Michiana Public Broadcasting Corporation

Consolidated Financial Report
with Additional Information
September 30, 2018

Contents

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Independent Auditor's Report

To the Board of Directors
Michiana Public Broadcasting Corporation

We have audited the accompanying consolidated financial statements of Michiana Public Broadcasting Corporation (MPBC), which comprise the consolidated statement of financial position as of September 30, 2018 and 2017 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's 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 auditor's 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 financial position of Michiana Public Broadcasting Corporation as of September 30, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

November 19, 2018

Consolidated Statement of Financial Position

September 30, 2018 and 2017

	2018	2017
Assets		
Cash	$ 20,187	$ 21,775
Underwriting receivable - Less allowance for doubtful receivables of $5,660 in 2018 and $10,660 in 2017	66,026	126,133
Grants and other receivables - Less allowance for doubtful receivables of $6,520 in 2018 and $8,972 in 2017	248,255	251,449
Program contract rights	481,315	470,588
Other assets	61,823	46,848
Property and equipment - Net (Note 4)	5,544,694	6,191,398
Total assets	**$ 6,422,300**	**$ 7,108,191**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 108,829	$ 202,895
Bank line of credit (Note 5)	174,981	80,000
Deferred revenue	170,461	136,167
Deferred gain on sale-leaseback transaction (Note 7)	511,097	544,982
Program contract rights payable	639,853	628,658
Accrued compensation	73,825	67,008
Capital lease obligation (Note 7)	1,319,132	1,348,395
Total liabilities	2,998,178	3,008,105
Net Assets		
Unrestricted	3,278,378	3,931,461
Temporarily restricted	145,744	168,625
Total net assets	3,424,122	4,100,086
Total liabilities and net assets	**$ 6,422,300**	**$ 7,108,191**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended September 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenue and support:		
Contributions and support, including in-kind contributions of $27,920 and $4,621 in 2018 and 2017, respectively	$ 142,045	$ 131,790
Corporation for Public Broadcasting grants (Note 3)	811,389	823,285
State grants	425,443	425,443
Member income	958,406	941,643
Program underwriting, including in-kind revenue of $220,266 and $238,295 in 2018 and 2017, respectively	1,036,054	1,097,588
Interest income	-	70,991
Other income	199,374	198,749
Total revenue and support	3,572,711	3,689,489
Net assets released from restrictions	37,881	90,311
Total revenue, support, and net assets released from restrictions	3,610,592	3,779,800
Expenses:		
Program services:		
Broadcasting	1,605,565	1,560,514
Programming and education	781,546	771,771
Promotion	213,978	186,131
Total program services	2,601,089	2,518,416
Support services:		
Management and general	719,752	919,861
Memberships and development	976,719	1,001,638
Total support services	1,696,471	1,921,499
Total expenses	4,297,560	4,439,915
Loss from Operating Activities	(686,968)	(660,115)
Other Items		
New Markets Tax Credit gain	-	2,363,460
Amortization of deferred gain (Note 7)	33,885	33,885
(Decrease) Increase in Unrestricted Net Assets	(653,083)	1,737,230
Changes in Temporarily Restricted Net Assets		
Contributions	15,000	-
Net assets released from restrictions	(37,881)	(90,311)
Decrease in Temporarily Restricted Net Assets	(22,881)	(90,311)
(Decrease) Increase in Net Assets	(675,964)	1,646,919
Net Assets - Beginning of year	4,100,086	2,453,167
Net Assets - End of year	**$ 3,424,122**	**$ 4,100,086**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services				Support Services			
	Broadcasting	Programming and Education	Promotion	Total Program Services	Management and General	Memberships and Development	Total Support Services	Total
Salaries	$ 544,192	$ 52,687	$ 54,861	$ 651,740	$ 191,633	$ 402,884	$ 594,517	$ 1,246,257
Employee benefits	30,548	6,239	9,313	46,100	17,721	17,082	34,803	80,903
Retirement	7,707	723	-	8,430	349	8,644	8,993	17,423
Payroll taxes	36,578	3,713	3,871	44,162	14,288	31,966	46,254	90,416
Total salaries and related expenses	619,025	63,362	68,045	750,432	223,991	460,576	684,567	1,434,999
PBS programming	-	616,117	-	616,117	-	-	-	616,117
