

**DULUTH-SUPERIOR AREA EDUCATIONAL
TELEVISION CORPORATION AND AFFILIATE**
COMBINED FINANCIAL REPORT
SEPTEMBER 30, 2021 AND 2020

DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Duluth-Superior Area Educational Television Corporation
The Beck Foundation of DSAET
Duluth, Minnesota

We have audited the accompanying combined financial statements of Duluth-Superior Area Educational Television Corporation (a nonprofit organization) and Affiliate, which comprise the combined statement of financial position as of September 30, 2021 and 2020, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Duluth-Superior Area Educational Television Corporation and Affiliate as of September 30, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the combined financial statements, Duluth-Superior Area Educational Television Corporation and Affiliate changed its method for revenue recognition as a result of the adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective October 1, 2020. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of assets, liabilities, and net assets and the schedules of revenues and expenses of the Beck Foundation of DSAET as of and for the year ended September 30, 2021 and 2020 on pages 18-19 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Esterbrooks Certified Public Accountants, Ltd.

Duluth, Minnesota

January __, 2022

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020**

<u>ASSETS</u>	2021	2020
CURRENT ASSETS:		
Cash	\$ 1,256,501	\$ 958,318
Accounts receivable	-	9,838
Underwriting revenue receivable	25,491	107,912
Grants receivable	330,362	361,261
Prepaid expenses	107,945	61,454
Total current assets	1,720,299	1,498,783
 PROPERTY AND EQUIPMENT:		
Land	13,863	13,863
Buildings	1,661,265	1,661,265
Broadcasting equipment	7,668,137	7,531,984
Office equipment	195,134	172,939
Vehicles	116,858	98,716
Total cost	9,655,257	9,478,767
Less: Accumulated depreciation	(8,068,442)	(7,838,099)
Net property and equipment	1,586,815	1,640,668
 OTHER ASSETS:		
Investments	18,817,742	15,393,379
Prepaid lease expense, net of amortization	9,676	16,180
Total other assets	18,827,418	15,409,559
Total assets	\$ 22,134,532	\$ 18,549,010

<u>LIABILITIES AND NET ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 34,235	\$ 43,949
Accrued expenses	114,699	151,978
Deferred revenue	58,068	-
Refundable advances	-	425,445
Amounts held on behalf of others	<u>14,925</u>	<u>14,925</u>
Total current liabilities	<u>221,927</u>	<u>636,297</u>
NET ASSETS:		
Without Donor Restrictions:		
Available for operations	2,345,811	2,279,240
Designated for long-term investment	<u>18,803,017</u>	<u>15,387,458</u>
Total net assets without donor restrictions	21,148,828	17,666,698
With Donor Restrictions	<u>763,777</u>	<u>246,015</u>
Total net assets	<u>21,912,605</u>	<u>17,912,713</u>
Total liabilities and net assets	<u>\$ 22,134,532</u>	<u>\$ 18,549,010</u>

See notes to combined financial statements.

