	-	-	421,627	439,918
Rent	12,367	-	-	-	12,367	21,456	8,136	41,959	34,181
Maintenance	709	8,215	-	-	8,924	-	483	9,407	33,201
Membership fees & dues	7,387	-	75	1,000	8,462	250	36,319	45,031	36,385
Meetings, conferences & travel	3,255	3,459	22,905	-	29,619	3,038	14,788	47,445	36,754
Postage & shipping	760	3,830	219	1,812	6,621	1,367	1,207	9,195	6,167
Premium expense	-	-	-	25,726	25,726	-	-	25,726	22,239
Insurance	-	-	-	-	-	1,682	39,676	41,358	37,889
In-kind donations	-	-	-	-	-	-	112,401	112,401	117,447
Advertising	-	-	19	15	34	3,800	-	3,834	15,043
Uncollectible accounts	-	-	-	-	-	2,311	-	2,311	3,358
Interest	-	-	-	-	-	-	758	758	2,345
Depreciation expense	-	-	-	-	-	-	290,164	290,164	324,043
Miscellaneous	903	-	-	-	903	33	290	1,226	1,506
Agency account fees	-	-	-	-	-	294	-	294	992
Commissions	-	-	-	-	-	15,446	-	15,446	24,708
	<u>712,162</u>	<u>405,237</u>	<u>174,649</u>	<u>80,389</u>	<u>1,372,437</u>	<u>268,920</u>	<u>740,672</u>	<u>2,382,029</u>	<u>2,357,642</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, 2016 with comparative totals as of June 30, 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (139,860)	\$ (158,935)
Adjustments to reconcile change in net assets to net cash (used) / provided in operating activities:		
Depreciation	290,164	324,043
Net investment (gains) losses	(847)	(1,901)
(Increase) Decrease in operating assets:		
Receivables	(79,158)	19,474
Employee receivable	-	329
Accrued grant revenue	(15,749)	(40,980)
Prepaid expenses	(17,419)	
Increase (Decrease) in operating liabilities:		
Accounts payable	(9,294)	(114,515)
Accrued compensated absences	3,640	(497)
Accrued payroll	10,000	368
Payroll deductions payable	94	267
<b>NET CASH (USED) / PROVIDED BY OPERATING ACTIVITIES</b>	<b>41,571</b>	<b>27,653</b>
Cash flows from investing activities:		
Proceeds from sale of investments	11,760	80,276
Purchase of Investments	(12,144)	-
Reinvestment of interest and dividends	62	75
Purchase of equipment	(68,476)	(157,044)
<b>NET CASH (USED) / PROVIDED BY INVESTING ACTIVITIES</b>	<b>(68,798)</b>	<b>(76,693)</b>
Cash flows from financing activities:		
Borrowing from line of credit	90,000	10,000
Payment on line of credit	(90,000)	(100,000)
Payment on long-term lease obligation	(2,752)	(3,719)
Net unearned revenue collected (earned)	(6,334)	(6,334)
<b>NET CASH (USED) / PROVIDED BY FINANCING ACTIVITIES</b>	<b>(9,086)</b>	<b>(100,053)</b>
<b>NET (DECREASE) / INCREASE IN CASH</b>	<b>(36,313)</b>	<b>(149,093)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>99,016</b>	<b>248,109</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 62,703</b>	<b>\$ 99,016</b>
Noncash investing and financing transactions:		
Book value of assets added to replacement asset	\$ -	\$ 6,611

Supplemental disclosure of cash flow information:

Cash paid during the year for interest was \$758 and \$2,345 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, 2016 with comparative totals as of June 30, 2015

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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. 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.

#### **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. All promises to give at June 30, 2016 and 2015 were due in one year.

#### **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.

#### **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**

Receivables consist of amounts due currently from members and sponsors and grantors. The Council considers any amount over 90 days old to be past due. Management evaluates the need to write-off a receivable based on its review of accounts receivable and historical collection experience. Management writes off a receivable as a charge to bad debt expense, when in its estimation, it is probable the receivable is worthless. Recoveries of accounts previously written off are recorded as reduction in bad debt expense when collected. The Council believes that all accounts receivable at June 30, 2016 and 2015 will be fully collected. Accordingly, no allowance for doubtful accounts is required.

#### **Program Fees**

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

## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

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

#### **Advertising**

Advertising is expensed as incurred. Advertising expense as of June 30, 2016 and 2015 was \$3,834 and \$15,043 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

#### **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.

#### **Reclassification**

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

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

#### **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 2016 and 2015, the council reported zero unrelated business income. The Corporation uses the same accounting methods for income tax and financial reporting.

Management has evaluated its tax positions for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2013, 2014, and 2015 tax years. However, the Corporation is not currently under audit nor has the Corporation been contacted by any jurisdiction. Based on the evaluation of the Corporation's tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the fiscal year ended June 30, 2016.

#### **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.



## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

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#### **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 2016 and 2015 were \$9,204 and \$10,853 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, 2016 and 2015 were \$5,112 and \$2,900 respectively.