Other programming	-	31,845	-	31,845	-	52,729	52,729	84,574
Dues and subscriptions	1,585	-	-	1,585	70,896	-	70,896	72,481
Telephone and utilities	153,723	225	99	154,047	11,186	2,086	13,272	167,319
Materials and supplies	10,410	397	409	11,216	4,670	8,381	13,051	24,267
Printing and publications	-	31,072	42,292	73,364	-	16,104	16,104	89,468
Advertising and development	211	-	557	768	-	220,266	220,266	221,034
Postage and shipping	4,083	28	-	4,111	8,928	16,829	25,757	29,868
Travel and conferences	6,030	-	9,230	15,260	9,861	15,158	25,019	40,279
Repairs and maintenance	96,036	-	-	96,036	-	-	-	96,036
Insurance	-	-	-	-	40,835	-	40,835	40,835
Interest and bank charges	-	-	-	-	87,618	24,449	112,067	112,067
Depreciation	501,781	-	-	501,781	153,527	-	153,527	655,308
Contract services	212,652	38,500	93,346	344,498	104,289	75,461	179,750	524,248
Bad debt	-	-	-	-	-	71,134	71,134	71,134
Miscellaneous	29	-	-	29	3,951	13,546	17,497	17,526
Total functional expenses	**$ 1,605,565**	**$ 781,546**	**$ 213,978**	**$ 2,601,089**	**$ 719,752**	**$ 976,719**	**$ 1,696,471**	**$ 4,297,560**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services				Support Services			
	Broadcasting	Programming and Education	Promotion	Total Program Services	Management and General	Memberships and Development	Total Support Services	Total
Salaries	$ 521,090	$ 41,579	$ 40,462	$ 603,131	$ 197,438	$ 393,849	$ 591,287	$ 1,194,418
Employee benefits	27,238	6,458	6,034	39,730	12,874	18,787	31,661	71,391
Retirement	7,261	683	-	7,944	896	9,247	10,143	18,087
Payroll taxes	36,451	3,593	3,060	43,104	14,484	28,690	43,174	86,278
Total salaries and related expenses	592,040	52,313	49,556	693,909	225,692	450,573	676,265	1,370,174
PBS programming	-	618,935	-	618,935	-	-	-	618,935
Other programming	-	26,785	-	26,785	-	63,572	63,572	90,357
Dues and subscriptions	1,413	-	930	2,343	68,929	75	69,004	71,347
Telephone and utilities	152,858	227	-	153,085	11,584	2,099	13,683	166,768
Materials and supplies	11,330	507	468	12,305	4,613	5,943	10,556	22,861
Printing and publications	46	30,995	41,455	72,496	-	21,394	21,394	93,890
Advertising and development	100	-	283	383	-	238,295	238,295	238,678
Postage and shipping	4,390	9	-	4,399	8,217	15,777	23,994	28,393
Travel and conferences	4,756	-	7,579	12,335	9,734	13,051	22,785	35,120
Repairs and maintenance	66,267	-	-	66,267	-	-	-	66,267
Insurance	-	-	-	-	42,606	-	42,606	42,606
Interest and bank charges	-	-	-	-	225,837	22,439	248,276	248,276
Depreciation and amortization	514,446	-	-	514,446	176,887	-	176,887	691,333
Contract services	212,100	42,000	85,860	339,960	126,890	72,144	199,034	538,994
Bad debt	-	-	-	-	-	81,840	81,840	81,840
Miscellaneous	768	-	-	768	18,872	14,436	33,308	34,076
Total functional expenses	**$ 1,560,514**	**$ 771,771**	**$ 186,131**	**$ 2,518,416**	**$ 919,861**	**$ 1,001,638**	**$ 1,921,499**	**$ 4,439,915**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (675,964)	$ 1,646,919
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	655,308	682,585
Bad debt expense	71,134	81,840
Amortization of program contract rights	657,214	679,651
New Markets Tax Credit gain	-	(2,363,460)
Amortization of deferred gain	(33,885)	(33,885)
Amortization of debt costs	-	8,746
Changes in operating assets and liabilities which provided (used) cash:		
Underwriting receivables	63,019	(44,616)
Grants and other receivables	(70,852)	32,405
Program contract rights	(656,746)	(669,397)
Other assets	(14,975)	20,529
Accounts payable	(94,066)	(19,316)
Deferred revenue	34,294	38,400
Accrued liabilities and other	6,817	5,558
Net cash (used in) provided by operating activities	(58,702)	65,959
Cash Flows from Investing Activities		
Restricted cash	-	22,128
Purchase of property and equipment	(8,604)	(49,323)
Net cash used in investing activities	(8,604)	(27,195)
Cash Flows from Financing Activities		
Net proceeds from (payments on) bank line of credit	94,981	(8,750)
Payments on capital lease	(29,263)	(27,839)
Net cash provided by (used in) financing activities	65,718	(36,589)
Net (Decrease) Increase in Cash	(1,588)	2,175
Cash - Beginning of year	21,775	19,600
Cash - End of year	**$ 20,187**	**$ 21,775**
Supplemental Cash Flow Information - Cash paid for interest	$ 18,747	$ 155,478
Significant Noncash Transactions		
Relief of note receivable (Note 6)	$ -	$ 9,127,385
Relief of note payable (Note 6)	-	11,760,000

