

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**
Saint Paul, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended August 31, 2018 and 2017

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Functional Expenses	7 - 8
Notes to Consolidated Financial Statements	9 - 31
Consolidating Information	
Consolidating Statement of Financial Position	32
Consolidating Statement of Activities	33

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Twin Cities Public Television, Inc. and Subsidiary
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Twin Cities Public Television, Inc. and Subsidiary (collectively referred to as "TPT"), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Twin Cities Public Television, Inc. and Subsidiary as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 32 and 33 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2018

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of August 31, 2018 and 2017

ASSETS		
	2018	2017
Cash and cash equivalents	\$ 5,969,294	\$ 3,592,350
Certificates of deposit		1,504,231
Accounts receivable	586,296	643,191
Prepaid expenses and other assets	672,288	562,634
Pledges receivable, net	383,988	376,672
Grants receivable, net	33,127,777	33,729,606
Leveraged loan receivable	6,392,800	6,392,800
Investments	21,129,199	19,684,810
Property and equipment, net	21,314,506	22,767,245
TOTAL ASSETS	\$ 89,576,148	\$ 89,253,539
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 741,177	\$ 681,756
Other accrued expenses	3,440,950	2,249,384
Deferred revenue	237,886	372,493
Deferred compensation	1,213,386	1,097,447
Accrued pension liability		3,958,502
Loans and note payable, net of debt issuance costs	9,751,427	8,665,035
Total Liabilities	15,384,826	17,024,617
NET ASSETS		
Unrestricted		
Operating fund	1,374,135	1,258,287
Property fund	20,449,839	22,051,041
Board designated fund	18,110,350	14,475,085
Total unrestricted	39,934,324	37,784,413
Temporarily restricted	33,406,510	33,594,021
Permanently restricted	850,488	850,488
Total Net Assets	74,191,322	72,228,922
TOTAL LIABILITIES AND NET ASSETS	\$ 89,576,148	\$ 89,253,539

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018
with Comparative Totals for 2017

	Unrestricted				Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
	Operating	Property	Board Designated	Total				
REVENUES, GAINS AND OTHER SUPPORT								
Individual contributions and memberships	\$ 14,898,451		\$ 18,342	\$ 14,916,793	\$ 61,267		\$ 14,978,060	\$ 14,445,367
Planned giving, principally bequests	253,236		909,036	1,162,272			1,162,272	763,375
Foundations	1,042,384			1,042,384	4,253,454		5,295,838	2,725,036
Corporations	67,843			67,843	17,000		84,843	1,445,121
Sponsorship	1,619,646			1,619,646			1,619,646	1,708,125
Corporation for Public Broadcasting grants and PBS grants	2,813,757			2,813,757	641,346		3,455,103	6,043,585
State of Minnesota grants	258,333			258,333	642,874		901,207	4,792,535
Federal government grants					10,770,780		10,770,780	13,271,990
Donated goods, facilities and professional services	136,138			136,138			136,138	55,898
Other contributions	190,275			190,275	6,600		196,875	156,227
Earned income	2,447,262			2,447,262			2,447,262	3,331,108
Net investment income	89,774	\$ 63,928	1,894,515	2,048,217	86,584		2,134,801	2,192,946
Other income	635,467	7,813	11,515	654,795			654,795	527,931
Actuarial adjustment related to split interest agreements			(53,283)	(53,283)			(53,283)	(62,285)
Total revenues, gains and other support before endowment draw transfer and net assets released from restrictions	24,452,566	71,741	2,780,125	27,304,432	16,479,905		43,784,337	51,396,959
Endowment draw transfer	699,996		(699,996)					
Net assets released from restrictions	16,211,957	207,353	248,106	16,667,416	(16,667,416)			
Total Revenues, Gains and Other Support	41,364,519	279,094	2,328,235	43,971,848	(187,511)		43,784,337	51,396,959
EXPENSES AND TRANSFERS OF NET ASSETS								
Program and supporting services								
Programming and production	27,411,128	1,587,099		28,998,227			28,998,227	24,529,308
Broadcasting	2,348,510	234,628		2,583,138			2,583,138	2,887,846
Program information	528,816	20,693		549,509			549,509	648,928
Fund raising	6,194,647	165,011		6,359,658			6,359,658	6,084,054
General and management	3,249,791	98,443		3,348,234			3,348,234	3,362,126
Total program and supporting services	39,732,892	2,105,874		41,838,766			41,838,766	37,512,262
Change in net assets before transfers of unrestricted net assets and change in pension liability	1,631,627	(1,826,780)	2,328,235	2,133,082	(187,511)		1,945,571	13,884,697
Transfer and reclassification of unrestricted net assets	(1,515,779)	225,578	1,290,201					
Change in pension liability			16,829	16,829			16,829	886,752
Change in Net Assets	115,848	(1,601,202)	3,635,265	2,149,911	(187,511)		1,962,400	14,771,449
NET ASSETS - Beginning of Year	1,258,287	22,051,041	14,475,085	37,784,413	33,594,021	\$ 850,488	72,228,922	57,457,473
NET ASSETS - END OF YEAR	\$ 1,374,135	\$ 20,449,839	\$ 18,110,350	\$ 39,934,324	\$ 33,406,510	\$ 850,488	\$ 74,191,322	\$ 72,228,922