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

COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING</u>			
REVENUE AND OTHER SUPPORT:			
Contributions and grants	\$ 2,737,723	\$ 1,206,851	\$ 3,944,574
Legacies and bequests	-	-	-
Underwriting	372,858	-	372,858
Production and other income	97,693	-	97,693
Rental income	43,434	-	43,434
Investment income, net	395,494	-	395,494
In-kind income - materials and facilities	38,357	-	38,357
Net assets released from restriction	691,273	(691,273)	-
Total revenues and other support	<u>4,376,832</u>	<u>515,578</u>	<u>4,892,410</u>
EXPENSES:			
Program services -			
Programming and production	1,608,588	-	1,608,588
Broadcasting	852,076	-	852,076
Program information	408,315	-	408,315
Total program services	<u>2,868,979</u>	<u>-</u>	<u>2,868,979</u>
Supporting services -			
Management and general	607,131	-	607,131
Fundraising and membership	653,942	-	653,942
Total supporting services	<u>1,261,073</u>	<u>-</u>	<u>1,261,073</u>
Total expenses	<u>4,130,052</u>	<u>-</u>	<u>4,130,052</u>
Change in net assets from operating activities	<u>246,780</u>	<u>515,578</u>	<u>762,358</u>
<u>NONOPERATING</u>			
Contributions and grants	-	45,870	45,870
Gains on investments	3,326,537	-	3,326,537
Gain on asset disposition	15,143	-	15,143
Net assets released from restriction	43,686	(43,686)	-
Change in net assets from nonoperating activities	<u>3,385,366</u>	<u>2,184</u>	<u>3,387,550</u>
Change in net assets	3,632,146	517,762	4,149,908
NET ASSETS:			
Beginning of year	17,666,698	246,015	17,912,713
Cumulative effect of accounting change	(150,016)	-	(150,016)
End of year	<u>\$ 21,148,828</u>	<u>\$ 763,777</u>	<u>\$ 21,912,605</u>

2020

Without Donor Restrictions	With Donor Restrictions	Total
\$ 2,410,601	\$ 669,021	\$ 3,079,622
1,000	-	1,000
403,546	-	403,546
28,037	-	28,037
64,533	-	64,533
305,294	-	305,294
14,050	-	14,050
<u>679,784</u>	<u>(679,784)</u>	<u>-</u>
<u>3,906,845</u>	<u>(10,763)</u>	<u>3,896,082</u>
1,475,478	-	1,475,478
833,902	-	833,902
<u>508,024</u>	<u>-</u>	<u>508,024</u>
<u>2,817,404</u>	<u>-</u>	<u>2,817,404</u>
563,835	-	563,835
<u>446,487</u>	<u>-</u>	<u>446,487</u>
<u>1,010,322</u>	<u>-</u>	<u>1,010,322</u>
<u>3,827,726</u>	<u>-</u>	<u>3,827,726</u>
<u>79,119</u>	<u>(10,763)</u>	<u>68,356</u>
-	41,501	41,501
667,578	-	667,578
-	-	-
<u>43,686</u>	<u>(43,686)</u>	<u>-</u>
<u>711,264</u>	<u>(2,185)</u>	<u>709,079</u>
790,383	(12,948)	777,435
16,876,315	258,963	17,135,278
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 17,666,698</u>	<u>\$ 246,015</u>	<u>\$ 17,912,713</u>

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Program Services			Supporting Services			Total	
	Program and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fundraising and Membership		Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 721,573	\$ 433,280	\$ 298,619	\$ 1,453,472	\$ 170,565	\$ 381,193	\$ 551,758	\$ 2,005,230
Professional services	29,901	1,400	605	31,906	206,570	4,250	210,820	242,726
Program acquisition	564,104	-	-	564,104	-	-	-	564,104
Program production	152,166	-	-	152,166	-	-	-	152,166
Membership	171	-	845	1,016	58,179	511	58,690	59,706
Fundraising	28	-	-	28	-	179,381	179,381	179,409
Advertising	2,196	-	95,366	97,562	373	-	373	97,935
Bad debt	-	-	-	-	-	-	-	-
Office, postage and printing	7,262	2,941	4,137	14,340	18,879	68,808	87,687	102,027
Insurance	-	6,291	-	6,291	81,171	-	81,171	87,462
Rent	-	45,329	-	45,329	38,357	-	38,357	83,686
Repairs and maintenance	6,875	64,200	1,305	72,380	3,564	5,784	9,348	81,728
Utilities	-	133,436	75	133,511	15,187	1	15,188	148,699
Travel	3,592	3,977	3,407	10,976	7,388	3,265	10,653	21,629
Miscellaneous	190	520	-	710	2,766	242	3,008	3,718
Depreciation and amortization	120,530	160,702	3,956	285,188	3,876	10,507	14,383	299,571
Income tax expense	-	-	-	-	256	-	256	256
Total Expenses	\$ 1,608,588	\$ 852,076	\$ 408,315	\$ 2,868,979	\$ 607,131	\$ 653,942	\$ 1,261,073	\$ 4,130,052

