

FINANCIAL STATEMENTS

**NORTHEASTERN EDUCATIONAL  
TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

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January 20, 2016

To the Board of Directors  
Northeastern Educational Television of Ohio, Inc.  
dba Western Reserve Public Media  
Kent, Ohio

Independent Auditor's Report

We have audited the accompanying financial statements of Northeastern Educational Television of Ohio, Inc. dba Western Reserve Public Media (NETO) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years 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**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NETO as of June 30, 2015 and 2014, 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.

*Hill, Barth & King LLC*

Certified Public Accountants

STATEMENTS OF FINANCIAL POSITION

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

**ASSETS**

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 104,014	\$ 90,827
Accounts receivable less allowance of \$136,636 in 2015 and \$85,550 in 2014	147,534	140,175
Prepaid expenses and other current assets	<u>20,293</u>	<u>16,101</u>
TOTAL CURRENT ASSETS	271,841	247,103
Property and equipment, net	<u>845,692</u>	<u>1,186,024</u>
TOTAL ASSETS	<u><u>\$ 1,117,533</u></u>	<u><u>\$ 1,433,127</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Lines of credit	\$ 365,000	\$ 365,000
Accounts payable, accrued expenses and other liabilities	304,201	239,403
Accrued vacations	62,832	72,351
Deferred revenue, current portion	127,601	132,574
Current maturities of long-term debt	<u>4,561</u>	<u>4,431</u>
TOTAL CURRENT LIABILITIES	864,195	813,759
Long-term debt, less current maturities	2,321	6,882
Deferred revenue, net of current portion	<u>41,248</u>	<u>151,248</u>
TOTAL LIABILITIES	<u>907,764</u>	<u>971,889</u>
Net assets:		
Unrestricted	138,026	343,575
Temporarily restricted	<u>71,743</u>	<u>117,663</u>
TOTAL NET ASSETS	<u>209,769</u>	<u>461,238</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,117,533</u></u>	<u><u>\$ 1,433,127</u></u>

See accompanying notes to financial statements

STATEMENTS OF ACTIVITIES

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

Years ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenue and support:						
Ohio BEMC - General	\$ 189,519	\$ 0	\$ 189,519	\$ 189,519	\$ 0	\$ 189,519
Ohio BEMC - Education	109,683	0	109,683	109,683	0	109,683
EdTech - Education	225,028	0	225,028	225,028	0	225,028
Membership income	1,848,854	0	1,848,854	1,837,728	0	1,837,728
Local schools	75,547	0	75,547	64,488	0	64,488
Corporation for Public Broadcasting	931,406	0	931,406	913,741	0	913,741
Ohio Ready to Learn	38,188	0	38,188	26,768	0	26,768
Underwriting income and private support	128,641	71,743	200,384	157,802	117,663	275,465
Rental income	663,690	0	663,690	696,771	0	696,771
Special event net of expenses	0	0	0	7,899	0	7,899
Net unrealized and realized loss on investments	0	0	0	(1,167)	0	(1,167)
Other income	92,638	0	92,638	120,823	0	120,823
In-kind contributions and services	622,110	0	622,110	566,451	0	566,451
Net assets released from restrictions	117,663	(117,663)	0	110,570	(110,570)	0
<b>TOTAL REVENUE AND SUPPORT</b>	<u>5,042,967</u>	<u>(45,920)</u>	<u>4,997,047</u>	<u>5,026,104</u>	<u>7,093</u>	<u>5,033,197</u>
Operating expenses:						
Administration	517,732	0	517,732	548,756	0	548,756
Broadcasting	539,294	0	539,294	489,885	0	489,885
Development	806,545	0	806,545	943,423	0	943,423
Educational services	198,073	0	198,073	168,172	0	168,172
PTV programming	1,679,039	0	1,679,039	1,644,778	0	1,644,778
Communications	297,285	0	297,285	248,064	0	248,064
Grounds costs	73,010	0	73,010	76,673	0	76,673
Interest	7,787	0	7,787	9,224	0	9,224
Provision for doubtful accounts	157,733	0	157,733	130,696	0	130,696
In-kind contributions and services	622,110	0	622,110	566,451	0	566,451
<b>TOTAL OPERATING EXPENSES</b>	<u>4,898,608</u>	<u>0</u>	<u>4,898,608</u>	<u>4,826,122</u>	<u>0</u>	<u>4,826,122</u>
Capital expenses:						
Depreciation	349,908	0	349,908	456,623	0	456,623
<b>TOTAL EXPENSES</b>	<u>5,248,516</u>	<u>0</u>	<u>5,248,516</u>	<u>5,282,745</u>	<u>0</u>	<u>5,282,745</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(205,549)</u>	<u>(45,920)</u>	<u>(251,469)</u>	<u>(256,641)</u>	<u>7,093</u>	<u>(249,548)</u>
Net assets, beginning of year	<u>343,575</u>	<u>117,663</u>	<u>461,238</u>	<u>600,216</u>	<u>110,570</u>	<u>710,786</u>
Net assets, end of year	<u>\$ 138,026</u>	<u>\$ 71,743</u>	<u>\$ 209,769</u>	<u>\$ 343,575</u>	<u>\$ 117,663</u>	<u>\$ 461,238</u>