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2017

	<u>Unrestricted</u>			<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Operating</u>	<u>Property</u>	<u>Board Designated</u>			
REVENUES, GAINS AND OTHER SUPPORT						
Individual contributions and memberships	\$ 13,774,079		\$ 124,566	\$ 13,898,645	\$ 546,722	\$ 14,445,367
Planned giving, principally bequests	150,000		613,375	763,375		763,375
Foundations	974,027			974,027	1,751,009	2,725,036
Corporations	184,121			184,121	1,261,000	1,445,121
Sponsorship	1,708,125			1,708,125		1,708,125
Corporation for Public Broadcasting grants and PBS grants	3,242,695			3,242,695	2,800,890	6,043,585
State of Minnesota grants					4,792,535	4,792,535
Federal government grants					13,271,990	13,271,990
Donated goods, facilities and professional services	55,898			55,898		55,898
Other contributions	152,466			152,466	3,761	156,227
Earned income	3,331,108			3,331,108		3,331,108
Net investment income	65,234	\$ 63,928	1,965,519	2,094,681	98,265	2,192,946
Other income	526,132	1,799		527,931		527,931
Actuarial adjustment related to split interest agreements			(62,285)	(62,285)		(62,285)
Total revenues, gains and other support before endowment draw transfer and net assets released from restrictions	24,163,885	65,727	2,641,175	26,870,787	24,526,172	51,396,959
Endowment draw transfer	660,000		(660,000)			
Net assets released from restrictions	10,875,128	155,416	98,265	11,128,809	(11,128,809)	
Total Revenues, Gains and Other Support	<u>35,699,013</u>	<u>221,143</u>	<u>2,079,440</u>	<u>37,999,596</u>	<u>13,397,363</u>	<u>51,396,959</u>
EXPENSES AND TRANSFERS OF NET ASSETS						
Program and supporting services						
Programming and production	22,530,839	1,707,200	291,269	24,529,308		24,529,308
Broadcasting	2,608,981	231,531	47,334	2,887,846		2,887,846
Program information	613,407	22,878	12,643	648,928		648,928
Fund raising	5,841,888	165,313	76,853	6,084,054		6,084,054
General and management	3,146,321	159,578	56,227	3,362,126		3,362,126
Total program and supporting services	<u>34,741,436</u>	<u>2,286,500</u>	<u>484,326</u>	<u>37,512,262</u>		<u>37,512,262</u>
Change in net assets before transfers of unrestricted net assets and change in pension liability	957,577	(2,065,357)	1,595,114	487,334	13,397,363	13,884,697
Transfer and reclassification of unrestricted net assets	(890,466)	378,635	511,831			
Change in pension liability			886,752	886,752		886,752
Change in Net Assets	67,111	(1,686,722)	2,993,697	1,374,086	13,397,363	14,771,449
NET ASSETS - Beginning of Year	1,191,176	23,737,763	11,481,388	36,410,327	20,196,658	\$ 850,488
NET ASSETS - END OF YEAR	<u>\$ 1,258,287</u>	<u>\$ 22,051,041</u>	<u>\$ 14,475,085</u>	<u>\$ 37,784,413</u>	<u>\$ 33,594,021</u>	<u>\$ 850,488</u>

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,962,400	\$ 14,771,449
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,758,543	1,915,619
Amortization of debt issuance costs	86,392	86,392
Net gains on investments	(1,787,221)	(1,852,036)
Loss on disposal of property and equipment	26,498	
Pension plan termination payment	(3,971,752)	
Change in operating assets and liabilities		
Accounts receivable	56,895	(15,507)
Prepaid expenses and other assets	(109,654)	19,571
Pledges receivable	(33,316)	(134,225)
Grants receivable	601,829	(13,148,408)
Accounts payable	59,666	245,558
Other accrued expenses	1,191,566	(492,484)
Deferred revenue	(134,607)	3,950
Deferred compensation	115,939	39,185
Accrued pension liability	13,250	(402,427)
Contributions restricted for long-term investment and plant	(194,407)	(5,036)
Net Cash Flows From Operating Activities	(357,979)	1,031,601
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(332,547)	(257,042)
Purchases of certificates of deposit		(1,504,231)
Sales of certificates of deposit	1,504,231	
Purchases of investments	(513,430)	(396,372)
Sale of investments	856,262	105,155
Net Cash Flows From Investing Activities	1,514,516	(2,052,490)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issuance of note payable	1,000,000	
Contributions received restricted for long-term investment and plant	220,407	144,248
Net Cash Flows From Financing Activities	1,220,407	144,248
 Net Change in Cash and Cash Equivalents	2,376,944	(876,641)
 CASH AND CASH EQUIVALENTS - Beginning of Year	3,592,350	4,468,991
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,969,294	\$ 3,592,350
 Supplemental cash flow information		
Taxes paid	\$ -	\$ 5,000
Interest paid	116,432	116,432
Noncash investing activities		

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2018
with Comparative Totals for 2017

	2018							
	Program Services				Supporting Services			
	Programming and Production	Broadcasting	Program Information	Total	Fund Raising	General and Management	2018 Total	2017 Total
Salaries, payroll taxes and employee benefits	\$ 12,706,470	\$ 1,641,655	\$ 347,965	\$ 14,696,090	\$ 2,783,316	\$ 2,599,912	\$ 20,079,318	\$ 18,983,931
Program acquisition	3,588,191			3,588,191			3,588,191	3,833,028
PBS and regional memberships	88,952	8,949	2,613	100,514	24,338	13,847	138,699	134,268
Legal services	85,988	729	196	86,913	1,813	49,885	138,611	419,798
Accounting services						84,910	84,910	78,283
Outside services	8,931,666	26,356	40,296	8,998,318	421,412	154,605	9,574,335	5,582,086
Professional fundraiser					1,210,787		1,210,787	1,316,656
Office supplies	30,340	3,364	1,682	35,386	11,279	7,287	53,952	48,805
Postage	15,268	1,522	92	16,882	345,281	7,234	369,397	350,835
Telephone and data services	13,035	46,969	547	60,551	5,941	2,052	68,544	120,330
Occupancy	514,897	306,220	11,956	833,073	125,214	117,384	1,075,671	977,589
Printing and publications	88,951	2,814	62,724	154,489	355,292	34,440	544,221	472,869
Recording media	25,953			25,953	3,804		29,757	28,655
Other program costs	255,618	118	15	255,751	28,166	9,595	293,512	344,811
Advertising	129,877	876	34,449	165,202	17,469	15,413	198,084	254,669
Premiums	3,979		1	3,980	387,420	42	391,442	554,713
Rental and maintenance of equipment	471,532	296,082	20,154	787,768	74,738	77,988	940,494	836,728
Travel	348,842	6,762	1,858	357,462	104,984	23,940	486,386	454,347
Conferences and meetings	69,991	3,994	1,069	75,054	16,521	6,257	97,832	69,772
Miscellaneous	276,018	2,101	3,199	281,318	276,872	71,498	629,688	648,078
Depreciation and amortization	1,352,659	234,627	20,693	1,607,979	165,011	71,945	1,844,935	2,002,011
Total Expenses	\$ 28,998,227	\$ 2,583,138	\$ 549,509	\$ 32,130,874	\$ 6,359,658	\$ 3,348,234	\$ 41,838,766	\$ 37,512,262

