Detroit Educational Television Foundation

Financial Report
with Additional Information
June 30, 2018

Contents

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Independent Auditor's Report

To the Members of the Finance and Audit Committee
Detroit Educational Television Foundation

We have audited the accompanying financial statements of Detroit Educational Television Foundation (the "Foundation"), which comprise the balance sheet as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, 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 audits 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 Detroit Educational Television Foundation as of June 30, 2018 and 2017 and the results of its changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 26, 2018

Balance Sheet

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 2,917,025	$ 2,787,648
Investments (Note 3)	3,026,426	2,826,243
Receivables - Net of allowances:		
Trade accounts receivable (Note 4)	1,045,752	671,976
Pledges receivable (Note 5)	1,039,455	1,372,562
Inventory	34,840	38,394
Restricted cash - Bond payments (Note 6)	305,000	295,000
Prepaid assets and other	209,015	296,249
Total current assets	8,577,513	8,288,072
Pledges Receivable - Long term (Note 5)	452,685	476,593
Other Assets - Net (Note 8)	1,202,954	1,317,917
Property and Equipment - Net (Note 9)	12,448,728	13,035,545
Total assets	**$ 22,681,880**	**$ 23,118,127**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 827,074	$ 712,113
Accrued liabilities and other (Notes 10 and 11)	839,153	960,095
Current portion of equipment liability (Note 12)	35,366	35,366
Current portion of long-term debt (Note 6)	113,500	295,000
Current portion of long-term liability (Note 8)	137,500	150,000
Total current liabilities	1,952,593	2,152,574
Long-term Debt - Net of current portion (Note 6)	2,098,918	2,195,143
Equipment Liability - Net of current portion (Note 12)	282,927	318,293
Other Long-term Liabilities - Net of current portion (Note 8)	1,052,954	1,167,917
Total liabilities	5,387,392	5,833,927
Net Assets		
Unrestricted net assets	15,494,458	15,323,334
Temporarily restricted - Production funding	1,719,760	1,880,846
Permanently restricted - Endowment	80,270	80,020
Total net assets	17,294,488	17,284,200
Total liabilities and net assets	**$ 22,681,880**	**$ 23,118,127**