Note 1 - Nature of Business

Michiana Public Broadcasting Corporation (MPBC) owns and operates WNIT Center for Public Media (Channel 34.1, 34.2, and WNIT.org), which provides educational and cultural television programs and related services to communities in northern Indiana and southwestern Michigan. The leadership of MPBC is provided by community volunteers, and support is provided by the communities served through memberships, corporate donations, underwriting, and donated services. Additional support is also received from grants from the Corporation for Public Broadcasting and the State of Indiana. Programming is received from the Public Broadcasting Service (PBS) and other sources.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of MPBC and MPBC Real Estate, LLC (Real Estate, LLC). In June 2010, MPBC formed Real Estate, LLC for which MPBC is the 99.99 percent investing member. The remaining 0.01 percent is owned by MPBC Investments, Inc., which is 100 percent owned by MPBC and, therefore, is included within the consolidated financial statements. Real Estate, LLC was formed as part of the New Markets Tax Credit (NMTC) structuring. As a result of the structuring, Real Estate, LLC held the NMTC debt and owned the property and equipment that it leased to MPBC. MPBC and Real Estate, LLC (collectively, the "Corporation") are presented as consolidated for the years ended September 30, 2018 and 2017. All material intercompany accounts and transactions have been eliminated. On July 11, 2017, in accordance with the provisions of the operating agreement of Real Estate, LLC, debt of $11,760,000 and note receivable of $9,127,385 were relieved, and the option agreement was exercised for $1,000, resulting in a gain of $2,632,615, gross of a debt issuance cost write-off of $269,155 associated with the debt forgiveness that was recognized within the consolidated statement of activities and changes in net assets (see Note 6). On October 10, 2017, the board approved the transfer of all real estate and personal property from Real Estate, LLC to MPBC.

Basis of Presentation

The consolidated financial statements of MPBC have been prepared on the basis of generally accepted accounting principles (GAAP).

Classification of Net Assets

Net assets of MPBC are classified based on the presence or absence of donor-imposed restrictions.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets of MPBC consist of amounts received from donors who have specified the purpose for which or the timing of when the funds are to be spent. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets. The September 30, 2018 and 2017 temporarily restricted net asset balance consists of $130,744 and $168,625, respectively, related to grant-acquired equipment. In addition, for the year ended September 30, 2018, an additional $15,000 of net assets were restricted for the PBS Kids Channel launch.

Permanently restricted net assets consist of amounts received from donors who have specified that the principal of the donation is to remain intact for investment purposes. There are no permanently restricted net assets as of September 30, 2018 and 2017.

