

**WPSU-TV AND WPSU-FM  
PUBLIC TELECOMMUNICATIONS ENTITIES  
OPERATED BY THE PENNSYLVANIA STATE UNIVERSITY**

**AUDITED COMBINED FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**WPSU-TV AND WPSU-FM PUBLIC TELECOMMUNICATIONS ENTITIES  
(OPERATED BY THE PENNSYLVANIA STATE UNIVERSITY)**

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## **INDEPENDENT AUDITORS' REPORT**

WPSU-TV and WPSU-FM  
The Pennsylvania State University:

We have audited the accompanying combined statements of financial position of WPSU-TV and WPSU-FM (the “Stations”), Public Telecommunications Entities, both of which are under common ownership and common management, and are operated by The Pennsylvania State University, as of June 30, 2018 and 2017, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Stations' preparation and fair presentation of the combined 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 Stations’ 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 combined financial statements.

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

## Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Stations as of June 30, 2018 and 2017, and the changes in their combined net assets and combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

December 17, 2018

**WPSU-TV AND WPSU-FM**  
**PUBLIC TELECOMMUNICATIONS ENTITIES OPERATED BY**  
**THE PENNSYLVANIA STATE UNIVERSITY**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	JUNE 30, 2018			JUNE 30, 2017		
	TV	FM	TOTAL	TV	FM	TOTAL
<b>Current assets:</b>						
Cash	\$ 6,192,721	\$ -	\$ 6,192,721	\$ 6,979,740	\$ -	\$ 6,979,740
Accounts receivable	449,151	-	449,151	375,575	3,798	379,373
Prepaid expense	34,326	76,928	111,254	26,302	72,739	99,041
Contributions receivable, net	17,894	22,703	40,597	18,558	22,376	40,934
Deferred production costs	-	-	-	-	-	-
<b>Total current assets</b>	<u>6,694,092</u>	<u>99,631</u>	<u>6,793,723</u>	<u>7,400,175</u>	<u>98,913</u>	<u>7,499,088</u>
<b>Noncurrent assets:</b>						
Accounts receivable	255,000	-	255,000	-	-	-
Deferred production costs	18,428	-	18,428	18,604	-	18,604
Contributions receivable, net	9,270	-	9,270	-	-	-
Prepaid expense	23,289	-	23,289	2,556	25,631	28,187
Property and equipment, net	5,065,758	389,957	5,455,715	5,528,997	382,532	5,911,529
Beneficial interest in perpetual trust	76,671	76,671	153,342	74,433	74,433	148,866
Investments	847,876	312,805	1,160,681	807,731	296,373	1,104,104
<b>Total noncurrent assets</b>	<u>6,296,292</u>	<u>779,433</u>	<u>7,075,725</u>	<u>6,432,321</u>	<u>778,969</u>	<u>7,211,290</u>
<b>Total assets</b>	<u>\$ 12,990,384</u>	<u>\$ 879,064</u>	<u>\$ 13,869,448</u>	<u>\$13,832,496</u>	<u>\$ 877,882</u>	<u>\$ 14,710,378</u>
<b>Current liabilities:</b>						
Accounts payable and accrued expenses	\$ 382,546	\$ 52,089	\$ 434,635	\$ 361,966	\$ 45,263	\$ 407,229
Due to The Pennsylvania State University	-	443,215	443,215	-	90,699	90,699
Deferred revenue	319,511	1,300	320,811	219,224	-	219,224
<b>Total current liabilities</b>	<u>702,057</u>	<u>496,604</u>	<u>1,198,661</u>	<u>581,190</u>	<u>135,962</u>	<u>717,152</u>
<b>Noncurrent liabilities:</b>						
Deferred revenue	255,000	-	255,000	-	-	-
<b>Total noncurrent liabilities</b>	<u>255,000</u>	<u>-</u>	<u>255,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>957,057</u>	<u>496,604</u>	<u>1,453,661</u>	<u>581,190</u>	<u>135,962</u>	<u>717,152</u>
<b>Net assets:</b>						
Unrestricted	11,082,955	(29,719)	11,053,236	12,357,321	348,738	12,706,059
Temporarily restricted	175,307	80,863	256,170	172,159	74,366	246,525
Permanently restricted	775,065	331,316	1,106,381	721,826	318,816	1,040,642
<b>Total net assets</b>	<u>12,033,327</u>	<u>382,460</u>	<u>12,415,787</u>	<u>13,251,306</u>	<u>741,920</u>	<u>13,993,226</u>
<b>Total liabilities and net assets</b>	<u>\$ 12,990,384</u>	<u>\$ 879,064</u>	<u>\$ 13,869,448</u>	<u>\$13,832,496</u>	<u>\$ 877,882</u>	<u>\$ 14,710,378</u>