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Services			Supporting Services				Total
	Program and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries, payroll taxes and employee benefits	\$ 665,246	\$ 442,478	\$ 283,313	\$ 1,391,037	\$ 203,646	\$ 196,498	\$ 400,144	\$ 1,791,181
Professional services	56,624	5,254	11,554	73,432	154,730	725	155,455	228,887
Program acquisition	537,301	-	-	537,301	-	-	-	537,301
Program production	94,762	-	75,044	169,806	39	-	39	169,845
Membership	33	194	75	302	50,440	95	50,535	50,837
Fundraising	-	-	2,380	2,380	1,777	171,604	173,381	175,761
Advertising	1,824	-	116,918	118,742	88	890	978	119,720
Bad debt	-	-	4,044	4,044	-	-	-	4,044
Office, postage and printing	375	2,735	9,383	12,493	34,742	56,584	91,326	103,819
Insurance	981	2,039	-	3,020	65,257	-	65,257	68,277
Rent	-	45,252	-	45,252	14,050	-	14,050	59,302
Repairs and maintenance	5,598	54,673	1,343	61,614	2,321	9,735	12,056	73,670
Utilities	149	123,536	-	123,685	15,165	-	15,165	138,850
Travel	3,748	4,914	1,052	9,714	5,954	2,662	8,616	18,330
Miscellaneous	360	307	-	667	3,822	-	3,822	4,489
Depreciation and amortization	108,477	152,520	2,918	263,915	5,249	7,694	12,943	276,858
Income tax expense	-	-	-	-	6,555	-	6,555	6,555
Total Expenses	\$ 1,475,478	\$ 833,902	\$ 508,024	\$ 2,817,404	\$ 563,835	\$ 446,487	\$ 1,010,322	\$ 3,827,726

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 3,999,892	\$ 777,435
Adjustments to reconcile to net cash provided (used):		
Depreciation and amortization	299,571	276,858
Gain on sale of assets	(15,143)	-
Gain on investments	(3,326,537)	(667,578)
(Increase) decrease in:		
Accounts receivable	9,838	(9,838)
Underwriting revenue receivable	82,421	(40,461)
Grants receivable	30,899	(9,540)
Prepaid expenses	(46,491)	12,414
Increase (decrease) in:		
Accounts payable and accrued expenses	(41,411)	(8,911)
Deferred revenue	58,068	-
Refundable advances	(425,445)	425,445
Net cash provided by operating activities	625,662	755,824
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(229,653)	(293,870)
Proceeds from sale of investments	2,737,053	2,337,686
Purchases of investments	(2,834,879)	(2,008,061)
Net cash (used for) provided by investing activities	(327,479)	35,755
 NET INCREASE IN CASH		
	298,183	791,579
 CASH - Beginning of year		
	958,318	166,739
 CASH - End of year		
	\$ 1,256,501	\$ 958,318
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for income tax	\$ 6,377	\$ 6,367
 Noncash investing and financing activities:		
Property and equipment included in accounts payable	\$ 2,959	\$ 8,541

See notes to combined financial statements.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Organization -

The Duluth-Superior Area Educational Television Corporation is a non-profit Minnesota corporation which operates non-commercial public television station WDSE in Duluth, Minnesota. The financial statements include the accounts of The Beck Foundation of DSAET, a non-profit Minnesota corporation which provides financial support for WDSE. All significant inter-organization accounts and transactions have been eliminated.

Basis of Presentation -

The financial statements have been prepared on the accrual basis of accounting.

WDSE is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. A description of the two net asset categories follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents -

WDSE considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents. At September 30, 2021 and 2020 WDSE had no cash equivalents.