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating activities:		
Decrease in net assets	\$ (251,469)	\$ (249,548)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	349,908	456,623
Unrealized and realized loss on investments	0	1,167
Provision for doubtful accounts	157,733	130,696
Changes in operating assets and liabilities:		
Accounts receivable	(165,092)	(115,243)
Prepaid expenses and other current assets	(4,192)	16,374
Accounts payable, accrued expenses and other liabilities	64,798	(129,162)
Accrued vacations	(9,519)	5,249
Deferred revenue	(114,973)	(157,137)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>27,194</u>	<u>(40,981)</u>
Investing activities:		
Proceeds from sale of investments	0	105,244
Purchase of property and equipment	(9,576)	(3,747)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(9,576)</u>	<u>101,497</u>
Financing activities:		
Net borrowings (payments) on lines of credit	0	(30,275)
Payments on long-term debt	(4,431)	(4,304)
NET CASH USED IN FINANCING ACTIVITIES	<u>(4,431)</u>	<u>(34,579)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,187	25,937
Cash and cash equivalents, beginning of year	90,827	64,890
Cash and cash equivalents, end of year	<u>\$ 104,014</u>	<u>\$ 90,827</u>
Cash paid for interest:	<u>\$ 7,787</u>	<u>\$ 9,224</u>

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

### **NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC. DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization:

Northeastern Educational Television of Ohio, Inc. dba Western Reserve Public Media (NETO) was incorporated in July 1971 as a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is a consortium of the University of Akron, Kent State University and Youngstown State University (the Consortium). NETO operates two public television stations, WNEO, Channel 45 and WEAO, Channel 49.

##### Cash and Cash Equivalents:

NETO considers all short-term liquid investments with maturities, when purchased, of 90 days or less to be cash equivalents. NETO maintains its cash and cash equivalents in accounts which, at times, may exceed federally insured limits. NETO has not experienced any significant losses in such accounts. Management of NETO believes it is not exposed to any significant credit risk on its cash and cash equivalents.

##### Investments:

NETO reports investments in equity, mutual fund and U.S. government securities with readily determinable fair values at fair value in the statements of financial position. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur and investment income is recognized in the period earned.

##### Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. The potential risk is limited to the amounts recorded in the financial statements. Receivables are considered past due based on various contractual terms. Management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

##### Property and Equipment:

Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Depreciation is provided to allocate the cost of these assets over their estimated useful lives and is computed under the straight-line method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications:

To ensure compliance with restrictions placed on the resources available to NETO, net assets are maintained in three classifications: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Temporarily restricted net assets contain grantor or donor-imposed restrictions that limit the use of the net assets to a specific time period or purpose. NETO may use or expend the net assets as specified by the grantor or donor. The restrictions expire either by the passage of time or by the actions of NETO, that satisfy the restrictions of the grantor or donor.