See accompanying notes to consolidated financial statements.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2017

	<u>Program Services</u>				<u>Supporting Services</u>		
	<u>Programming and Production</u>	<u>Broadcasting</u>	<u>Program Information</u>	<u>Total</u>	<u>Fund Raising</u>	<u>General and Management</u>	<u>Total</u>
Salaries, payroll taxes and employee benefits	\$ 11,266,959	\$ 2,019,759	\$ 432,503	\$ 13,719,221	\$ 2,633,264	\$ 2,631,446	\$ 18,983,931
Program acquisition	3,833,028			3,833,028			3,833,028
PBS and regional memberships	73,831	12,743	3,499	90,073	21,194	23,001	134,268
Legal services	384,352	411	110	384,873	667	34,258	419,798
Accounting services	386			386		77,897	78,283
Outside services	5,274,228	23,304	19,741	5,317,273	210,100	54,713	5,582,086
Professional fundraiser					1,316,656		1,316,656
Office supplies	25,258	3,777	1,139	30,174	12,212	6,419	48,805
Postage	15,080	1,662	91	16,833	331,029	2,973	350,835
Telephone and data services	30,809	78,349	876	110,034	6,183	4,113	120,330
Occupancy	426,474	301,270	15,449	743,193	89,166	145,230	977,589
Printing and publications	53,562	3,264	93,943	150,769	303,715	18,385	472,869
Recording media	26,478	231	33	26,742	1,726	187	28,655
Other program costs	313,337	773	252	314,362	29,244	1,205	344,811
Advertising	211,917	566	31,299	243,782	5,477	5,410	254,669
Premiums	3,580			3,580	551,133		554,713
Rental and maintenance of equipment	495,866	192,862	16,662	705,390	57,954	73,384	836,728
Travel	352,144	11,770	4,212	368,126	72,936	13,285	454,347
Conferences and meetings	42,608	3,178	2,849	48,635	12,787	8,350	69,772
Miscellaneous	275,049	2,870	3,494	281,413	263,919	102,746	648,078
Depreciation and amortization	1,424,362	231,057	22,776	1,678,195	164,692	159,124	2,002,011
Total Expenses	\$ 24,529,308	\$ 2,887,846	\$ 648,928	\$ 28,066,082	\$ 6,084,054	\$ 3,362,126	\$ 37,512,262

See accompanying notes to consolidated financial statements.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The mission of Twin Cities Public Television, Inc. and Subsidiary (collectively referred to as TPT) is to “enrich lives and strengthen our community through the power of media.” As one of the nation’s leading public media organizations, TPT uses television, interactive media, and community engagement to advance education, culture and citizenship. For over 50 years, TPT has been recognized for its innovation and creativity with numerous awards, including Peabody awards and national and regional Emmys. Based in St. Paul, Minnesota, TPT is one of the highest rated PBS affiliates in the nation, reaching over 3 million people each month through multiple broadcast and online channels. TPT’s particular areas of focus include: the educational readiness of children; serving the needs and unleashing the potential of America’s aging population; engaging a new generation in the power of public media; and being the preferred media partner for organizations that align with our mission to enrich lives and strengthen community.

Basis of Consolidation - In fiscal 2015, a new 501(c)(3) corporation, Twin Cities Public Media Commons (TCPMC), was created to be operated exclusively for charitable and educational purposes, and exclusively for the benefit of, to support the functions of, and to assist in carrying out the purposes of TPT. The consolidated financial statements include the activities of TPT and TCPMC. All intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Net Asset Classifications - For the purposes of financial reporting, TPT classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of TPT are classified in the accompanying consolidated financial statements in the categories that follow:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by TPT. Generally, the donors of these assets permit TPT to use the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of TPT and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations. The following describes TPT’s unrestricted net asset classifications:

Operating - Consists of contributions, grants and other revenues available for the unrestricted operations of TPT and to account for the expenses related to the general operations of TPT.

Property - Consists of buildings, building improvements and equipment owned by TPT. The fund also consists of assets available to acquire new property and equipment.

Board Designated - Consists of assets designated by TPT’s Board of Trustees to fund specific unrestricted operational activities of TPT and to assure the long-term financial health of the organization. The Board retains control over these resources and may, at its discretion, subsequently use them for other purposes. Each fiscal year, a recommendation for an annual draw to support operations is made to the Board by TPT’s management. The draw amount is based on a three year average and is not to exceed 5% of the Board Designated endowment fund balance; this amount is then transferred to the Operating Fund throughout the year. Other requests for use of these funds are permitted after a recommendation by management and subsequent approval by the Board. The draw rate for fiscal year 2018 and 2017 was 4.5% and 4.7%, respectively.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues from sources other than contributions and grants are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions and grants, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Program production and other project grants are obtained from corporations, foundations, governmental agencies and others to finance specific programming produced by TPT. These grants are recognized as temporarily restricted revenue upon receipt of the grant. Expenses relating to the use of the grants are recorded as unrestricted operating expenses as incurred and related revenue is released from temporarily restricted net assets and transferred to unrestricted revenue as the related expenses are incurred.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in unrestricted net assets.

Cash and Cash Equivalents - TPT considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Certificates of Deposit - Certificates of deposit had maturities greater than three months when purchased. Interest rates ranged between 0.8% and 1.15%.

Receivables - Receivables are stated at the amount management expects to collect from outstanding balances. Based on historical collections experience and management's evaluation of receivables at the end of each year, TPT has determined that no allowance for doubtful accounts is necessary. Bad debts are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received. Receivables are generally unsecured. Receivables are considered delinquent if payment or payment arrangements are not made by the due date. Delinquent accounts are not charged a service fee.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Purchased property and equipment is recorded at cost. Donated property and equipment are recorded at fair value at the date of contribution. All property and equipment in excess of \$3,000 with estimated lives greater than one year are capitalized. Expenditures for repairs and maintenance which do not improve efficiency or extend economic life of the asset are expensed as incurred.