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenue and support:		
Individual contributions	$ 8,691,853	$ 8,688,555
Productions of local and national programs	2,504,130	3,024,435
Corporation for Public Broadcasting grants	2,433,737	2,430,469
Corporate contributions	1,232,470	1,075,745
Facilities rental	566,246	481,944
Special events	386,928	525,221
Retail product sales	180,796	389,630
Foundation contributions	284,000	617,231
Investment income (Note 13)	170,407	269,232
Miscellaneous income	199,375	242,713
Total revenue and support	16,649,942	17,745,175
Net assets released from restrictions	1,336,153	1,004,168
Total revenue, support, and net assets released from restrictions	17,986,095	18,749,343
Expenses:		
Program services:		
Communications	1,165,261	1,536,444
Broadcast	5,149,278	5,430,146
Production	4,467,523	5,276,673
Total program services	10,782,062	12,243,263
Support services:		
Administration and general	2,527,206	2,075,909
Fundraising	4,505,703	4,614,297
Total expenses	17,814,971	18,933,469
Increase (Decrease) in Unrestricted Net Assets	171,124	(184,126)
Changes in Temporarily Restricted Net Assets		
Contributions	1,175,067	1,232,408
Net assets released from restrictions	(1,336,153)	(1,004,168)
(Decrease) Increase in Temporarily Restricted Net Assets	(161,086)	228,240
Changes in Permanently Restricted Net Assets - Contributions	250	-
Increase in Net Assets	10,288	44,114
Net Assets - Beginning of year	17,284,200	17,240,086
Net Assets - End of year	**$ 17,294,488**	**$ 17,284,200**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	Program Services				Support Services		Total	
	Communications	Broadcast	Production	Total Program Services	Administration and General	Fundraising	2018	2017
Salaries, benefits, and taxes	$ 677,984	$ 1,084,834	$ 951,546	$ 2,714,364	$ 1,698,116	$ 1,489,348	$ 5,901,828	$ 6,468,197
Retail product sales	-	-	141,452	141,452	-	-	141,452	244,439
Royalties	-	-	21,712	21,712	-	-	21,712	154,412
Program acquisition	-	2,578,210	-	2,578,210	-	-	2,578,210	2,730,586
Program production	-	-	2,590,908	2,590,908	-	-	2,590,908	2,839,928
Fundraising and events	10,793	-	-	10,793	-	1,806,489	1,817,282	1,977,250
Advertising, outreach, and promotion	152,710	-	-	152,710	6,384	-	159,094	310,112
Purchased services	55,644	486,076	16,419	558,139	214,186	406,046	1,178,371	724,023
Technology and data processing	7,251	46,038	18,031	71,320	7,230	240,104	318,654	418,991
Occupancy	72,520	536,068	155,330	763,918	105,233	92,750	961,901	883,837
Maintenance, repairs, and equipment	35,147	47,365	128,750	211,262	35,045	44,951	291,258	326,058
Postage and shipping	65,913	2,896	797	69,606	4,223	92,456	166,285	198,674
Travel	2,522	19,004	5,878	27,404	37,169	18,806	83,379	46,266
Staff training and development	2,213	7,832	10,641	20,686	150,064	6,028	176,778	192,136
Stationery and supplies	6,264	8,060	10,540	24,864	59,136	9,669	93,669	130,584
Currency exchange and bank fees	-	-	-	-	118,189	182,332	300,521	346,179
Miscellaneous	2,259	10,336	4,837	17,432	8,945	2,888	29,265	29,657
Depreciation and amortization	74,041	322,559	410,682	807,282	83,286	113,836	1,004,404	912,140
Total functional expenses	**$ 1,165,261**	**$ 5,149,278**	**$ 4,467,523**	**$ 10,782,062**	**$ 2,527,206**	**$ 4,505,703**	**$ 17,814,971**	**$ 18,933,469**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 10,288	$ 44,114
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,004,404	912,140
(Gain) loss on sale of property and equipment	(300)	13,800
Noncash change in equipment liability	(35,366)	(27,591)
Net realized and unrealized gains on investments	(139,133)	(258,594)
Change in pledge discount	21,150	5,790
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(373,776)	4,194
Inventory	3,554	(25,684)
Pledges receivable	335,865	(147,872)
Prepaid assets and other	87,234	(85,883)
Accounts payable	114,961	(83,255)
Accrued and other liabilities	(120,943)	(125,284)
Net cash provided by operating activities	907,938	225,875
Cash Flows from Investing Activities		
Purchase of property and equipment	(250,311)	(165,049)
Proceeds from disposition of property and equipment	300	1,561
Purchases of investments	(396,532)	(326,925)
Proceeds from sales and maturities of investments	335,482	308,837
Net cash used in investing activities	(311,061)	(181,576)
Cash Flows from Financing Activities		
Payments on debt	(295,000)	(285,000)
Payments on other long-term liabilities	(162,500)	-
Net cash used in financing activities	(457,500)	(285,000)
Net Increase (Decrease) in Cash and Cash Equivalents	139,377	(240,701)
Cash and Cash Equivalents - Beginning of year	3,082,648	3,323,349
Cash and Cash Equivalents - End of year	**$ 3,222,025**	**$ 3,082,648**
Cash and Cash Equivalents are Composed of the Following:		
Unrestricted	2,917,025	2,787,648
Restricted	305,000	295,000
Total cash	**$ 3,222,025**	**$ 3,082,648**
Supplemental Cash Flow Information - Cash paid for interest	$ 37,697	$ 30,065

See notes to financial statements.

Note 1 - Nature of Business

Detroit Educational Television Foundation (the "Foundation") is a not-for-profit corporation, which is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code, classified as an organization that is not a private foundation and incorporated under the name Detroit Educational Television Foundation. The Foundation also operates under the names DPTV, Detroit Public TV, Channel 56, and WTVS. The Foundation operates two broadcast entities, WTVS Channel 56, a viewer-sponsored television service for southeastern Michigan and Canada, and WRCJ-FM, a classical/jazz FM radio station in Detroit, Michigan. The Foundation receives the majority of its funding from individual, corporate, and foundation contributions.

Note 2 - Significant Accounting Policies

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions. A description of the three categories is as follows:

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled. Unrestricted net assets may be designated for specific purposes by action of the board or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

Temporarily restricted net assets total $1,719,760 and $1,880,846 at June 30, 2018 and 2017, respectively. Changes in temporarily restricted net asset include contributions of $1,175,317 and $1,232,408 restricted for production funding during the years ended June 30, 2018 and 2017, respectively.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contribution revenue with donor-imposed restrictions that are met in the same year as received or earned is reported as unrestricted revenue. Contribution revenue with donor-imposed restrictions that are not met in the same year is reported as temporarily restricted revenue and is reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction.