Note 2 - Significant Accounting Policies (Continued)

Grants and Other Receivables

Grants and other receivables consist of amounts awarded from the Corporation for Public Broadcasting during the year and pledges from members. Based on management's review of the grants receivable balance and historical collection information, management has not recorded an allowance for doubtful receivables, as it is the opinion of management that the receivable will be collected in full. An allowance for membership pledges is provided based upon management's judgment and analysis regarding such factors as prior collection history, nature of the pledge, and payment method. As of September 30, 2018 and 2017, the Corporation has recorded an allowance of doubtful receivables of $6,520 and $8,972, respectively.

Revenue Recognition

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions include operating grants, membership income, and contributions and support. Revenue received to underwrite production programming is deferred and recognized as revenue when related costs are incurred. The Corporation recognizes revenue from underwriting agreements as deferred until the programs being sponsored are aired.

Revenue, gains, and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as the contributions are received are reported as unrestricted contributions in the consolidated financial statements, except for contributions of equipment or cash restricted for the purchase of equipment. Contributions of property and equipment or cash restricted for the purchase of property and equipment are recorded as an increase in temporarily restricted net assets and released from restriction over the useful life of the asset. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Program Contract Rights

Program contracts generally give the Corporation the right to broadcast programs on its television station. The full contract price is capitalized at the inception of the contract and amortized using the straight-line method over the term of the contract, usually one year. The full contract price is also recorded as program contract rights payable until the invoice is paid.

Debt Issuance Costs

Legal and accounting fees, printing costs, and other expenses of $349,805 associated with the issuance of long-term debt are amortized over the term of the debt. The debt issuance costs were fully amortized at September 30, 2017 as part of the NMTC unwind disclosed within Note 6. Accumulated amortization was $60,244 at October 1, 2017. Amortization expense charged to operations in 2017 was $8,746. The remaining debt issuance costs were written off in connection with the NMTC unwind and are offset against the New Markets Tax Credit gain on the consolidated statement of activities and changes in net assets.

Property and Equipment

Property and equipment are recorded at the lower of cost or market value. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Estimated lives are 5 to 10 years for office, studio, and technical equipment. Estimated lives for the transmitter plant, DTV conversion equipment, and leased equipment are 10 to 20 years. The estimated life of the building is 40 years.

Note 2 - Significant Accounting Policies (Continued)

Certain items of the Corporation's studio and technical equipment have been acquired in part with National Telecommunications and Information Administration (NTIA) grants from the U.S. Department of Commerce. In connection with these grants, NTIA has a lien for a 10-year period on any equipment acquired with proceeds from NTIA grants. In addition, equipment acquired by the Corporation, which is part of the equipment acquired with NTIA grants, would also be subject to the NTIA liens. Studio and technical equipment with a net book value of $71,345 and $94,322 at September 30, 2018 and 2017, respectively, is subject to NTIA liens, which expire at various dates through September 2021. Costs of maintenance and repairs are charged to expense when incurred.

Donated Services and Assets

Certain donated services are recognized as support in the consolidated statement of activities and changes in net assets. The value of these services is determined based on estimated fair value.

Volunteer services are not reflected in the consolidated financial statements because the services are not recordable under accounting principles generally accepted in the United States of America.

Donated assets are reflected in the financial statements at their estimated fair values at the time of donation.

Functional Allocation of Expenses

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

Income Taxes

MPBC qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to federal and state income taxes. Accordingly, contributions to MPBC are deductible by the donor for federal income tax purposes. Real Estate, LLC has elected to be taxed as a partnership. Generally, the income of a partnership is not subject to federal income tax at the partnership level. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements.

Use of Estimates

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including November 19, 2018, which is the date the consolidated financial statements were available to be issued. No such events were noted.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Corporation's year ending September 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Corporation is reviewing current revenue streams and does not feel this standard will have a significant impact on the timing of revenue recognition. However, the Corporation does expect to have expanded disclosures as a result of the new standard.