Permanently restricted net assets contain grantor or donor-imposed restrictions that stipulate that the principal amount of the contribution be maintained permanently, but permits NETO to expend part or all of the income derived from the permanently restricted net assets for either specified or unspecified purposes. NETO had no permanently restricted net assets as of June 30, 2015 and 2014.

Revenue Recognition:

NETO records the following unconditional contributions as revenue based on their fair value at the date of contribution: cash, promises to give, and gifts of long-lived and other assets. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions have been met.

Temporarily Restricted Contributions:

NETO records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets at June 30, 2015 and 2014 are related to funds restricted both by the passage of time and for specific program broadcasting, production and capital improvements. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted until the assets are purchased.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**In-Kind Contributions and Services:**

In-kind contributions and services are recorded as revenue and expenses in the statements of activities. In-kind contributions and services consist primarily of technical and program services donated by the Ohio Broadcast Educational Media Commission (Ohio BEMC), the Consortium and certain broadcast-related activities donated by private sources. Donated services are reported as revenue and support and as assets or expenses only if the services create or enhance a non-monetary asset or would typically need to be purchased by NETO if they had not been contributed, or if the services require specialized skills and are provided by individuals with those skills. These donated services are stated at amounts based on fair value as designated by the contributor.

**Advertising Costs:**

NETO expenses advertising costs as incurred. Advertising costs of \$643 and \$5,111 were incurred and expensed in 2015 and 2014, respectively.

**Use of Estimates:**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes:**

NETO qualifies as an organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

**Subsequent Events:**

Management has evaluated all activity of NETO through January 20, 2016, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 1,859,558	\$ 1,859,558
Furniture and fixtures	190,846	190,846
Equipment	<u>6,467,943</u>	<u>6,458,367</u>
	8,518,347	8,508,771
Less accumulated depreciation	<u>7,672,655</u>	<u>7,322,747</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 845,692</u>	<u>\$ 1,186,024</u>

NETO funds the purchases of certain assets through donor grants. Certain donors have placed a lien on assets acquired through grants, in which the title reverts to the donor should NETO cease operations within ten years of receiving the grant. The cost of assets subject to these liens totaled \$531,350 at June 30, 2015 and 2014 of which the net book value at June 30, 2015 and 2014 totaled \$23,379 and \$38,145, respectively. Liens on these assets expire on various dates through August 2021.

NOTE C - LEASES

NETO leases administrative office space, equipment, broadcasting tower space and vehicles under several lease agreements through 2030. Certain operating leases provide that NETO pay taxes, maintenance and insurance applicable to the leased property. Generally, the leases include renewal options for various periods at stipulated rates. Total rental expenses were \$193,615 and \$171,993 in 2015 and 2014, respectively. NETO also leases broadcasting tower space and spectrum to various companies through 2030. These agreements typically include provisions for a monthly payment and may also include contingent rents based upon levels of revenue. Total rental income was \$663,690 and \$696,771 in 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESEVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE C - LEASES (CONTINUED)

Future minimum lease commitments and revenues for all non-cancellable operating leases with initial or remaining terms in excess of one year at June 30, 2015 are as follows for each of the years ending June 30:

	<u>Payments</u>	<u>Receipts</u>
2016	\$ 92,338	\$ 474,288
2017	53,931	309,130
2018	32,864	218,372
2019	20,879	194,267
2020	14,462	183,125
Thereafter	<u>144,622</u>	<u>1,067,661</u>
	<u>\$ 359,096</u>	<u>\$ 2,446,843</u>

NOTE D - LINES OF CREDIT

NETO has two lines of credit with two banks at a collective maximum borrowing base of \$400,000. The lines are due on demand and interest is due monthly at the banks' prime rate (3.25% at June 30, 2015). There was \$365,000 outstanding at June 30, 2015 and 2014. The lines are collateralized by all business assets.