Cash Equivalents

The Foundation considers all investments with an original maturity of three months or less when purchased to be cash equivalents, except for those money market funds that are considered part of the investment portfolio.

Investments

The majority of the Foundation's investments are in debt and equity mutual funds at June 30, 2018 and 2017. Investments are recorded at fair value based on quoted market prices.

Trade Receivables

Trade receivables consist of accounts receivable and receivables from BFD2, Inc.; Forest Incentives ltd.; and Independent Label Service Group (ILS) for sales of retail products that are companions to the Foundation's fundraising programs.

Note 2 - Significant Accounting Policies (Continued)

Accounts receivable are stated at billed amounts. An allowance for doubtful accounts is established based on specific assessment of all billings that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period the determination is made.

The Foundation entered into an agreement with BFD2, Inc. through March 2019 for retail distribution through the United States and Canada. The receivable for retail sales is for sales that have occurred before the end of the fiscal year for which the Foundation has not received the proceeds. The receivables are stated at net realizable value. An allowance for potential returned merchandise is established based on historical merchandise return experience.

Pledges Receivable

The Foundation receives pledges of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

An allowance for uncollectible contributions is provided based on management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, current economic conditions, and nature of fundraising.

Inventory

Inventory, consisting mainly of promotional items and merchandise held for resale by a third party, is stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out (FIFO) method.

Restricted Cash

The Michigan Strategic Fund Variable Rate Demand Limited Obligation Revenue Bonds Series 2005 contain an escrow agreement. The restricted cash is the balance of the required monthly escrow payments as of June 30. The escrow agreement requires monthly payments equal to one-twelfth of the next annual principal payment. The escrow account is treated as additional collateral for the bonds. At June 30, 2018 and 2017, the balance of the escrow account exceeds the requirement. See Note 6 for further detail.

Property and Equipment

Property and equipment are stated at original cost if purchased or at estimated fair value if donated. When assets are retired or otherwise disposed of, the related cost and depreciation are removed from the respective accounts, and any profit or loss is included in revenue. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

Revenue and Cost Recognition

Revenue is recognized when it is realized or realizable and earned. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Revenue relating to retail sales, facilities rental, and productions of local and national programs is recognized when earned.

Use of Estimates

The preparation of financial statements in conformity with 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between the various programs and support services on several bases and estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 26, 2018, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Foundation's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Foundation has not yet determined which application method it will use. The Foundation is in the process of evaluating the impact of the new standard on its financial statements with a focus on the timing and pattern of the Foundation's productions of local and national programs and other contract revenue.

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Foundation’s financial statements as a result of the Foundation's operating leases, as disclosed in Note 14, that will be reported on the balance sheet at adoption. Upon adoption, the Foundation will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation’s year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation anticipates that the effect will be expanded and increased disclosures regarding liquidity and availability of resources.

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2020 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Assets - Investments				
Trading securities:				
Money market	$ 35,580	$ -	$ -	$ 35,580
Mutual funds - Equity investments	2,038,639	-	-	2,038,639
Mutual funds - Fixed-income investments	952,207	-	-	952,207
Total assets	$ 3,026,426	$ -	$ -	$ 3,026,426

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Assets - Investments				
Trading securities:				
Money market	$ 34,403	$ -	$ -	$ 34,403
Mutual funds - Equity investments	1,943,193	-	-	1,943,193
Mutual funds - Fixed-income investments	848,647	-	-	848,647
Total assets	$ 2,826,243	$ -	$ -	$ 2,826,243

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event. There were no transfer between levels in 2018 or 2017.

Note 4 - Trade Receivables

Trade receivables represent accounts receivable and receivables for sales of retail products. Trade receivables consist of the following as of June 30, 2018 and 2017:

	2018	2017
Accounts receivable	$ 1,028,710	$ 588,896
Allowance for doubtful accounts	(90,428)	(10,843)
Accounts receivable - Net	938,282	578,053
Retail distribution receivable	107,470	101,923
Allowance for returned merchandise	-	(8,000)
Retail distribution receivables - Net	107,470	93,923
Total accounts receivable	$ 1,045,752	$ 671,976

Note 5 - Pledges Receivable

Pledges receivable represent amounts pledged from donors. Pledges receivable consist of the following as of June 30, 2018 and 2017.