Accounts and Underwriting Receivables -

Receivables are stated at the amount management expects to collect from outstanding balances. Based on management's assessments of the credit history with customers and others having outstanding balances, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Grants Receivable -

WDSE receives grants from federal, state, and private agencies for various programs. Grants receivable represents amounts requested from granting agencies for services performed. Grants receivable is reduced once the cash has been received from the granting agencies.

Property and Equipment -

Expenditures for minor additions of equipment are charged to expense when incurred. Expenditures for land, buildings, major improvements and equipment additions are capitalized and recorded as additions to net assets without donor restrictions. Property and equipment are stated at cost, except for those assets acquired by donation, which are stated at fair value at the date of the gift. Depreciation is calculated by the straight-line method over the estimated useful lives of the depreciable assets. Depreciation recorded during the fiscal years ending September 30, 2021 and 2020 was \$293,067 and \$270,354, respectively.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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

Donated Equipment -

Gifts of land, buildings, and equipment are recorded as contributions at their fair value at the date of donation. Such donations are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments -

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values based on quoted prices in active markets (Level 1 measurements) in the statements of financial position. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities.

Fair Value Measurements -

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that WDSE has the ability to access.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Pledges -

WDSE engages in fundraising campaigns manifested by offering special television programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the statements of financial position. Contributions and collected pledges are reported as without donor restriction inasmuch as their usage is not limited to specific activities. This usage is consistent with appeals for contributions and pledges.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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

Revenue Recognition -

Contributions and grants are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. Contributions and grants are classified as conditional if a barrier must be overcome to be entitled to the funds or if a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. As of September 30, 2021 and 2020, WDSE has received conditional grants totaling \$747,070 and \$281,969, respectively, for which the conditions stipulated by the grantor have not yet been met.

WDSE reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Underwriting revenue includes amounts received in exchange for recognition within WDSE's programming. Beginning in 2021, WDSE recognizes underwriting revenue as the performance obligation is satisfied over the contract period. The contract period is the timeframe in which the agreed-upon number of underwriting spots occur. Payment terms vary by contract and may be received all at once or over the term of the contract. During 2020, WDSE recognized underwriting revenue in full when the agreements were signed.

Production and other income include various production and content activities, as well as royalty payments received. Production activity is recognized as revenue as the performance obligations are satisfied over the contract period.

Deferred revenue represents revenues received in advance, which will be recognized in future periods as they are earned. Program underwriting revenues recorded as deferred revenue at September 30, 2021 and 2020 were \$58,068 and \$0, respectively.

Advertising Costs –

WDSE uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred.

Functional Expenses –

Expenses incurred for a specific function are assigned directly to that function by management. Expenses that affect more than one specific function are allocated among the functions using a reasonable basis that is consistently applied. The expenses allocated include salaries, payroll taxes and benefits which are allocated on the basis of estimates of time and effort, as well as depreciation, utilities, office expenses, and other, which are allocated on the basis of estimated usage.

Income Taxes -

WDSE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Minnesota statutes. However, income from certain activities not directly related to WDSE's tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled \$256 and \$6,555 in 2021 and 2020, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Uncertain Tax Positions -

WDSE follows the recognition requirements of uncertain tax positions as required by generally accepted accounting principles. WDSE believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. WDSE is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2018.

Reclassification -

Certain amounts in the 2020 financial statements have been reclassified for comparative purposes to conform with the current year financial statements. Such reclassification had no effect on net earnings or net assets as previously reported.

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operations -

WDSE has reported its activities as operating or non-operating. Operating activities are an integral part of the programs, services and mission of WDSE. Non-operating activities do not directly affect the programs and services of WDSE such as items associated with acquisition of property and equipment and gain (loss) on investments.

Subsequent Events -

In preparing these financial statements, WDSE has evaluated events and transactions for potential recognition or disclosure through **January __, 2022**, which is the date the financial statements were issued.