Depreciation is computed on the straight-line method over the estimated useful lives as follows:

Building	15 to 50 years
Tower and transmitter equipment	10 to 20 years
Production equipment and fixtures	3 to 15 years
Office furniture and equipment	3 to 10 years

Impairment of Long-Lived Assets - TPT reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Leveraged Loan Receivable - Leveraged loan receivable relates to the New Markets Tax Credit Program (NMTCP) financing structure, is due from unrelated financial institutions, and has payment schedules timed to coincide with payments due under the TCPMC leveraged loans payable.

Deferred Revenue - A liability is recorded when payment for goods and/or services is received before it has been earned.

Individual Contributions and Memberships - Membership contributions and other contributions received from individuals.

Planned Giving, Principally Bequests - Unrestricted contributions received through bequests and other planned giving instruments are placed in an unrestricted Board Designated Endowment fund to support future operations.

Foundations and Corporations - Contributions received from foundations and corporations.

Sponsorship - Contributions received for underwriting, either on air, online or print form, are recorded as sponsorship revenue in the period in which the underwriting spot occurs.

Corporation for Public Broadcasting Grants and PBS Grants - Community service grants, which may be used over two years, are received from The Corporation for Public Broadcasting ("CPB"). These grants are recognized as unrestricted revenues as they are received. Grants received from PBS are usually restricted for a specific purpose and recognized as temporarily restricted revenue until the restrictions of the grant are met.

Donated Goods, Facilities and Professional Services - Donated goods, facilities and professional services are recognized as unrestricted revenue when received and an equal amount of expense is recognized in various expense categories on the statement of activities. Donated goods, facilities and professional services are recognized at fair value at the date donated.

Advertising Expenses - TPT expenses advertising as incurred.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Income Taxes - The Internal Revenue Service has determined that TPT and TCPMC are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. TPT and TCPMC are also exempt from state income taxes. TPT does pay income taxes on business income which is generated by business activities not substantially related to the exempt purpose of TPT and regularly carried on by TPT.

TPT and TCPMC follow the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by TPT and TCPMC for uncertain tax positions as of August 31, 2018 and 2017. TPT's tax returns are subject to review and examination by federal and state authorities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. TPT is assessing the impact this standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 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 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). 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. TPT is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). ASU 2016-14 is to be applied retroactively with transition provisions. TPT is assessing the impact this standard will have on its financial statements.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The standard is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020) and intended to be implemented concurrently with ASU 2014-09. Early adoption is permitted. TPT is assessing the impact this standard will have on its financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques and Inputs

Level 1 - Level 1 assets include mutual funds for which quoted prices are readily available.

Level 2 - Level 2 assets include:

- > Investments in money market funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

There have been no changes in the techniques and inputs used as of August 31, 2018 and 2017.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While TPT believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investments in a hedge fund and a fund of hedge funds are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value. TPT has estimated the fair value of these funds by using the net asset value provided by the investee.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about TPT's assets measured at fair value on a recurring basis as of August 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Money market funds	\$ 2,910,970		\$ 2,910,970	
Mutual funds				
U.S. equities	7,421,604	\$ 7,421,604		
U.S. fixed income	2,200,048	2,200,048		
U.S. target allocation	484,270	484,270		
U.S. real estate	11,988	11,988		
Global equities	4,127,182	4,127,182		
Emerging markets equities	<u>2,364,110</u>	<u>2,364,110</u>		
Subtotal assets by valuation hierarchy	19,520,172	<u>\$ 16,609,202</u>	<u>\$ 2,910,970</u>	<u>\$ -</u>
Assets measured using NAV				
Hedge fund	1,834,936			
Fund of hedge funds	<u>2,672,647</u>			
Subtotal assets measured using NAV	<u>4,507,583</u>			
Total assets at fair value	<u>\$ 24,027,755</u>			

Total assets at fair value consist of the following at August 31, 2018:

Investments per the statement of financial position	\$ 21,129,199
Other investments (at cost)	(12,414)
Money market funds in cash and cash equivalents	2,910,970
	<u>\$ 24,027,755</u>

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents information about TPT's assets measured at fair value on a recurring basis as of August 31, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Money market funds	\$ 100,031		\$ 100,031	
Mutual funds				
U.S. equities	6,795,214	\$ 6,795,214		
U.S. fixed income	1,975,389	1,975,389		
U.S. target allocation	457,036	457,036		
U.S. real estate	7,373	7,373		
Global equities	3,843,194	3,843,194		
Emerging markets equities	<u>2,280,697</u>	<u>2,280,697</u>		
Subtotal assets by valuation hierarchy	15,458,934	<u>\$ 15,358,903</u>	<u>\$ 100,031</u>	<u>\$ -</u>
Assets measured using NAV				
Hedge fund	1,780,799			
Fund of hedge funds	<u>2,532,694</u>			
Subtotal assets measured using NAV	<u>4,313,493</u>			
Total assets at fair value	<u>\$ 19,772,427</u>			

Total assets at fair value consist of the following at August 31, 2017:

Investments per the statement of financial position	\$ 19,684,810
Other investments (at cost)	(12,414)
Money market funds in cash and cash equivalents	<u>100,031</u>
	<u>\$ 19,772,427</u>

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

TPT uses the net asset value (“NAV”) as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of August 31, 2018 and 2017:

Asset Class	2018 Fair Value	2017 Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Hedge fund	\$ 1,834,936	\$ 1,780,799	None	Quarterly	45 days	N.A.
Fund of hedge funds	2,672,647	2,532,694	None	45 days	45 days	N.A.

- > Hedge fund - This category includes investments in a single hedge fund. The fund focuses on fixed income relative value positions.
- > Fund of hedge funds - This category includes a portfolio of investment funds targeting absolute returns through diversification in various styles of investing, geographic area, industry and stages of company development. The objective is to provide a favorable risk/return profile, which would generate absolute returns while maintaining a moderate level of risk.