	2018	2017
Pledges receivable	$ 1,530,532	$ 1,980,367
Less unamortized discount	(38,392)	(17,242)
Less allowance for uncollectible pledges	-	(113,970)
Net pledges receivable	$ 1,492,140	$ 1,849,155
Amounts due in:		
Less than one year	$ 1,039,455	$ 1,486,532
One to five years	491,077	493,835
Total	$ 1,530,532	$ 1,980,367

The Foundation discounted the pledges with interest rates ranging from 2.00 to 3.84 percent.

Note 6 - Long-term Debt

Long-term debt consists of the following:

Michigan Strategic Fund Variable Rate Demand Limited Obligation Revenue Bonds Series 2005, in the amount of $10,370,000, have an original maturity date of June 1, 2035. The bonds bear interest at a variable rate determined weekly (1.61 percent at June 30, 2018), not to exceed 18 percent or the maximum rate permitted by applicable law, at which time the bonds are remarketed. Annual principal payments range from $285,000 to $895,000 through 2024. Beginning in 2008, the bond agreement required the Foundation to make deposits into an escrow account, as described in Note 2. At June 30, 2018 and 2017, the balance of the escrow account was $319,176 and $614,144, respectively. As described in Note 2, only the amount of bond payments due within one year as shown as restricted cash on the balance sheet, which is $305,000 and $295,000 at June 30, 2018 and 2017, respectively. The bonds are reported net of unamortized bond issuance costs of $57,582 and $74,857 at June 30, 2018 and 2017, respectively. The Foundation is also required to maintain a letter of credit, which would fund any draws for bonds that are unable to be remarketed, equal to the balance of the bonds plus 45 days' interest at a maximum rate of 10 percent, not to exceed $10,497,849. Upon a draw on the letter of credit, the loan shall be repaid on the expiration date of the letter of credit in an amount equal to the full unpaid principal amount in accordance with the redemption schedule. Failure to maintain a letter of credit causes the bonds to become due on demand. The letter of credit expires on July 16, 2019. The bonds are collateralized by the letter of credit, which is collateralized by substantially all of the assets of the Foundation. In addition, the Foundation is subject to meeting certain financial covenants.

Subsequent to year end, effective July 2, 2018, the Foundation converted its bonds payable to an installment note in the amount of $2,270,000 with a maturity date of June 30, 2023. Interest is to be paid on the first business day of each calendar month with interest at 1.75 percent per annum above the daily adjusting LIBOR. Principal payments will be made quarterly in the amount of $37,833. The requirement for the escrow account and the recording of restricted cash described above also ceases to exist effective July 2, 2018. In addition, the Foundation is subject to meeting certain financial covenants.

Minimum principal payments on the installment note payable to maturity as of June 30, 2018, effective July 2, 2018, are as follows:

Years Ending	Amount
2019	$ 113,500
2020	151,333
2021	151,333
2022	151,333
2023	1,702,501
Less debt issuance costs	(57,582)
Total	$ 2,212,418

Interest expense for 2018 and 2017 was $37,094 and $29,095, respectively.

Note 7 - Line of Credit

Under an unsecured line of credit agreement, payable upon demand, the Foundation has available borrowings of approximately $1,100,000, with interest at 2.25 percent per annum above the daily adjusting LIBOR, an effective rate of 4.343 and 3.41 percent at June 30, 2018 and 2017, respectively. The line of credit was terminated on July 2, 2018. There was no outstanding balance against the line of credit at June 30, 2018 or 2017.

Effective July 2, 2018, the Foundation entered into an unsecured line of credit agreement with a different financial institution with available borrowings of approximately $1,100,000, with interest at 1.75 percent per annum above the daily adjusting LIBOR.