Subsequent to September 30, 2021, WDSE purchased the assets of KUMD-FM for \$175,000. KUMD is the community public radio station operated by the University of Minnesota. The bill of sale was effective on December 1, 2021.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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

Accounting Standards Adopted –

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. WDSE adopted this guidance beginning October 1, 2020 utilizing the modified retrospective method of adoption. With one exception, the timing of revenue recognition was not affected by the new standard. Performance obligations in connection with underwriting contracts will be deferred and recognized over the life of the contract.

The cumulative effect of applying the new standard on the combined statement of financial position as of October 1, 2020 was recognized as an adjustment to the opening balance of net assets without donor restrictions, decreasing net assets without donor restrictions by \$150,016. The adjustment relates to underwriting revenue which would have been recorded as deferred revenue as of September 30, 2021 under the new standard. The initial application was applied to all underwriting contracts at October 1, 2020.

WDSE does not expect this guidance to have a material impact on revenues on an ongoing basis. The presentation and disclosure of revenue have been enhanced in accordance with the standard.

Pending Accounting Standards –

The Financial Accounting Standards Board (FASB) has issued several accounting standard updates not yet implemented by WDSE. Listed below are the accounting standards updates which may impact future financial statements of WDSE.

ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This new accounting guidance was issued to increase transparency about contributed nonfinancial assets (gifts-in-kind) through enhancements to presentation and disclosure. Under the new guidance, contributed nonfinancial assets will be presented as a separate line item in the statement of activities. Enhanced and additional disclosures will also be required. The ASU will be effective for WDSE beginning with its year ending September 30, 2022. Early application is permitted. WDSE is assessing the impact this standard will have on its financial statements.

ASU No. 2016-02, *Leases*. This new accounting guidance was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. The ASU will be effective for WDSE beginning with its year ending September 30, 2023. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. WDSE is assessing the impact this standard will have on its financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES:

WDSE manages its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, as described in Note 4, WDSE may request funds for capital projects or operating expenses from the Beck Foundation, which holds a board-designated endowment of \$18,803,017 and \$15,387,458 as of September 30, 2021 and 2020, respectively.

As of September 30, 2021 and 2020, financial assets available within one year of the statement of financial position for general expenditures, such as operating expenses, are as follows:

	2021	2020
Financial assets:		
Cash	\$ 1,256,501	\$ 958,318
Accounts receivable	-	9,838
Underwriting receivable	25,491	107,912
Grants receivable	330,362	361,261
Total financial assets available within one year	1,612,354	1,437,329
Less amounts unavailable for general expenditure with one year:		
Donor-imposed restrictions	(763,777)	(246,015)
Amounts held on behalf of others	(14,925)	(14,925)
Financial assets available to meet cash needs		
For general expenditures within one year	\$ 833,652	\$ 1,176,389

3. INVESTMENTS:

The fair values of investments at September 30, 2021 and 2020 were as follows:

	2021	2020
Money market funds	\$ 917,346	\$ 652,322
U.S. Government and agency bonds and notes	914,477	852,832
Corporate bonds	1,076,213	1,185,515
Mutual bond funds	1,911,326	1,354,933
Real estate funds	1,257,284	751,890
Mutual stock funds	6,573,675	5,160,299
Publicly held corporate stock	4,714,130	4,146,840
Alternative investments	1,453,291	1,288,748
Totals	\$ 18,817,742	\$ 15,393,379

Investments are measured at fair value on a recurring basis using Level 1 inputs. For additional information on how WDSE measures fair value refer to Note 1.