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31:

	2018	2017
Time or Purpose restrictions:		
Project support	\$ 32,529,559	\$ 32,971,175
Capital and equipment purchases	95,704	
Campaign for TPT		168,182
Next Avenue	263,664	399,664
Future operations (time restricted)	517,583	55,000
Total	\$ 33,406,510	\$ 33,594,021

Permanently restricted net assets consist of the following at August 31:

	2018	2017
Endowment fund	\$ 850,488	\$ 850,488

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended August 31:

	2018	2017
Purpose restrictions:		
Project support	\$ 15,700,139	\$ 10,174,169
Capital and equipment purchases	95,704	
Campaign for TPT	161,521	
Next Avenue	568,468	699,375
Endowment	86,584	98,265
Future operations (time restricted)	55,000	157,000
Total	\$ 16,667,416	\$ 11,128,809

NOTE 5 - PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable consist of unconditional promises to give as follows at August 31:

	2018	2017
Amounts due in:		
Less than one year	\$ 22,086,983	\$ 19,387,377
One to five years	12,031,548	15,110,183
Gross pledges and grants receivable	34,118,531	34,497,560
Less: Unamortized discount	(606,766)	(391,282)
Net pledges and grants receivable	\$ 33,511,765	\$ 34,106,278
Pledges receivable, net	\$ 383,988	\$ 376,672
Grants receivable, net	33,127,777	33,729,606
Net pledges and grants receivable	\$ 33,511,765	\$ 34,106,278

Pledges and grants receivable due in one to five years were discounted at interest rates varying from 2.62% to 2.70% at August 31, 2018 and 1.24% to 1.42% at August 31, 2017. Pledges and grants receivable due in less than one year are not discounted.

Conditional pledges and grants are recorded as revenue when the condition has been met. TPT has no conditional grants where conditions have not been met at August 31, 2018 or 2017.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 6 - INVESTMENTS

Investments at fair value are comprised of the following at August 31:

	2018	2017
Mutual funds	\$ 16,609,202	\$ 15,358,903
Hedge fund	1,834,936	1,780,799
Fund of hedge funds	2,672,647	2,532,694
Other (at cost)	12,414	12,414
Total	\$ 21,129,199	\$ 19,684,810

Investments, in general, are subject to various risks, including credit, custodial, interest, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Through TPT's investments in the hedge fund and fund of hedge funds, TPT is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, TPT's risk with respect to such transactions is limited to its capital balance in each investment.

Net investment income consists of the following for the years ended August 31:

	2018	2017
Net investment income		
Interest and dividends	\$ 347,580	\$ 340,910
Net realized and unrealized gains	1,787,221	1,852,036
Total	\$ 2,134,801	\$ 2,192,946

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 370,000	\$ 370,000
Building	25,849,898	25,866,477
Tower and transmitter equipment	5,668,512	6,464,431
Production equipment and fixtures	7,416,045	7,596,892
Computer equipment	2,134,436	2,017,607
Office furniture and equipment	1,487,790	1,490,837
Construction in progress	<u>17,379</u>	<u>13,300</u>
	42,944,060	43,819,544
Less: Accumulated depreciation	<u>(21,629,554)</u>	<u>(21,052,299)</u>
Total	<u>\$ 21,314,506</u>	<u>\$ 22,767,245</u>

Construction in progress at August 31, 2018 relates to preliminary costs for updates to TPT's network switches.

NOTE 8 - LINE OF CREDIT

TPT has a \$1,000,000 line of credit agreement with Bremer Bank which expires on May 26, 2020, and carries an interest rate of the bank's index rate plus 0.25 percentage points. There was no balance outstanding at August 31, 2018 and 2017 under this agreement. The line is collateralized by certain assets of TPT and requires TPT to meet certain financial covenants.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 9 - LOANS AND NOTE PAYABLE, NET

Loans and note payable consist of the following at August 31, 2018 and 2017:

	2018	2017
Leveraged loan payable - A	\$ 6,392,800	\$ 6,392,800
Leveraged loan payable – B	2,632,200	2,632,200
Note payable	1,000,000	
	10,025,000	9,025,000
Debt issuance costs	(273,573)	(359,965)
Total	\$ 9,751,427	\$ 8,665,035

New Markets Tax Credit Program financing arrangements have provided \$9,025,000 for the building renovation which took place in fiscal years 2015 and 2016. The arrangements provide federal tax incentives to the investing banks, in exchange for which TCPMC anticipates forgiveness of a portion of the outstanding principal balance remaining at the end of the initial seven-year interest-only period. There are two New Markets Tax Credit leveraged loans payable. Leveraged loan payable A for \$6,392,800 and leveraged loan payable B for \$2,632,200, both with interest only payments due quarterly at an annual rate of 1.2901% through 2021, then quarterly installments of \$112,479, including interest and principal, through October 31, 2044, any unpaid principal balance and all accrued interest will be due and payable at the maturity date, subject to an early termination provision in October 2021, secured by real and personal property owned by TCPMC for building renovations with a book value of \$14,944,707 at August 31, 2018.

In connection with the New Markets Tax Credit Program financing, TPT, acting as leverage lender, entered into a leverage loan note receivable arrangement with an unrelated organization totaling \$6,392,800 and bears an interest rate of 1.00% over a thirty year term. The repayment terms and the collateral on the note approximates the terms and the collateral of the New Markets Tax Credit notes payable. Interest income earned on the notes receivable is included in non-operating investment income. TPT anticipates purchasing the security interest in the unrelated organization in seven years. This unrelated organization holds the note for leveraged loan payable – A. After the purchase, TPT would own both the receivable and loan and they would cancel.

During the year ended August 31, 2018, TPT received funds in exchange for a note payable in the amount of \$1,000,000. The proceeds received were used in the liquidation of the defined benefit pension plan. Interest on the note payable is 2.11% per annum calculated on an annual basis. Annual interest only payments are due beginning December 17, 2018. The note payable is due on December 17, 2026.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 10 - GROUND LEASE

TPT entered into a Ground Lease with the City of St. Paul, Minnesota (City) to lease the land owned by TPT, as well as the building, for \$0 over a term of 30 years, which is considered to be 125% of the useful life of the building, as required. In addition, the City entered into a Lease/Use Agreement with TCPMC to operate the premises for the purpose of providing a broadcasting studio, media center, office headquarters and related facilities for public television for \$0. The Lease/Use Agreement may not exceed 50% of the useful life of the building under State Statute; therefore, the original term is 12 years with an optional 12 year renewal, followed by a 6 year renewal. The Lease/Use Agreement renewal must be approved by the City. In the event the first 12 year renewal is declined by the City and the City determines by City Council action that the premises are no longer usable or needed to carry out the State Program, then, the City shall sell the City's interest in the premises, on the conditions that such sale is for fair market value upon terms authorized by law and approved by the Commissioner of Minnesota Management and Budget. The City shall not sell its interest in the premises until it has first offered to sell its interest in the premises to Ground Lessor (TPT).