NOTE E - LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</u>
Note payable to bank, due in monthly installments of \$392 at 2% interest through December 2016, collateralized by vehicle	\$ 6,882	\$ 11,313
Less current maturities	<u>4,561</u>	<u>4,431</u>
TOTAL LONG-TERM DEBT	<u>\$ 2,321</u>	<u>\$ 6,882</u>

Aggregate maturities of long-term debt for the years following June 30, 2015 are as follows:

2016	\$ 4,561
2017	<u>2,321</u>
	<u>\$ 6,882</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE F - BENEFIT PLANS

Substantially all full-time employees of NETO are covered by and are required to contribute to the State Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system administered by the State of Ohio. Employer and employee required contributions to PERS for both retirement benefits and postretirement health care benefits are established by the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. The payroll for employees covered by PERS for the years ended June 30, 2015 and 2014 was approximately \$839,000 and \$770,000, respectively.

The current employee total contribution rate is 10.0% of gross salaries and wages and the employer total contribution rate is approximately 14.0% of related gross salaries and wages. NETO's contribution to PERS amounted to \$117,473 in 2015 and \$107,218 in 2014, of which approximately \$16,800 and \$11,600, respectively, related to postretirement health care coverage.

NETO also provides its employees with an additional postretirement benefit for accrued and unpaid sick pay. Employees with 10 years of service who are eligible for retirement (as defined by PERS) receive a lump sum payment of 25% of the accrued unpaid sick time up to certain limits. NETO has recorded an accrued benefit cost for sick leave of \$31,712 and \$39,678 at June 30, 2015 and 2014, respectively, which is included in accounts payable, accrued expenses and other liabilities.

NOTE G - NET ASSETS

Temporarily restricted net assets are available for underwriting purposes at June 30, 2015 and 2014 in the amount of \$71,743 and \$117,663, respectively.

Net assets of \$117,663 and \$110,570 relating to underwriting were released from restrictions with the passage of time for the years ended June 30, 2015 and 2014, respectively.

NOTE H - TUITION REIMBURSEMENT

NETO provides full tuition benefits for eligible employees, retirees, and their dependents as long as they were employed with the NETO prior to July 1, 2003 and attend one of its consortium universities. It is impractical to estimate the amount of future tuition benefits and, accordingly, no liability has been recorded in the accompanying financial statements. NETO's policy is to recognize the costs of tuition benefits when actually paid on behalf of the employee. The tuition paid and expensed by NETO for the years ended June 30, 2015 and 2014 was \$18,603 and \$30,021, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NORTHEASTERN EDUCATIONAL TELEVISION OF OHIO, INC.  
DBA WESTERN RESERVE PUBLIC MEDIA**

June 30, 2015 and 2014

NOTE I - COMMUNITY SERVICE GRANTS

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (Grants) to qualifying public telecommunications entities. The Grants are approved by the U.S. Congress each year and could be reduced in the future.

The Grants are reported in the accompanying financial statements as unrestricted net assets; however, certain guidelines must be satisfied in connection with application for and use of the Grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of Grant funds, recordkeeping, audits, financial reporting and licensee status with the FCC.

NOTE J - CONCENTRATIONS

Grant revenue from one organization for the years ended June 30, 2015 and 2014 totaled \$931,406 and \$913,741, respectively, which was 19% of total funding revenue for both years.

NOTE K - PENDING SPECTRUM AUCTION

As part of the National Broadband Plan to increase broadband capacity Congress authorized the Federal Communications Commission to conduct an Incentive Spectrum Auction to reclaim spectrum used by TV stations and repurpose it for use by wireless companies. Television stations are given a one-time opportunity to sell spectrum or move spectrum to a lower position on the bandwidth for compensation. Congress also authorized the FCC to move stations to a lower position on the bandwidth to make room for the wireless providers. Both of NETO's television stations, WNEO and WEAO, are located in spectrum area that the FCC wants to reclaim. Regardless of NETO's participation in the Incentive Spectrum Auction, both stations are certain to be moved at a considerable cost. Although Congress set aside a \$1.75 billion fund to reimburse stations that will be moved there are substantial costs that are not included in the list of authorized expenditures and could greatly impact NETO's net assets.

The move will likely result in obsolescence of some of NETO's current equipment, however, the extent and amount of obsolescence can't be reasonably estimated at this time.