See notes to combined financial statements

**WPSU-TV AND WPSU-FM**  
**PUBLIC TELECOMMUNICATIONS ENTITIES OPERATED BY**  
**THE PENNSYLVANIA STATE UNIVERSITY**  
**COMBINED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	JUNE 30, 2018			JUNE 30, 2017		
	TV	FM	TOTAL	TV	FM	TOTAL
<b>Changes in unrestricted net assets:</b>						
<b>Revenues, gains, and other support:</b>						
Contributions	\$ 5,560,760	\$ 804,818	\$ 6,365,578	\$ 5,651,486	\$ 799,664	\$ 6,451,150
Grants and contracts	1,646,456	185,701	1,832,157	1,934,203	200,751	2,134,954
Production services	1,872,884	-	1,872,884	1,851,426	-	1,851,426
Contribution of property	-	-	-	6,620	509	7,129
Other revenue	247,339	46,525	293,864	235,478	61,917	297,395
Net assets released from restriction	18,558	22,376	40,934	18,739	15,092	33,831
<b>Total revenues, gains, and other support</b>	<u>9,345,997</u>	<u>1,059,420</u>	<u>10,405,417</u>	<u>9,697,952</u>	<u>1,077,933</u>	<u>10,775,885</u>
<b>Expenses and losses:</b>						
Programming and production	6,452,270	721,315	7,173,585	6,573,889	683,749	7,257,638
Broadcasting	1,038,362	278,920	1,317,282	914,573	276,680	1,191,253
Program information and promotion	593,651	950	594,601	534,475	741	535,216
Management and general	1,697,165	243,020	1,940,185	1,871,788	222,764	2,094,552
Fundraising and membership development	451,092	41,348	492,440	410,558	54,017	464,575
Underwriting and grant solicitation	386,518	152,324	538,842	365,008	150,573	515,581
Disposals of equipment	1,305	-	1,305	6,234	-	6,234
<b>Total expenses and losses</b>	<u>10,620,363</u>	<u>1,437,877</u>	<u>12,058,240</u>	<u>10,676,525</u>	<u>1,388,524</u>	<u>12,065,049</u>
<b>Decrease in unrestricted net assets</b>	<u>(1,274,366)</u>	<u>(378,457)</u>	<u>(1,652,823)</u>	<u>(978,573)</u>	<u>(310,591)</u>	<u>(1,289,164)</u>
<b>Changes in temporarily restricted net assets:</b>						
<b>Revenues, gains, and other support:</b>						
Contributions	11,644	16,454	28,098	18,152	22,376	40,528
Transfer of endowment	(25,145)	-	(25,145)	-	-	-
Other revenue	-	-	-	551	-	551
Realized and unrealized gains on investments	35,207	12,419	47,626	57,930	23,807	81,737
Net assets released from restriction	(18,558)	(22,376)	(40,934)	(18,739)	(15,092)	(33,831)
<b>Total revenues, gains, and other support</b>	<u>3,148</u>	<u>6,497</u>	<u>9,645</u>	<u>57,894</u>	<u>31,091</u>	<u>88,985</u>
<b>Increase in temporarily restricted net assets</b>	<u>3,148</u>	<u>6,497</u>	<u>9,645</u>	<u>57,894</u>	<u>31,091</u>	<u>88,985</u>
<b>Changes in permanently restricted net assets:</b>						
<b>Revenues, gains, and other support:</b>						
Contributions	28,094	12,500	40,594	17,903	-	17,903
Transfer of endowment	25,145	-	25,145	-	-	-
<b>Total revenues, gains, and other support</b>	<u>53,239</u>	<u>12,500</u>	<u>65,739</u>	<u>17,903</u>	<u>-</u>	<u>17,903</u>
<b>Increase in permanently restricted net assets</b>	<u>53,239</u>	<u>12,500</u>	<u>65,739</u>	<u>17,903</u>	<u>-</u>	<u>17,903</u>
<b>Decrease in net assets</b>	<u>(1,217,979)</u>	<u>(359,460)</u>	<u>(1,577,439)</u>	<u>(902,776)</u>	<u>(279,500)</u>	<u>(1,182,276)</u>
<b>Net assets at the beginning of the year</b>	<u>13,251,306</u>	<u>741,920</u>	<u>13,993,226</u>	<u>14,154,082</u>	<u>1,021,420</u>	<u>15,175,502</u>
<b>Net assets at the end of the year</b>	<u>\$ 12,033,327</u>	<u>\$ 382,460</u>	<u>\$ 12,415,787</u>	<u>\$ 13,251,306</u>	<u>\$ 741,920</u>	<u>\$ 13,993,226</u>