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4. BOARD-DESIGNATED ENDOWMENT:

Investment assets held by The Beck Foundation have been designated by the boards of WDSE and the Foundation to be functioning as an endowment. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Beck Foundation's investment policies for endowment assets have the following goals:

- (1) to preserve the purchasing power of the investment assets without putting the funds at imprudent risk,
- (2) to support current and future operations of WDSE through a flow of investment income, and
- (3) to provide long-term growth in principal through additional contributions and capital appreciation.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

Duluth-Superior Area Educational Television Corporation has a policy of appropriating for distribution each year up to 10 percent of its endowment funds at value of the preceding fiscal year in which the distribution is planned. In establishing this policy, WDSE considered the long-term expected investment return on its endowment. Accordingly, over the long term, WDSE expects the current spending policy to allow its endowment funds to grow at an average of 4 percent annually. This is consistent with the WDSE's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Composition of and Changes in Endowment Net Assets for the Years Ended September 30, 2021 and 2020

	2021	2020
Board-designated endowment net assets, beginning of year	\$ 15,387,458	\$ 14,763,364
Contributions	1,000	13,134
Investment return, net	3,721,559	971,960
Appropriation of endowment assets for expenditure	(307,000)	(361,000)
Board-designated endowment net assets, end of year	\$ 18,803,017	\$ 15,387,458

5. PREPAID LEASE EXPENSE:

During the fiscal year ended September 30, 2003, WDSE entered into a lease agreement for use of fiber cables over a 20-year period. The total required payments under the lease agreement of \$130,000 were paid in full on that date. This amount is being amortized over the life of the agreement on a straight-line basis. During the years ended September 30, 2021 and 2020, amortization expense charged against this lease were \$6,504 each year. Management anticipates a charge to amortization expense of \$6,504 during each of the next 1½ years.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
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6. REFUNDABLE ADVANCE:

During 2020, WDSE entered into an agreement to provide specific programming and was advanced \$27,645 for this purpose. WDSE is required to return any unexpended funds. The advance was reflected as refundable advance in the accompanying statements of financial position at September 30, 2020. The entire amount was recognized as revenue during the year ended September 30, 2021.

7. PAYCHECK PROTECTION PROGRAM (PPP)

WDSE was granted a \$397,800 advance under the Paycheck Protection Program (PPP) (part of the Coronavirus Aid, Relief and Economic Stability Act) administered by a Small Business Administration (SBA) approved partner. The advance is uncollateralized and is fully guaranteed by the Federal government. WDSE originally recorded the amount as a refundable advance at September 30, 2020 and, upon receiving full forgiveness of the loan on November 24, 2020, recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and a right to return of the PPP loan no longer existed. WDSE recognized \$397,800 of grant revenue for the year ended September 30, 2021.

8. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Future program activities	\$ 720,092	\$ 204,514
Acquisition of property and equipment	<u>43,685</u>	<u>41,501</u>
 Total	 <u>\$ 763,777</u>	 <u>\$ 246,015</u>

A portion of the net assets without donor restrictions has been designated by the Board of Directors for specific purposes, as follows:

	<u>2021</u>	<u>2020</u>
Long-term investment	<u>\$ 18,803,017</u>	<u>\$ 15,387,458</u>

9. NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Operating activities -		
Program expenditures	\$ 691,273	\$ 679,784
Non-operating activities		
Acquisition of property and equipment	<u>43,686</u>	<u>43,686</u>
 Total	 <u>\$ 734,959</u>	 <u>\$ 723,470</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

10. ARRANGEMENTS FOR LEASING TO OTHERS:

WDSE leases transmitter equipment to customers under operating leases. Equipment cost under operating leases was \$77,895 each year, respectively, and is included in broadcasting equipment in the accompanying statement of financial position. Accumulated depreciation on equipment under operating leases was \$77,895 each year at September 30, 2021 and 2020, respectively. During the years ended September 30, 2021 and 2020 rental income recognized under these agreements was \$43,434 and \$64,533, respectively.

Minimum future rentals at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>		<u>Amount</u>
2022	\$	39,854
2023		40,652
2024		41,465
2025		42,294
2026		43,140

11. TAX DEFERRED ANNUITY RETIREMENT PLANS:

WDSE contributes to a voluntary tax-sheltered annuity plan covering participating employees meeting certain service and age requirements. Contributions to the plan of \$26,612 and \$24,317 were charged to operations for the years ended September 30, 2021 and 2020, respectively.