In the event of a sale of the City's interest in the premises (a "Sale") to Ground Lessor or a third party, after deducting the City's reasonable and customary costs incurred in such Sale, the net proceeds of such Sale must be applied as follows: (i) first, to pay to the Commission of MMB the amount of State Grant Proceeds actually disbursed and used to better the premises in accordance with the Grant Agreement, less any payments that have been made pursuant to Section 2.08.B of the Grant Agreement; (ii) second, to pay in full any approved and outstanding public or private debt incurred to acquire or better the City's interest in the premises; (iii) third, to pay to Ground Lessor the value of the City's interest in the premises; (iv) fourth, to pay to Ground Lessor, Lessee and any other interested public or private entities holding Priority Private Debt, other than such entity that has already received the full amount of its contribution, the amount of money contributed initially and subsequently by each to the acquisition or betterment of the premises; and (v) fifth, any excess over those amounts must be divided in proportion to the shares contributed initially.

NOTE 11 - EMPLOYEE BENEFIT PLANS

Pension Plan - TPT had a defined benefit pension plan which was frozen on December 1, 1996, and replaced with a 401(k) Employee Savings Plan. As a result, new employees after December 1, 1996 were not eligible for defined benefit plan participation. Pension benefits for pre-December 1, 1996 employees were based on years of service and compensation. TPT's funding policy was consistent with the funding requirements of federal laws and regulations. Accounting standards require an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. In April 2016, participants of the pension plan were notified that TPT intends to terminate the plan in a standard termination with a proposed termination date of July 1, 2016. In April 2018, the plan was fully liquidated.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 11 - EMPLOYEE BENEFIT PLANS (Continued)

The following tables set forth the defined benefit plan's status with the amounts reported in TPT's financial statements as of August 31, 2017:

Change in projected benefit obligation	
Benefit obligation at September 1	\$ 10,044,033
Interest cost	308,497
Actuarial (gain)/loss	(154,690)
Benefits paid	<u>(300,840)</u>
Projected benefit obligation at August 31	<u>\$ 9,897,000</u>
Change in plan assets	
Fair value of plan assets at September 1	\$ 5,683,104
Actual return on plan assets	556,234
Benefits paid	<u>(300,840)</u>
Fair value of plan assets at August 31	<u>\$ 5,938,498</u>
Funded status	
Underfunded status at August 31	<u>\$ (3,958,502)</u>
Amounts recognized in the statement of financial position consist of:	
Accrued pension liability	<u>\$ 3,958,502</u>
Weighted average assumptions used to determine benefit obligations:	
Discount rate	3.36%
Rate of compensation increases	N/A
Components of net periodic benefit cost	
Interest cost	\$ 308,497
Expected return on plan assets	(346,396)
Amortization of net loss	<u>522,224</u>
Net periodic pension benefit cost	<u>\$ 484,325</u>
Changes in net assets	
Net gain	\$ (364,604)
Amortization of net loss	<u>(522,148)</u>
Total recognized in change in net assets at August 31	<u>\$ (886,752)</u>
Weighted average assumptions used to determine net periodic benefit cost:	
Discount rate	3.13%
Rate of compensation increases	N/A
Expected long-term return on plan assets	7.25%

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 11 - EMPLOYEE BENEFIT PLANS (Continued)

Basis used to determine expected long-term return on plan assets

Historical and future expected returns of multiple asset classes were analyzed by TPT's actuary to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free rate of return and the associated risk premium. A weighted average rate was developed based on the overall rates and the target asset allocation of the plan.

As the plan notified participants of the intent to terminate in 2016, the mortality assumptions used to calculate the August 31, 2017 benefit obligation were changed to the 1994 GAM Generational Table, Scale AA Male and Female for the estimate of participants who would request annuity payouts, which is the best estimate of the current single premium group annuity mortality rates. For the estimate of individuals requesting lump sum payouts, the 2017 IRS applicable mortality for lump sum payments was used as of August 31, 2017.

Based on funding requirements related to the Pension Protection Act of 2006, TPT made no contributions to the Pension Plan in 2017. There was a \$3,971,752 contribution made in 2018 in connection with the settlement and liquidation of plan assets in April 2018.

Pension plan assets were invested according to the TPT Pension Plan Investment Policy which was approved and managed by the Board of Trustees and executed by management. The Pension Plan Investment Policy identified target investment ranges for plan asset investments. Pension plan assets were reviewed to ensure alignment with the policy.

Plan assets, in general, were subject to various risks, including credit, custodial, interest, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it was reasonably possible that changes in values of investment securities would occur in the near term, and such changes could materially affect the amounts of plan assets reported.

The plan sponsor was responsible for the determination of fair value. Accordingly, they performed periodic analysis on the prices received from the pricing services used to determine whether the prices were reasonable estimates of fair value. As a result of these reviews, the plan sponsor had not historically adjusted the prices obtained from the pricing services.

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance and as described in Note 2, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 11 - EMPLOYEE BENEFIT PLANS (Continued)

Valuation Techniques and Inputs

Level 1 - Level 1 assets included mutual funds for which quoted prices were readily available.