See notes to combined financial statements

**WPSU-TV AND WPSU-FM**  
**PUBLIC TELECOMMUNICATIONS ENTITIES OPERATED BY**  
**THE PENNSYLVANIA STATE UNIVERSITY**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	JUNE 30, 2018			JUNE 30, 2017		
	TV	FM	TOTAL	TV	FM	TOTAL
<b>Cash flows from operating activities:</b>						
Decrease in net assets	\$(1,217,979)	\$ (359,460)	\$(1,577,439)	\$ (902,776)	\$ (279,500)	\$(1,182,276)
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Depreciation expense	512,699	44,877	557,576	566,077	51,108	617,185
Capital campaign contributions	(120)	-	(120)	(120)	-	(120)
Contributions of property	-	-	-	(6,620)	(509)	(7,129)
Realized and unrealized gains on long-term investments	(29,809)	(12,420)	(42,229)	(60,039)	(23,807)	(83,846)
Disposals of equipment	1,305	-	1,305	6,234	-	6,234
Changes in assets and liabilities:						
(Increase)/decrease in receivables	(337,182)	3,471	(333,711)	4,796	340	5,136
(Increase)/decrease in prepaid expense	(28,757)	21,442	(7,315)	19,369	(27,568)	(8,199)
Decrease in deferred production costs	176	-	176	253	-	253
Increase in accounts payable and accrued expenses	20,579	6,826	27,405	10,172	(2,048)	8,124
Increase/(decrease) in deferred revenue	355,288	1,300	356,588	(101,083)	-	(101,083)
Increase in amount due to The Pennsylvania State University	-	352,516	352,516	-	90,699	-
<b>Net cash (used in)/provided by operating activities</b>	<u>(723,800)</u>	<u>58,552</u>	<u>(665,248)</u>	<u>(463,737)</u>	<u>(191,285)</u>	<u>(655,022)</u>
<b>Cash flows from investing activities:</b>						
Purchase of property and equipment	(50,764)	(52,302)	(103,066)	(77,026)	-	(77,026)
Purchase of investments	(12,575)	(6,250)	(18,825)	(23,718)	-	(23,718)
<b>Net cash used in investing activities</b>	<u>(63,339)</u>	<u>(58,552)</u>	<u>(121,891)</u>	<u>(100,744)</u>	<u>-</u>	<u>(100,744)</u>
<b>Cash flows from financing activities:</b>						
Capital campaign contributions	120	-	120	120	-	120
<b>Net cash provided by financing activities</b>	<u>120</u>	<u>-</u>	<u>120</u>	<u>120</u>	<u>-</u>	<u>120</u>
<b>Net decrease in cash</b>	(787,019)	-	(787,019)	(564,361)	(191,285)	(755,646)
<b>Cash at the beginning of the year</b>	<u>6,979,740</u>	<u>-</u>	<u>6,979,740</u>	<u>7,544,101</u>	<u>191,285</u>	<u>7,735,386</u>
<b>Cash at the end of the year</b>	<u>\$ 6,192,721</u>	<u>\$ -</u>	<u>\$ 6,192,721</u>	<u>\$ 6,979,740</u>	<u>\$ -</u>	<u>\$ 6,979,740</u>

See notes to combined financial statements.

**WPSU TV and WPSU FM**  
**PUBLIC TELECOMMUNICATIONS ENTITIES OPERATED BY**  
**THE PENNSYLVANIA STATE UNIVERSITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

**1. ORGANIZATION**

WPSU-TV and WPSU-FM (the "Stations"), Public Telecommunication Entities both of which are under common ownership and common management and are operated by The Pennsylvania State University (the "University"), are non-community stations licensed and operated as a unit of the University's Outreach and Online Education Department.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accrual Basis of Accounting

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

Net Asset Classifications

*Permanently restricted* net assets consist primarily of endowments and contributions receivable which are required by donors to be permanently retained.

*Temporarily restricted* net assets consist primarily of contributions receivable which can be expended but for which restrictions have not yet been met.

*Unrestricted* net assets are all of the remaining net assets of the Stations.

Contributions

As permitted, donor-restricted gifts that are received and either spent or deemed spent within the same year are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

Fair Value of Financial Instruments

The Stations have provided fair value estimates for certain financial instruments in the notes to these financial statements. Fair value information is based on information available at June 30, 2018 and 2017. The carrying amounts of the Stations' accounts receivable and accounts payable are reasonable estimates of their fair value.

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 on the financial statements and the disclosure of contingencies and commitments. Actual results could differ from those estimates.



## Investments

The investments represent the Stations' endowment funds. The University is responsible for the investing decisions of these funds and as such the Station's investments are derived as a percentage of the total endowment investments of the University. The investments are reported at fair value in the accompanying financial statements. See Note 7 for discussion of fair value measurement.

## Beneficial Interest in Perpetual Trusts

The Stations receive endowment income from investments that are held by outside trustees and are valued at \$153,342 and \$148,866 for the years ended June 30, 2018 and 2017, respectively. The present value of expected future cash flows to the Stations from such investments has been recorded as permanently restricted net assets and related beneficial interest in perpetual trusts in the financial statements.