Note 8 - WRCJ License Transfer

Prior to 2017, the Federal Communications Commission (FCC) broadcast license for WRCJ was owned by Detroit Public Schools (DPS). The Foundation operated the station under an operating agreement with DPS whereby the Foundation paid certain operating expenses of the station in addition to an annual royalty payment. During 2017, DPS sold the FCC broadcast license for WRCJ along with certain assets of the station to a third party (the "new station owner"). The Foundation entered into an operating agreement with the new station owner whereby the Foundation will continue to operate the station subject to the supervision of the new station owner. The term of the operating agreement is 10 years, starting on March 1, 2017, which was the date the FCC approved the license sale from DPS to the new station owner. The agreement will automatically renew for 10-year terms unless there is a material breach of contract or the broadcast license is revoked by the FCC or sold by the new station owner. The Foundation has rights to all station revenue and is responsible for most operating expenses of the station and is responsible for operating and maintaining station equipment. Under the terms of the operating agreement, the Foundation is not required to pay the new station owner for the use of the license and station assets. The Foundation determined that the sale of the WRCJ broadcast license to the new station owner was in the Foundation's best interest; therefore, the Foundation provided a commitment to DPS of $1.5 million in cash and $1.5 million in in-kind services to be provided ratably over a 10-year period. The intent of this commitment was to incentivize the sale of the license to the new station owner and to secure the contract with the new station owner, which entitles the Foundation to the revenue from the station over the term of the operating agreement.

In 2017, the Foundation recorded a liability for the present value of the $1.5 million commitment of cash, discounted at 3.0 percent. The commitment of in-kind services is deemed to be a conditional commitment, as it is subject to annual agreement between the Foundation and DPS based on the needs of DPS and does not represent a present obligation of the Foundation; therefore, a liability has not been recorded for in-kind services.

Since the $1.5 million cash commitment represents incremental costs incurred by the Foundation to secure a revenue-producing contract, the Foundation has recorded an asset for the present value of those costs, also discounted at 3.0 percent. The costs will be recognized over the 10-year term of the operating agreement with the new station owner. The amortization is included in the broadcast program expenses in the statement of activities and changes in net assets for the year ending June 30, 2018.

The following tables summarize the assets and liabilities the Foundation has recorded as of June 30, 2018 and 2017 in association with this transaction:

	2018	2017
Right to use WRCJ license - Gross	$ 1,500,000	$ 1,500,000
Present value discount	(147,046)	(182,083)
Accumulated amortization	(150,000)	-
Other assets - Net	$ 1,202,954	$ 1,317,917

	2018	2017
Liability to DPS - Gross	$ 1,337,500	$ 1,500,000
Present value discount	(147,046)	(182,083)
Total liability to DPS - Net	1,190,454	1,317,917
Amount due within one year	(137,500)	(150,000)
Other long-term liabilities	$ 1,052,954	$ 1,167,917

Note 8 - WRCJ License Transfer (Continued)

The Foundation and the new station owner have formed a joint venture, Radio Services, LLC, in order to provide certain services to the radio station, including employment of two full-time employees who are responsible for station operations. The Foundation is the sole member of Radio Services, LLC and receives 100 percent of the profits and losses of the entity; however, the entity is fully controlled by the new station owner. FCC regulations had required the new station owner to control the operations of Radio Services, LLC in order to maintain the broadcast license; however, in April 2018, the Foundation determined that joint venture was no longer necessary due to changes in FCC regulations. Given the fact that the Foundation does not control Radio Services, LLC, it has not been consolidated into the Foundation's financial statements. For the years ended June 30, 2018 and 2017, there was no activity or balances in Radio Services, LLC.

Note 9 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land	$ 2,539,173	$ 2,539,173	-
Land improvements	69,111	69,111	10-15
Buildings and building improvements	12,050,281	12,042,959	7-40
Broadcast and production equipment	10,116,136	9,817,674	2-10
Office equipment	1,321,742	1,401,542	3-5
Total cost	26,096,443	25,870,459	
Accumulated depreciation	13,647,715	12,834,914	
Net property and equipment	$ 12,448,728	$ 13,035,545	

Depreciation expense for 2018 and 2017 was $987,128 and $894,866, respectively.

Note 10 - Gift Annuity

The Foundation is party to various gift annuity contracts with donors. Under the terms of the contracts, donors contribute assets in exchange for distributions of a fixed amount for a specified period of time to the donor or other beneficiaries. The present value of the estimated future payments to donors, using a discount rate of between 1.2 and 3 percent, has been included within accrued liabilities and other on the balance sheet and totaled $121,625 and $129,263 as of June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, the Foundation received $25,000 related to new annuity contracts. The Foundation recognizes the difference between the cash received and the present value of the annuity liability as temporarily restricted contribution revenue. During the year ended June 30, 2018, the Foundation recognized $12,032 of temporarily restricted contribution revenue related to these contracts. During the year ended June 30, 2017, the Foundation received $10,000 related to new annuity contracts and recognized $4,351 of temporarily restricted contribution revenue related to these contracts.