Level 2 - Level 2 assets included:

- > Investments in pooled separate accounts which were valued based on the NAV per unit as determined by the custodian. The fair values were estimated using Level 2 inputs based on multiple sources of information, which may have included market data and/or quoted market prices from either markets that were not active or were for the same or similar assets in active markets. NAV for the pooled separate accounts was determined to be a readily determinable fair value and was the basis for current transactions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls was determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about TPT's plan assets measured at fair value on a recurring basis as of August 31, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds				
U.S. equities	\$ 1,994,868	\$ 1,994,868		
Global equities	649,261	649,261		
Emerging markets equities	299,850	299,850		
Pooled Separate Accounts				
U.S. equities	48		\$ 48	
U.S. fixed income	22,418		22,418	
Global equities	<u>1,998,775</u>		<u>1,998,775</u>	
Subtotal assets by valuation hierarchy	4,965,220	<u>\$ 2,943,979</u>	<u>\$ 2,021,241</u>	<u>\$ -</u>
Assets measured using NAV				
Hedge fund	<u>973,278</u>			
Total Plan Assets	<u>\$ 5,938,498</u>			

TPT used the net assets value ("NAV") as a practical expedient to determine fair value of all underlying investments in hedge funds which (a) did not have a readily determinable fair value; and (b) were in investment companies or similar entities that report their investment assets at fair value.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 11 - EMPLOYEE BENEFIT PLANS (Continued)

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of August 31, 2017:

Asset Class	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Remaining Life (Years)
Hedge fund	\$ 973,278	None	Quarterly	45 days	N.A.

- > Hedge fund – This category included investments in a single hedge fund. The fund focused on fixed income relative value positions.

The percentage of fair value of total plan assets as of August 31, 2017 and the target percentages for each major category of plan assets were as follows:

		Target	
		Minimum	Maximum
Equities	49%	20%	75%
Bonds	51	20	60
Total	<u>100%</u>		

401(k) Plan - TPT adopted a 401(k) employee savings plan. The plan is designed to encourage eligible employees to develop a long-term savings program. The plan allows eligible employees to contribute pre-tax compensation up to the annual IRS limitations. Employees who are not classified as "Talent" are eligible to contribute to the Plan pursuant to a salary reduction election with TPT. Employees are automatically enrolled under the Qualified Automatic Contribution Arrangement (QACA) on the first day of the month after their hire date unless they have made an election to opt out of the program per IRS requirements. TPT will match 100% of elective deferral contributions that are not over 3% of pay, plus 50% of elective deferral contributions which are over 3% but are not over 6% of pay. QACA matching contributions shall be made for all persons who are active at any time during that payroll period. TPT contributed \$471,666 and \$435,123 to the plan for the years ended August 31, 2018 and 2017, respectively.

Deferred Compensation Plan - In 2006, TPT established a deferred compensation plan in accordance with Internal Revenue Code section 457(b) for eligible employees. The plan permits these eligible employees to defer a portion of their salary until future years. There were no employer contributions to this plan during the years ended August 31, 2018 and 2017.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 12 - SPLIT INTEREST AGREEMENTS

TPT has arrangements with donors classified as charitable gift annuities. In general, under these arrangements, TPT receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. TPT invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by TPT as unrestricted, temporarily restricted or permanently restricted net assets.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of TPT. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the donor. TPT used interest rates ranging from 1.0% to 7.0% in making the calculations for the years ended August 31, 2018 and 2017. The actuarial liability related to split interest agreements amounted to \$400,745 and \$365,755 at August 31, 2018 and 2017, respectively, and is included in other accrued expenses on the statements of financial position. The gift value for the charitable gift annuities received during the years ended August 31, 2018 and 2017 was \$54,087 and \$10,596, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

TPT leases various equipment under noncancelable operating leases that expire between 2019 and 2021. Future minimum payments under these noncancelable operating lease agreements are as follows:

Year Ending August 31:		
2019	\$	152,000
2020		67,000
2021		<u>2,000</u>
Total	\$	<u>221,000</u>

Total expense related to these operating leases was \$159,178 and \$153,690 for the years ended August 31, 2018 and 2017, respectively.

Programming Fees

In connection with TPT's membership in PBS, TPT is committed to paying programming fees annually. The total programming fee commitment outstanding at August 31, 2018 is approximately \$4,220,000.

Legal Issues

TPT is subject to asserted and unasserted claims encountered in the normal course of its operations. In the opinion of management and legal counsel, disposition of these matters will not have a material effect on TPT's financial condition or results of operations.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 14 - CONCENTRATIONS

Financial instruments that potentially subject TPT to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, other investments and accounts receivable. Cash and cash equivalents in excess of federally insured limits is subject to the usual risks of balances in excess of those limits. The majority of TPT's cash and cash equivalents is on deposit with three banks. Investments are diversified in order to limit credit risk. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. In addition, TPT receives a substantial amount of support from state and federal agencies which are subject to audit by the governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the TPT's programs and activities.

NOTE 15 - ENDOWMENT

TPT's endowment consists of individual funds established primarily to provide annual operating support and to serve as a reserve to ensure the long term stability of the organization. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of TPT has interpreted the Minnesota enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing TPT to appropriate for expenditure or accumulate so much of an endowment fund as TPT determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless designated otherwise by the donor, the assets added to the endowment are unrestricted. See Note 1 for further information on net asset classification.

The remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by TPT in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, TPT considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of TPT and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of TPT
- (7) The investment policy of TPT

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 15 - ENDOWMENT (Continued)

Endowment net asset composition by type of fund consists of the following as of August 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$ 850,488	\$ 850,488
Board-designated endowment funds	\$ 16,049,480			16,049,480
Total endowment net assets	<u>\$ 16,049,480</u>	<u>\$ -</u>	<u>\$ 850,488</u>	<u>\$ 16,899,968</u>

Endowment net asset composition by type of fund consists of the following as of August 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$ 850,488	\$ 850,488
Board-designated endowment funds	\$ 15,666,715			15,666,715
Total endowment net assets	<u>\$ 15,666,715</u>	<u>\$ -</u>	<u>\$ 850,488</u>	<u>\$ 16,517,203</u>

Changes in endowment net assets for the year ended August 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets August 31, 2017	\$ 15,666,715	\$ -	\$ 850,488	\$ 16,517,203
Investment return:				
Investment income	254,911			254,911
Net appreciation - realized and unrealized	1,565,400	86,584		1,651,984
Total investment return	1,820,311	86,584		1,906,895
Contributions	938,893			938,893
Net assets released from restrictions	86,584	(86,584)		
Appropriation of endowment assets for expenditure	(699,996)			(699,996)
Other board appropriation - pension termination	(1,709,744)			(1,709,744)
Actuarial adjustment related to split interest agreements	(53,283)			(53,283)
Endowment net assets, August 31, 2018	<u>\$ 16,049,480</u>	<u>\$ -</u>	<u>\$ 850,488</u>	<u>\$ 16,899,968</u>