## Purchased Programming

Unamortized programming and production costs are compared with the estimated net realizable value on an individual program or production basis and write-downs are recorded when indicated. Revenue forecasts for programs and productions are continually reviewed by management and revised when warranted by changing conditions. If estimated future gross revenues from a program or production are not sufficient to recover the unamortized costs, the unamortized costs are written down to net realizable value. Write-offs of unamortized costs were \$0 for each of the years ended June 30, 2018 and 2017.

## Grant Revenues

Grant revenues are recognized as the eligible grant activities are conducted.

## Interest and Dividends

Included in other revenue is interest and dividends income of \$48,708 (\$34,183 - WPSU-TV and \$14,525 - WPSU-FM) for the year ended June 30, 2018 and \$45,532 (\$31,587 - WPSU-TV and \$13,945 - WPSU-FM) for the year ended June 30, 2017.

## Deferred Revenue

The Stations use the percentage of completion method for production services. Grant and contract dollars received in excess of recognized revenue are classified as deferred revenue.

## Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on total personnel costs or other systematic bases.

## Contributed Services

The estimated fair values of contributed professional services are recorded as revenues and expenses in the period when the services are received.

For the year ended June 30, 2018, included in contributions are donated facilities and in-kind contributions from The Pennsylvania State University of \$166,714 (\$124,270 - WPSU-TV and \$42,444 - WPSU-FM). For the year ended June 30, 2017, included in contributions are donated facilities and in-kind contributions from The Pennsylvania State University of \$204,817 (\$165,232 - WPSU-TV and \$39,585 - WPSU-FM).

Included in contributions are in-kind contributions from third parties, principally donated professional services, of \$323,276 (\$252,007 - WPSU-TV and \$71,269 - WPSU-FM) for the year ended June 30, 2018 and \$344,847 (\$281,615 - WPSU-TV and \$63,232 - WPSU-FM) for the year ended June 30, 2017.

## Income Taxes

The Stations are exempt from federal income tax, except on activities unrelated to its exempt purpose, under Internal Revenue Code Sections 170(c) and 170(b)(1) (A)(ii). There was no required provision for income taxes for fiscal years 2018 and 2017.

## Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers.*” This guidance clarifies the principles for recognizing revenue that (1) removes inconsistencies and weaknesses in revenue requirements, (2) provides a more robust framework for addressing revenue issues, (3) improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) provides more useful information to users of financial statements through improved disclosure requirements, and (5) simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. In August 2015, the FASB issued ASU 2015-14, “*Revenue from Contracts with Customers; Deferral of the Effective Date.*” This guidance defers the effective date of the original ASU. This guidance is now effective for the Stations beginning July 1, 2018. The Stations have not yet evaluated the impact this guidance may have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases.*” This update requires substantial changes to lease accounting to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and this guidance is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating under previous GAAP. This update is effective for the Stations beginning July 1, 2019 with early adoption permitted. The Stations have not yet evaluated the impact this guidance may have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, “*Not-for-Profit Entities; Presentation of Financial Statements of Not-for-Profit Entities.*” This guidance amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities. The most significant amendment requires a not-for-profit entity (“NFP”) to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets. This guidance is effective for the Stations beginning July 1, 2018 with early adoption permitted. The Stations have not yet evaluated the impact this guidance may have on its financial statements.

### **3. CONTRIBUTIONS RECEIVABLE**

Unconditional contributions are recognized when received and consist of written or oral promises to contribute to the Stations in the future.

Contributions receivable as of June 30, 2018 are expected to be realized as follows:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
In one year or less	\$ 28,053	\$ 25,416	\$ 53,469
More than five years	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Contributions receivable, gross	48,053	25,416	73,469
Less allowance	(10,159)	(2,713)	(12,872)
Less discount	<u>(10,730)</u>	<u>-</u>	<u>(10,730)</u>
Contributions receivable, net	\$ <u>27,164</u>	\$ <u>22,703</u>	\$ <u>49,867</u>

Contributions receivable as of June 30, 2017 are expected to be realized as follows:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
In one year or less	\$ 31,161	\$ 27,271	\$ 58,432
Less allowance	<u>(12,603)</u>	<u>(4,895)</u>	<u>(17,498)</u>
Contributions receivable, net	\$ <u>18,558</u>	\$ <u>22,376</u>	\$ <u>40,934</u>

The following table summarizes the change in contributions receivable, net during the year ended June 30, 2018:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
Balance beginning of year	\$ 18,558	\$ 22,376	\$ 40,934
New pledges	60,190	37,082	97,272
Collections on pledges	(43,298)	(38,937)	(82,235)
Decrease in allowance	2,444	2,182	4,626
Increase in discount	<u>(10,730)</u>	-	<u>(10,730)</u>
Balance at the end of year	\$ <u>27,164</u>	\$ <u>22,703</u>	\$ <u>49,867</u>