12. CONCENTRATION OF REVENUE:

For the years ended September 30, 2021 and 2020, approximately 30% and 29% respectively, of WDSE's operating revenue was provided by grants from the Corporation for Public Broadcasting, and approximately 14% and 16% respectively, was provided by the State of Minnesota.

13. CONCENTRATION OF CREDIT RISK:

WDSE maintains its cash balances at institutions insured by the Federal Deposit Insurance Corporation (FDIC). These cash balances, at times, may exceed federally insured limits. At September 30, 2021 and 2020 total uninsured cash balances were \$755,235 and \$451,855, respectively. WDSE has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

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NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

14. LEASE COMMITMENTS:

Lease Site for Building -

A 99-year lease was entered into on January 2, 1976 (effective February 1, 1976) between WDSE and the Regents of the University of Minnesota for a building construction site on the campus of the University of Minnesota, Duluth. The lease was made in consideration of one dollar and the recognized benefit to be derived by the University from the proximity of an educational television station.

The lease contains, among other things, various significant restrictions and requirements concerning easement rights, use of the facility, potential tax assessments, and conditions of lease termination.

The lease provision relative to default of the lease covenants provides that in the event of default in any of the covenants of the lease to be kept by WDSE, the University may terminate the lease by thirty days' notice specifying such default, and if at the end of such period such default is not cured, the lease shall terminate and the University may re-enter and take possession within a reasonable time thereafter.

During the years ended September 30, 2021 and 2020, in-kind income and rental expense recognized under this agreement were \$38,357 and \$14,050, respectively.

Lease of Tower and Building Space –

On September 2, 2008, WDSE entered into a 5-year lease with the option of one 5-year renewal of tower and building space. The lessor is WDIO-TV, LLC and the tower and building are located in Hibbing, Minnesota. The lease was amended as of September 1, 2018 for a term of 5 years with the option to renew for five additional 5-year terms. The lease agreement requires monthly payments of \$3,771 for the first year of the lease with inflation adjustments annually. The lease contains, among other things, requirements and restrictions regarding insurance, easement rights, and conditions of lease termination.

Minimum future rentals at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>		<u>Amount</u>
2022	\$	48,026
2023		44,810

15. NONMONETARY TRANSACTIONS:

WDSE enters into exchange transactions to provide program underwriting for operating expenses such as advertising and supplies. During the year ended September 30, 2021 and 2020, non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$17,568 and \$43,578, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
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SUPPLEMENTARY FINANCIAL INFORMATION

THE BECK FOUNDATION OF DSAET
SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2021 AND 2020

<u>ASSETS</u>	2021	2020
Investments	\$ 18,802,311	\$ 15,376,953
Accrued investment income	15,431	16,426
Total assets	\$ 18,817,742	\$ 15,393,379
<u>LIABILITIES AND NET ASSETS</u>		
Due to WDSE-TV	\$ 14,725	\$ 5,921
Total liabilities	14,725	5,921
Net assets -		
Without Donor Restrictions:		
Designated for long-term investment	18,803,017	15,387,458
Total net assets	18,803,017	15,387,458
Total liabilities and net assets	\$ 18,817,742	\$ 15,393,379

See independent auditor's report.

THE BECK FOUNDATION OF DSAET
SCHEDULES OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
REVENUE:		
Contributions and bequests	\$ 1,000	\$ 13,134
Interest	49,606	61,037
Dividends	394,680	288,913
Net gains (losses) on investments	3,326,537	667,578
Less: Investment fees	(49,264)	(45,568)
Total revenues	3,722,559	985,094
EXPENSES:		
Program services		
Grants to Duluth-Superior Area Educational Television Corporation	307,000	361,000
	307,000	361,000
Total expenses	307,000	361,000
Change in net assets	3,415,559	624,094
NET ASSETS, Beginning of year	15,387,458	14,763,364
NET ASSETS, End of year	\$ 18,803,017	\$ 15,387,458

See independent auditor's report.