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 15 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended August 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets August 31, 2016	\$ 13,768,738	\$ -	\$ 850,488	\$ 14,619,226
Investment return:				
Investment income	381,319			381,319
Net appreciation - realized and unrealized	1,499,985	102,952		1,602,937
Total investment return	1,881,304	102,952		1,984,256
Contributions	636,006			636,006
Net assets released from restrictions	102,952	(102,952)		
Appropriation of endowment assets for expenditure	(660,000)			(660,000)
Actuarial adjustment related to split interest agreements	(62,285)			(62,285)
Endowment net assets, August 31, 2017	\$ 15,666,715	\$ -	\$ 850,488	\$ 16,517,203

Return Objectives and Risk Parameters

TPT has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that TPT must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that equal or exceed the spending rate plus inflation over a market cycle, while assuming a moderate level of investment risk. TPT expects its endowment funds to equal or exceed the average return of appropriate capital market indices weighted by the asset allocation target percentages over rolling five-year periods. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

TPT's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to domestic and international equity, fixed income and a broadly diversified mix of absolute return strategies. This investment strategy provides TPT with a long-term asset mix that is most likely to meet TPT's long-term return goals with the appropriate level of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

TPT has a policy of annually appropriating for distribution no more than five percent of its endowment funds over a three year average. In establishing this policy, TPT considered the long-term expected return on its endowment. Accordingly, over the long term, TPT expects the current spending policy to allow its endowment to grow at an average rate that will exceed the annual distribution noted above. This is consistent with TPT's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2018 and 2017

NOTE 16 - SUBSEQUENT EVENTS

TPT has evaluated subsequent events through November 15, 2018, which is the date that the consolidated financial statements were approved and available to be issued.

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of August 31, 2018

ASSETS				
	<u>TPT</u>	<u>TCPMC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 5,542,488	\$ 426,806		\$ 5,969,294
Accounts receivable	586,296			586,296
Prepaid expenses and other assets	672,288			672,288
Pledges receivable, net	383,988			383,988
Grants receivable, net	33,127,777			33,127,777
Leveraged loan receivable	6,392,800			6,392,800
Investments	21,129,199			21,129,199
Property and equipment, net	<u>6,369,799</u>	<u>14,944,707</u>		<u>21,314,506</u>
TOTAL ASSETS	<u>\$74,204,635</u>	<u>\$15,371,513</u>	<u>\$ -</u>	<u>\$ 89,576,148</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 741,177			\$ 741,177
Other accrued expenses	3,440,950			3,440,950
Deferred revenue	237,886			237,886
Deferred compensation	1,213,386			1,213,386
Loans and note payable, net of debt issuance costs	<u>1,000,000</u>	<u>\$ 8,751,427</u>		<u>9,751,427</u>
Total Liabilities	<u>6,633,399</u>	<u>8,751,427</u>		<u>15,384,826</u>
NET ASSETS				
Unrestricted				
Operating fund	1,374,135			1,374,135
Property fund	13,829,753	6,620,086		20,449,839
Board designated fund	<u>18,110,350</u>			<u>18,110,350</u>
Total unrestricted	33,314,238	6,620,086		39,934,324
Temporarily restricted	33,406,510			33,406,510
Permanently restricted	<u>850,488</u>			<u>850,488</u>
Total Net Assets	<u>67,571,236</u>	<u>6,620,086</u>		<u>74,191,322</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$74,204,635</u>	<u>\$15,371,513</u>	<u>\$ -</u>	<u>\$ 89,576,148</u>

**TWIN CITIES PUBLIC TELEVISION, INC.
AND SUBSIDIARY**

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018

	Twin Cities Public Television			Twin Cities Public Media Commons			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted		
REVENUES, GAINS AND OTHER SUPPORT							
Individual contributions and memberships	\$ 14,916,793	\$ 61,267					\$ 14,978,060
Planned giving, principally bequests	1,162,272						1,162,272
Foundations	1,042,384	4,253,454					5,295,838
Corporations	67,843	17,000					84,843
Sponsorship	1,619,646						1,619,646
Corporation for Public Broadcasting grants and PBS grants	2,813,757	641,346					3,455,103
State of Minnesota grants	258,333	642,874					901,207
Federal government grants		10,770,780					10,770,780
Donated goods and professional services	136,138						136,138
Other contributions	190,275	6,600					196,875
Earned income	2,447,262						2,447,262
Net investment income	2,048,217	86,584					2,134,801
Other income	654,795			\$ 250,000		\$ (250,000)	654,795
Actuarial adjustment related to split interest agreements	(53,283)						(53,283)
Total revenues, gains and other support before endowment draw transfer and net assets released from restrictions	27,304,432	16,479,905		250,000		(250,000)	43,784,337
Net assets released from restrictions	16,667,416	(16,667,416)					
Total Revenues, Gains and Other Support	43,971,848	(187,511)		250,000		(250,000)	43,784,337
EXPENSES AND TRANSFERS OF NET ASSETS							
Program and supporting services							
Programming and production	28,311,962			854,340		(168,075)	28,998,227
Broadcasting	2,509,059			95,929		(21,850)	2,583,138
Program information	538,233			16,101		(4,825)	549,509
Fund raising	6,269,743			128,390		(38,475)	6,359,658
General and management	3,309,031			55,978		(16,775)	3,348,234
Total program and supporting services	40,938,028			1,150,738		(250,000)	41,838,766
Change in net assets before transfers of net assets and change in pension liability	3,033,820	(187,511)		(900,738)			1,945,571
Change in pension liability	16,829						16,829
Change in Net Assets	3,050,649	(187,511)		(900,738)			1,962,400
NET ASSETS - Beginning of Year	30,263,589	33,594,021	\$ 850,488	7,520,824			72,228,922
NET ASSETS - END OF YEAR	\$ 33,314,238	\$ 33,406,510	\$ 850,488	\$ 6,620,086	\$ -	\$ -	\$ 74,191,322