The following table summarizes the change in contributions receivable, net during the year ended June 30, 2017:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
Balance beginning of year	\$ 24,410	\$ 15,092	\$ 39,502
New pledges	48,510	44,676	93,186
Collections on pledges	(48,921)	(34,599)	(83,520)
Increase in allowance	<u>(5,441)</u>	<u>(2,793)</u>	<u>(8,234)</u>
Balance at the end of year	\$ <u>18,558</u>	\$ <u>22,376</u>	\$ <u>40,934</u>

#### 4. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost or, in the case of donated property, at the estimated fair market value at date of receipt. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated lives of equipment range between 5 and 10 years. The estimated lives of the building and its components range from 20 to 50 years. Expenses for repairs and maintenance are charged to operating expense as incurred.

Total property and equipment as of June 30, 2018 is comprised of the following:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
Building	\$ 9,373,466	\$ 670,994	\$ 10,044,460
Equipment	<u>9,141,177</u>	<u>651,898</u>	<u>9,793,075</u>
Total	18,514,643	1,322,892	19,837,535
Less accumulated depreciation	<u>(13,448,885)</u>	<u>(932,935)</u>	<u>(14,381,820)</u>
Total building and equipment, net	\$ <u>5,065,758</u>	\$ <u>389,957</u>	\$ <u>5,455,715</u>

Total property and equipment as of June 30, 2017 is comprised of the following:

	<u>WPSU-TV</u>	<u>WPSU-FM</u>	<u>Total</u>
Building	\$ 9,373,466	\$ 670,994	\$ 10,044,460
Equipment	<u>9,116,506</u>	<u>599,596</u>	<u>9,716,102</u>
Total	18,489,972	1,270,590	19,760,562
Less accumulated depreciation	<u>(12,960,975)</u>	<u>(888,058)</u>	<u>(13,849,033)</u>
Total building and equipment, net	\$ <u>5,528,997</u>	\$ <u>382,532</u>	\$ <u>5,911,529</u>

Depreciation expense was \$512,699 for WPSU-TV and \$44,877 for WPSU-FM for the year ended June 30, 2018 and \$566,077 for WPSU-TV and \$51,108 for WPSU-FM for the year ended June 30, 2017.

The University donated additional building costs for the Outreach Building in the amount of \$7,129 (\$6,620 for WPSU-TV and \$509 for WPSU-FM) for the year ended June 30, 2017 and these donations are included in contributions of property in the combined statements of activities. No donations were made for the year ended June 30, 2018.

## 5. RELATED PARTIES

Total revenue to the Stations from the University related to production services and underwriting, included in production services revenue and contributions, approximated \$1,823,000 and \$60,000 for WPSU-TV and WPSU-FM, respectively, for the fiscal year ended June 30, 2018 and \$1,647,000 and \$56,000 for WPSU-TV and WPSU-FM, respectively, for the fiscal year ended June 30, 2017. Total receivables related to such production services, included in accounts receivable are approximately \$191,000 and \$336,000 for WPSU-TV at June 30, 2018 and June 30, 2017, respectively.

Including the contributed services discussed in Note 2, the University contributed approximately \$4,224,000 and \$42,000 to WPSU-TV and WPSU-FM, respectively, through indirect and direct support for operating needs for the year ended June 30, 2018 and approximately \$4,392,000 and \$40,000 to WPSU-TV and WPSU-FM, respectively, for the year ended June 30, 2017.

## 6. ENDOWMENTS

The Stations use a “total return” approach to endowment fund investment management. This approach, which is consistent with University policy, emphasizes total investment return (current income plus or minus realized and unrealized capital gains and losses) as the basis for endowment spending. The Stations’ investments are maintained and managed by the University as part of the overall endowment investment portfolio. The Stations have implemented an endowment income spending policy whereby a predetermined amount is paid out each fiscal year based on a prescribed formula in accordance with Pennsylvania statutes. The effective spending rate was 5.25% at June 30, 2018 and June 30, 2017, respectively.

Income received from certain endowments held by WPSU-TV can be spent on either station at the discretion of the general manager.

The Stations’ endowments include both donor-restricted endowment funds and funds designated to function as endowments. As required by generally accepted accounting principles (“GAAP”), net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The ASC Not-for-Profit Entities Presentation of Financial Statements Subtopic (ASC Subtopic 958-205) provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) and improves disclosure about an organization’s endowment funds regardless of whether the organization is subject to UPMIFA. The Commonwealth of Pennsylvania has not adopted UPMIFA but rather has enacted Pennsylvania Act 141 (“PA Act 141”). PA Act 141 permits an organization’s trustees to define income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least three preceding years) without regard to actual interest, dividend, or realized and unrealized gains.