Note 11 - Commitments and Contingency

The Foundation has entered into multiple agreements with artists in which the Foundation has rights to manufacture, market, and distribute the artists' products throughout the United States and Canada. The Foundation is also obligated to pay royalties to publishers as a requirement under the copyright act. The Foundation is required to pay such royalties based upon a percentage of proceeds derived from the sales of the products. At June 30, 2018 and 2017, the Foundation accrued approximately $131,000 and $155,000, respectively, in royalties under these agreements.

Note 12 - Equipment Liability

During 2015, the Foundation purchased equipment used in WRCJ's operations at a cost of $450,000. The Foundation was reimbursed for these costs by the station owner. The assets are included in the Foundation's property and equipment; however, the Foundation concluded that ownership of the assets was likely to revert to the station owner at the end of the station operating agreement. Therefore, the Foundation recorded an agency liability in the amount of $450,000, which was to be amortized over the remaining operating agreement. During 2017, the station was purchased by another party (see Note 8), and the operating agreement with the new owner was extended through 2027. Beginning in 2017, the Foundation revised the amortization period of both the asset and liability to extend amortization through 2027.

At June 30, 2018 and 2017, the net book value of this equipment was $318,293 and $353,659, respectively, and was recorded as an asset included in property and equipment on the balance sheet.

Note 13 - Investment Income

Investment income consists of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividend income	$ 63,894	$ 38,856
Net realized and unrealized gain	139,133	258,594
Investment management fees	(32,620)	(28,218)
Total	$ 170,407	$ 269,232

Note 14 - Operating Leases

The Foundation leases space for a transmitting antenna and associated equipment to transmit its broadcasting signal in digital format. This is a noncancelable operating lease agreement through June 30, 2019 at variable future minimum monthly lease payments. Beginning in 2003, payments increased based upon the U.S. Department of Commerce's National Consumer Price Index for all urban consumer U.S. city averages. Rental payments for the year ended June 30, 2018 were $10,503 per month. During 2018, the Foundation extended the lease agreement through June 30, 2029. Rental payments are estimated to increase to $13,855 per month effective January 1, 2020.

The Foundation also leases other miscellaneous equipment. Monthly payments on these leases range from $255 to $868 with various expiration dates through 2023.

Future minimum payments under these leases with initial or remaining terms of one year or more are as follows:

Years Ending June 30	Amount
2019	$ 176,012
2020	185,010
2021	184,579
2022	177,876
2023	169,349
Thereafter	997,524
Total	$ 1,890,350

Rent expense was approximately $175,000 and $173,000 for the years ended June 30, 2018 and 2017, respectively.

Note 15 - Pension Costs

The Foundation has a defined contribution retirement plan covering substantially all full-time employees and part-time employees who meet the qualification criteria. In 2017 and 2018, the Foundation contributed 3 percent of each participating employee's annual compensation.

Certain employees also participate in a pension plan administered by the Directors Guild of America. The Foundation contributes 5.5 percent of each participating employee's compensation.

The Foundation contributed approximately $123,000 and $140,000 to the two plans during 2018 and 2017, respectively.

Additional Information

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Independent Auditor's Report on Additional Information

To the Members of the Finance and Audit Committee
Detroit Educational Television Foundation

We have audited the financial statements of Detroit Educational Television Foundation as of and for the years ended June 30, 2018 and 2017 and have issued our report thereon dated September 26, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The balance sheet by broadcast entity and statement of activities and changes in net assets by broadcast entity are presented for the purpose 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.

Plante & Moran, PLLC

September 26, 2018

Balance Sheet by Broadcasting Entity

June 30, 2018

(with comparative totals for 2017)