#### **NOTE 4: PROPERTY & EQUIPMENT**

The following is a summary of property & equipment as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Property and equipment:		
Land	\$ 23,300	\$ 23,300
Building and leasehold improvements	126,648	122,718
Broadcast equipment	6,790,900	6,726,353
Automotive equipment	41,321	41,321
	<u>6,982,169</u>	<u>6,913,692</u>
Accumulated depreciation	(5,591,339)	(5,301,174)
Total property and equipment	<u>\$ 1,390,830</u>	<u>\$ 1,612,518</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$290,164 and \$324,043, respectively.

#### **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. \$55,000 was borrowed on August 21, 2015, \$20,000 was borrowed on September 3, 2015 and \$15,000 was borrowed on September 18, 2015 which left the amount outstanding on the credit line of \$90,000. The credit line was repaid in full on October 30, 2015 with interest of \$351. An additional interest payment of \$323 was made on September 30, 2015. There were no borrowings against the line of credit at June 30, 2016. The line of credit bears interest at 1% above the lowest U.S Prime Rates as published in the Wall Street Journal. The line of credit is unsecured.

## NOTES TO FINANCIAL STATEMENTS

### UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

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#### **NOTE 7: CONCENTRATIONS**

The Council receives approximately 60% 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, 2016.

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 an amount due from the CPB.

Management believes that the Council is not exposed to any significant credit risk related to the above accounts.

#### **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, 2016 and June 30, 2015 was \$65,952 and \$74,190, 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 \$46,449 and \$43,181 in donated services and fixed assets, in the years ended June 30, 2016 and 2015, respectively most 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.

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

**NOTE 9: UNEARNED RENTAL INCOME**

As of August 1, 2006, 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. The Council's unearned rental income at June 30, 2016; and 2015 was \$25,333 and \$31,666, respectively.

**NOTE 10: OPERATING LEASE COMMITMENTS**

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

For the year ending June 30, 2017 \$ 28,060

Rental expense was \$25,039 and \$18,382 for the fiscal years ended June 30, 2016 and 2015, respectively. All the payments were for minimum rentals.

**NOTE 11: 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, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2016</u>			
U.S. Corporate equities	\$ 8,538	\$ --	\$ --
Bank Deposit Program	2,705	--	--
Total	<u>\$ 11,243</u>	<u>\$ --</u>	<u>\$ --</u>
<u>2015</u>			
U.S. Corporate equities	\$ 7,578	\$ --	\$ --
Bank Deposit Program	2,495	--	--
Total	<u>\$ 10,073</u>	<u>\$ --</u>	<u>\$ --</u>

Investments earned the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 62	\$ 180
Unrealized gains (losses)	690	1,666
Realized gains (losses)	95	105
	<u>\$ 847</u>	<u>\$ 1,951</u>

NOTES TO FINANCIAL STATEMENTS

UPPER CUMBERLAND BROADCAST COUNCIL, INC.

June 30, 2016 with comparative totals as of June 30, 2015

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**NOTE 11: FAIR VALUE MEASUREMENT, (continued)**

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

**NOTE 12: SUBSEQUENT EVENTS**

After the balance sheet date the Council accessed its line of credit to meet short-term cash flow needs. \$30,000 was borrowed on July 14, 2016, \$45,000 was borrowed on August 5, 2016, \$30,000 on August 18, 2016 and \$45,000 was borrowed on September 14, 2016 which left the amount outstanding on the credit line of \$150,000. The credit line was repaid in full on September 30, 2016 with interest of \$266. Altogether interest paid on the line totaled \$531.

A direct appropriation grant from the State of Tennessee has been received as of September 23, 2016 in the amount of \$430,793. Three grants from the Corporation of Public Broadcasting totaling \$753,751 are pending the completion of certain legal paper work and financial reporting. Subsequent events have been evaluated for accrual and/or disclosure through November 14, 2016, the date the financial statements were available to be released.

**NOTE 13: TOWER RENTAL**

The Corporation receives revenue for tower rental under two operating leases with remaining terms of 1 to 2 years. Both leases have at least one five-year renewal period remaining.

Future minimum rentals under the above leases are as follows:

<u>Year Ending June 30</u>	
2017	20,754
2018	<u>6,221</u>
	<u>\$ 26,975</u>

**NOTE 14: 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.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Upper Cumberland Broadcast Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated November 10, 2016.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Cumberland Broadcast Council, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Upper Cumberland Broadcast Council, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Upper Cumberland Broadcast Council, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*David Melton, CPA*

Certified Public Accountant  
November 14, 2016





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH ASPECTS OF CONTRACTURAL AGREEMENTS AND  
REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

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

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Upper Cumberland Broadcast Council, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated November 14, 2016. In accordance with *Government Auditing Standards*, I have also issued my report dated November 14, 2016, on my consideration of Upper Cumberland Broadcast Council, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and my schedule of findings related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that Upper Cumberland Broadcast Council, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding Upper Cumberland Broadcast Council, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding Upper Cumberland Broadcast Council, Inc.'s accounting and records to indicate that Upper Cumberland Broadcast Council, Inc. did not (as applicable):



Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*David Melton, CPA*

Certified Public Accountant

November 14, 2016