The Stations have interpreted PA Act 141 to permit the Stations to spend the earnings of its endowment based on a total return approach, without regard to the fair value of the original gift. As a result of this interpretation, the Stations classify as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Funds functioning as endowments are established at the direction of Station management and are classified as unrestricted net assets due to the lack of external donor restrictions. Gains and losses attributable to permanent endowments are recorded as temporarily restricted net assets and gains and losses attributable to funds functioning as endowments are recorded as unrestricted net assets.

WPSU-TV endowment net asset composition by type of fund as of June 30, 2018 and 2017:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 170,794	\$ 675,744	\$ 846,538
Funds functioning as endowments	1,338	-	-	1,338
Total net assets	<u>\$ 1,338</u>	<u>\$ 170,794</u>	<u>\$ 675,744</u>	<u>\$ 847,876</u>

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 162,970	\$ 638,024	\$ 800,994
Funds functioning as endowments	6,737	-	-	6,737
Total net assets	<u>\$ 6,737</u>	<u>\$ 162,970</u>	<u>\$ 638,024</u>	<u>\$ 807,731</u>

Changes in WPSU-TV endowment net assets for the years ended June 30, 2018 and 2017:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 6,737	\$ 162,970	\$ 638,024	\$ 807,731
Endowment return:				
Endowment earnings	25,712	32,969	-	58,681
Endowment spending	(31,111)	-	-	(31,111)
Transfer of endowment	-	(25,145)	25,145	-
Contributions	-	-	12,575	12,575
Endowment net assets, end of the year	<u>\$ 1,338</u>	<u>\$ 170,794</u>	<u>\$ 675,744</u>	<u>\$ 847,876</u>

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 4,628	\$ 109,538	\$ 620,121	\$ 734,287
Endowment return:				
Endowment earnings	25,866	53,838	-	79,704
Endowment spending	(22,106)	-	-	(22,106)
Transfer to FM	(4,151)	-	-	(4,151)
Contributions	2,500	(406)	17,903	19,997
Endowment net assets, end of the year	<u>\$ 6,737</u>	<u>\$ 162,970</u>	<u>\$ 638,024</u>	<u>\$ 807,731</u>

WPSU-FM endowment net asset composition by type of fund as of June 30, 2018 and 2017:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 71,541	\$ 241,264	\$ 312,805
Funds functioning as endowments	-	-	-	-
Total net assets	<u>\$ -</u>	<u>\$ 71,541</u>	<u>\$ 241,264</u>	<u>\$ 312,805</u>

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 61,359	\$ 235,014	\$ 296,373
Funds functioning as endowments	-	-	-	-
Total net assets	<u>\$ -</u>	<u>\$ 61,359</u>	<u>\$ 235,014</u>	<u>\$ 296,373</u>

Changes in WPSU-FM endowment net assets for the years ended June 30, 2018 and 2017:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ 61,359	\$ 235,014	\$ 296,373
Endowment return:				
Endowment earnings	10,469	10,182	-	20,651
Endowment spending	(10,469)	-	-	(10,469)
Contributions	-	-	6,250	6,250
Endowment net assets, end of the year	<u>\$ -</u>	<u>\$ 71,541</u>	<u>\$ 241,264</u>	<u>\$ 312,805</u>

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ 42,195	\$ 235,014	\$ 277,209
Endowment return:				
Endowment earnings	10,367	19,164	-	29,531
Endowment spending	(14,518)	-	-	(14,518)
Transfer from TV	4,151	-	-	4,151
Contributions	-	-	-	-
Endowment net assets, end of the year	<u>\$ -</u>	<u>\$ 61,359</u>	<u>\$ 235,014</u>	<u>\$ 296,373</u>

From time to time due to unfavorable market fluctuations, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. There were no aggregate deficiencies at June 30, 2018 and 2017, respectively.

## 7. FAIR VALUE MEASUREMENTS

The Stations utilize the following fair value hierarchy, which prioritizes into three broad levels, the inputs to valuation techniques used to measure fair value:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date. Such instruments valued at Level 1, primarily consist of securities that are directly held and actively traded in public markets.
- Level 2 – Inputs other than unadjusted quoted prices that are observable for the asset or liability, directly or indirectly, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means
- Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Stations assessment of significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset.

The following table presents information as of June 30, 2018 about the WPSU-TV's financial assets that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Total <u>Fair Value</u>
Endowment investments:				
Money markets	\$ 30,015	\$ 149	\$ -	\$ 30,164
Fixed income				
U.S. government/agency	-	16,959	-	16,959
U.S. corporate	-	30,149	-	30,149
Foreign	-	13,897	-	13,897
Other	-	17,937	-	17,937
Equities	<u>180,281</u>	<u>17</u>	-	<u>180,298</u>
Total	<u>\$ 210,296</u>	<u>\$ 79,108</u>	<u>\$ -</u>	<u>\$ 289,404</u>
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 76,671	\$ 76,671

The table above excludes investments of \$558,472 which are measured at Net Asset Value ("NAV") and are not classified in the fair value hierarchy.