	WTVS	WRCJ	Total 2018	Total 2017
Assets				
Current Assets				
Cash and cash equivalents	$ 1,676,995	$ 1,240,030	$ 2,917,025	$ 2,787,648
Investments	3,026,426	-	3,026,426	2,826,243
Receivables - Net of allowances:				
Trade accounts receivable	958,889	86,863	1,045,752	671,976
Pledges receivable	859,713	179,742	1,039,455	1,372,562
Inventory	34,840	-	34,840	38,394
Intercompany receivables	(2,873,574)	2,873,574	-	-
Restricted cash - Bond payments	305,000	-	305,000	295,000
Prepaid assets and other	191,091	17,924	209,015	296,249
Total current assets	4,179,380	4,398,133	8,577,513	8,288,072
Pledges Receivable - Long term	393,798	58,887	452,685	476,593
Other Assets - Net	-	1,202,954	1,202,954	1,317,917
Property and Equipment - Net	12,130,435	318,293	12,448,728	13,035,545
Total assets	**$ 16,703,613**	**$ 5,978,267**	**$ 22,681,880**	**$ 23,118,127**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 796,289	$ 30,785	$ 827,074	$ 712,113
Accrued liabilities and other	800,913	38,240	839,153	960,095
Current portion of equipment liability	-	35,366	35,366	35,366
Current portion of long-term debt	113,500	-	113,500	295,000
Current portion of long-term liability	-	137,500	137,500	150,000
Total current liabilities	1,710,702	241,891	1,952,593	2,152,574
Long-term Debt - Net of current portion	2,098,918	-	2,098,918	2,195,143
Equipment Liability - Net of current portion	-	282,927	282,927	318,293
Other Long-term Liabilities - Net of current portion	-	1,052,954	1,052,954	1,167,917
Total liabilities	3,809,620	1,577,772	5,387,392	5,833,927
Net Assets				
Unrestricted net assets	$ 11,133,963	$ 4,360,495	$ 15,494,458	$ 15,323,334
Temporarily restricted - Production funding	1,679,760	40,000	1,719,760	1,880,846
Permanently restricted - Endowment	80,270	-	80,270	80,020
Total net assets	12,893,993	4,400,495	17,294,488	17,284,200
Total liabilities and net assets	**$ 16,703,613**	**$ 5,978,267**	**$ 22,681,880**	**$ 23,118,127**

Statement of Activities and Changes in Net Assets by Broadcast Entity

Year Ended June 30, 2018
(with comparative totals for 2017)

	WTVS	WRCJ	Total 2018	Total 2017
Changes in Unrestricted Net Assets				
Revenue and support:				
Individual contributions	$ 7,159,042	$ 1,532,811	$ 8,691,853	$ 8,688,555
Productions of local and national programs	2,504,130	-	2,504,130	3,024,435
Corporation for Public Broadcasting grants	2,133,194	300,543	2,433,737	2,430,469
Corporate contributions	875,234	357,236	1,232,470	1,075,745
Facilities rental	566,246	-	566,246	481,944
Special events	364,423	22,505	386,928	525,221
Retail product sales	180,796	-	180,796	389,630
Foundation contributions	251,000	33,000	284,000	617,231
Investment income	170,407	-	170,407	269,232
Miscellaneous income	163,789	35,586	199,375	242,713
Total revenue and support	14,368,261	2,281,681	16,649,942	17,745,175
Net assets released from restrictions	1,296,153	40,000	1,336,153	1,004,168
Total revenue, support, and net assets released from restrictions	15,664,414	2,321,681	17,986,095	18,749,343
Expenses:				
Program services:				
Communications	1,096,771	68,490	1,165,261	1,536,444
Broadcast	4,099,354	1,049,924	5,149,278	5,430,146
Production	4,467,523	-	4,467,523	5,276,673
Total program services	9,663,648	1,118,414	10,782,062	12,243,263
Support services:				
Administration and general	2,204,139	323,067	2,527,206	2,075,909
Fundraising	3,947,003	558,700	4,505,703	4,614,297
Total expenses	15,814,790	2,000,181	17,814,971	18,933,469
(Decrease) Increase in Unrestricted Net Assets	(150,376)	321,500	171,124	(184,126)
Changes in Temporarily Restricted Net Assets				
Contributions	1,175,067	-	1,175,067	1,232,408
Net assets released from restrictions	(1,296,153)	(40,000)	(1,336,153)	(1,004,168)
(Decrease) Increase in Temporarily Restricted Net Assets	(121,086)	(40,000)	(161,086)	228,240
Changes in Permanently Restricted Net Assets - Contributions	250	-	250	-
(Decrease) Increase in Net Assets	(271,212)	281,500	10,288	44,114
Net Assets - Beginning of year	13,165,205	4,118,995	17,284,200	17,240,086
Net Assets - End of year	**$ 12,893,993**	**$ 4,400,495**	**$ 17,294,488**	**$ 17,284,200**