The following table presents information related to changes in Level 3 for each category of assets for the year ended June 30, 2018:

	Beneficial Interest in Perpetual <u>Trust</u>
Beginning balance	\$ 74,433
Total unrealized gains	<u>2,238</u>
Ending balance	<u><u>\$ 76,671</u></u>

The following table presents information as of June 30, 2018 about the WPSU-FM's financial assets that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Total <u>Fair Value</u>
Endowment investments:				
Money markets	\$ 11,073	\$ 55	\$ -	\$ 11,128
Fixed income				
U.S. government/agency	-	6,257	-	6,257
U.S. corporate	-	11,123	-	11,123
Foreign	-	5,127	-	5,127
Other	-	6,617	-	6,617
Equities	<u>66,511</u>	<u>6</u>	-	<u>66,517</u>
Total	<u><u>\$ 77,584</u></u>	<u><u>\$ 29,185</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 106,769</u></u>
 Beneficial interest in perpetual trust	 \$ -	 \$ -	 \$ 76,671	 \$ 76,671

The table above excludes investments of \$206,036 which are measured at NAV and are not classified in the fair value hierarchy.

The following table presents information related to changes in Level 3 for each category of assets for the year ended June 30, 2018:

	Beneficial Interest in Perpetual <u>Trust</u>
Beginning balance	\$ 74,433
Total unrealized losses	<u>2,238</u>
Ending balance	<u><u>\$ 76,671</u></u>



The following table presents information as of June 30, 2017 about the WPSU-TV's financial assets that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Total <u>Fair Value</u>
Endowment investments:				
Money markets	\$ 26,370	\$ -	\$ -	\$ 26,370
Fixed income				
U.S. government/agency	17,429	16,422	-	33,851
U.S. corporate	-	49,934	-	49,934
Foreign	-	17,719	-	17,719
Other	-	6,746	-	6,746
Equities	<u>226,016</u>	<u>-</u>	<u>-</u>	<u>226,016</u>
Total	<u>\$ 269,815</u>	<u>\$ 90,821</u>	<u>\$ -</u>	<u>\$ 360,636</u>
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 74,433	\$ 74,433

The table above excludes investments of \$447,830 which are measured at NAV and are not classified in the fair value hierarchy.

The following table presents information related to changes in Level 3 for each category of assets for the year ended June 30, 2017:

	Beneficial Interest in Perpetual Trust
Beginning balance	\$ 69,790
Total unrealized gains	<u>4,643</u>
Ending balance	<u>\$ 74,433</u>

The following table presents information as of June 30, 2017 about the WPSU-FM's financial assets that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Total <u>Fair Value</u>
Endowment investments:				
Money markets	\$ 9,676	\$ -	\$ -	\$ 9,676
Fixed income				
U.S. government/agency	6,395	6,026	-	12,421
U.S. corporate	-	18,322	-	18,322
Foreign	-	6,501	-	6,501
Other	-	2,475	-	2,475
Equities	<u>82,930</u>	<u>-</u>	<u>-</u>	<u>82,930</u>
Total	<u>\$ 99,001</u>	<u>\$ 33,324</u>	<u>\$ -</u>	<u>\$ 132,325</u>
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 74,433	\$ 74,433

The table above excludes investments of \$164,318 which are measured at NAV and are not classified in the fair value hierarchy.

The following table presents information related to changes in Level 3 for each category of assets for the year ended June 30, 2017:

	Beneficial Interest in Perpetual Trust <u>Trust</u>
Beginning balance	\$ 69,790
Total unrealized losses	<u>4,643</u>
Ending balance	<u>\$ 74,433</u>

The following table presents the fair value and redemption frequency for those investments whose fair value is not readily determinable and is estimated using the net asset value per share or its equivalent for WPSU-TV as of June 30, 2018 and 2017:

	Fair Value <u>2018</u>	Fair Value <u>2017</u>	Unfunded Commitment <u>At June 30, 2018</u>	Redemption <u>Frequency</u>	Redemption <u>Notice Period</u>
Commingled Funds:					
Non-U.S. Equity	\$ 183,397	\$ 126,058		Quarterly/ Daily/Monthly	5-90 days
Subtotal	<u>\$ 183,397</u>	<u>\$ 126,058</u>			
Marketable Investment Partnerships:					
Absolute Return	\$ 11,772	\$ 11,335		Quarterly	60 days
Distressed Debt	10,741	12,125		Quarterly/ Semi Annual	60-90 days
Commodities	16,380	25,462		Monthly	30-60 days
Opportunistic	53,156	24,768		Monthly/ Quarterly/ Annually	30-90 days
Directional Long/Short	59,932	58,106		Monthly	30 days
Subtotal	<u>\$ 151,981</u>	<u>\$ 131,796</u>			
Non-Marketable Investment Partnerships:					
Private Real Estate	\$ 13,137	\$ 16,846	\$ 11,056		
Venture Capital	75,913	64,918	37,358		
Private Equity	77,311	59,694	61,663		
Natural Resources	28,159	26,124	10,965		
Private Debt	28,574	22,394	40,586		
Subtotal	<u>\$ 223,094</u>	<u>\$ 187,976</u>	<u>\$ 161,628</u>		
Total	<u>\$ 558,472</u>	<u>\$ 447,830</u>	<u>\$ 161,628</u>		

The following table presents the fair value and redemption frequency for those investments whose fair value is not readily determinable and is estimated using the net asset value per share or its equivalent for WPSU-FM as of June 30, 2018 and 2017:

	<u>Fair Value</u> <u>2018</u>	<u>Fair Value</u> <u>2017</u>	<u>Unfunded</u> <u>Commitment</u> <u>At June 30, 2018</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Commingled Funds:					
Non-U.S. Equity	\$ 67,660	\$ 46,253		Quarterly/ Daily/Monthly	5-90 days
Subtotal	<u>\$ 67,660</u>	<u>\$ 46,253</u>			
Marketable Investment Partnerships:					
Absolute Return	\$ 4,343	\$ 4,159		Quarterly	60 days
Distressed Debt	3,963	4,449		Quarterly/ Semi Annual	60-90 days
Commodities	6,043	9,342		Monthly	30-60 days
Opportunistic	19,611	9,088		Monthly/ Quarterly/ Annually	30-90 days
Directional Long/Short	22,110	21,321		Monthly	30 days
Subtotal	<u>\$ 56,070</u>	<u>\$ 48,359</u>			
Non-Marketable Investment Partnerships:					
Private Real Estate	\$ 4,846	\$ 6,181	\$ 4,079		
Venture Capital	28,007	23,820	13,782		
Private Equity	28,522	21,903	22,749		
Natural Resources	10,389	9,585	4,046		
Private Debt	10,542	8,217	14,973		
Subtotal	<u>\$ 82,306</u>	<u>\$ 69,706</u>	<u>\$ 59,629</u>		
Total	<u>\$ 206,036</u>	<u>\$ 164,318</u>	<u>\$ 59,629</u>		

Commingled Funds include investments that aggregate assets from multiple investors and are managed collectively following a prescribed strategy. Redemptions vary from daily to quarterly with required notification of 90 days or less. The non-U.S. equity strategy is invested in developed and developing countries outside of the United States, and spans the entire equity capitalization spectrum. These collective portfolios preclude the need to obtain securities registration in foreign countries.

Marketable Investment Partnerships include several hedge funds whose underlying positions are traded via public securities markets. Liquidity terms range from quarterly to annually with advance notification for redemption ranging from 30 to 90 days. The fair values of the investments for each fund in this category have been estimated using the net asset value of the Endowment's share holdings in the fund. Five major investment strategies are included within this category. Absolute Return refers to relative value strategies. Directional refers to equity long/short strategies in both U.S. and non-U.S. markets. Opportunistic refers to global multi-strategy. Distressed Debt refers to securities rated below investment grade, along with non-rated debt. Commodities refer to publicly traded commodity instruments primarily including futures and options.

Nonmarketable Investment Partnerships include limited partnership interests in a variety of illiquid investments. The fair values of the investments for each fund in this category have been estimated using the net asset value of the Endowment's ownership interest in partner's capital and cannot be redeemed. Realizations from each fund are received as the underlying investments are liquidated or distributed, typically within 10 years after initial commitment. Unfunded commitments represent remaining commitments of the Endowments drawdown funds as of June 30, 2018. Five major investment strategies are included within this category. Private Real Estate includes properties primarily located in the U.S. Venture Capital includes non-public startups and enterprises in early stages of growth located globally. Private Equity includes buyouts of previously public companies as well as enterprises that are planning to go public in the near future, including

funds focusing on opportunities outside the U.S. Natural Resources largely include companies primarily involved in oil and natural gas in addition to a variety of other natural resources. Private Debt includes global private credit securities rated below investment grade as well as non-rated debt.

## 8. OPERATING LEASES

WPSU-FM has certain lease agreements in effect which are considered operating leases. These agreements are to rent space on broadcast transmission towers for translator antennas and to rent space for transmission equipment. The Station recorded expenses of \$45,543 and \$44,956 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under operating leases as of June 30, 2018 are as follows:

<u>Year</u>	
2019	\$ 43,503
2020	43,344
2021	43,512
2022	40,690
2023	37,739
Thereafter	<u>46,543</u>
Total minimum lease payments	<u>\$ 255,331</u>

## 9. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to the statement of financial position date through December 17, 2018, the date that the financial statements were available to be issued, for potential recognition and disclosure. No significant events or transactions were identified which would require recognition or disclosure in the financial statements.