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Corporation's year ending September 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on MPBC’s consolidated financial statements due to its lease for a tower being classified as a capital lease.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by MPBC, including required disclosures about the liquidity and availability of resources. The new standard is effective for MPBC’s year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. Management expects an impact to the classification of net assets and an enhancement of disclosure about liquidity, including qualitative and quantitative information. Management also expects to release all temporarily restricted net assets related to grant-acquired equipment, as restrictions are considered to have expired when the assets are placed in service under the ASU.

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

Note 3 - Corporation for Public Broadcasting Grants

The Corporation was awarded community service grants from the Corporation for Public Broadcasting (CPB) of $738,359 and $750,014 during the years ended September 30, 2018 and 2017, respectively, to finance normal programming and promotion expenses. The grant amounts were fully expended in each year; therefore, there are no uncommitted balances as of September 30, 2018 and 2017. The grant amounts were based upon nonfederal financial support of $2,127,189 and $2,179,352 recorded by the Corporation for the years ended September 30, 2016 and 2015, respectively.

In fiscal year 2019, the community service grant will be $761,052 based on nonfederal financial support of $2,180,895 recorded during fiscal year 2017. Nonfederal financial support for the year ended September 30, 2018 will be the basis for the fiscal year 2020 community service grant; however, such grants are dependent on continued funding of CPB by the U.S. government. The Corporation has discussed the need for possible contingency plans if this funding decreases.

The Corporation also received other grants from CPB totaling $73,030 and $73,271 for the years ended September 30, 2018 and 2017, respectively.

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Land	$ 211,493	$ 211,493
Buildings	4,519,940	4,519,940
Office equipment	357,795	349,191
Studio and technical equipment	6,791,334	6,791,334
Transmitter plant	842,014	842,014
DTV conversion equipment	571,893	571,893
Equipment under capital lease	1,449,568	1,449,568
Total cost	14,744,037	14,735,433
Less accumulated depreciation	9,199,343	8,544,035
Net carrying amount	$ 5,544,694	$ 6,191,398

Depreciation expense for 2018 and 2017 was $655,308 and $682,585, respectively.

During November 2013, the Corporation sold one of its towers and the land on which the tower is located. In addition to the sale, the Corporation signed a lease agreement with the purchaser to lease the tower (see Note 7). Depreciation expense on the leased equipment was $72,478 for 2018 and 2017.

Note 5 - Bank Line of Credit and Term Loan

The Corporation has a line of credit allowing the Corporation to borrow up to $375,000. The line of credit is collateralized by substantially all assets of the Corporation and matures on January 15, 2019. Interest is payable monthly at 0.50 percent above the prime rate, with a minimum interest rate of 5.00 percent (an effective rate of 5.75 percent and 5.00 percent at September 30, 2018 and 2017, respectively). There was an outstanding balance on the line of credit of $174,981 and $80,000 as of September 30, 2018 and 2017, respectively.

In July 2017, the Corporation opened a loan with a financial institution for $125,000. Interest was payable monthly at 2.25 percent. The loan was paid in full in September 2017.

Interest expense was approximately $14,200 and $5,600 for the years ended September 30, 2018 and 2017, respectively.

Note 6 - New Market Tax Credit Transaction

The long-term debt of Real Estate, LLC (the "LLC") financed the purchase of certain fixed assets owned by MPBC by Real Estate, LLC during the year ended September 30, 2010. The transaction was structured under the New Markets Tax Credit program administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury. Under the program and as part of the loan agreements, Real Estate, LLC has committed to maintaining its status as a qualified active low-income community business, as defined in IRC Section 45D.

The second Real Estate, LLC note contained a put provision that was exercised in July 2017. The put provision required the LLC to pay $1,000, upon which the principal portion of the notes amounting to $2,632,615 was forgiven by the bank. The forgiveness is reported on the consolidated statement of activities and changes in net assets as New Markets Tax Credit gain.

A call provision was also included, which could have been exercised by the LLC. The call provision would require the bank to waive the debt for a cost equal to the fair market value of the bank's interest. The put option was exercised during the year ended September 30, 2017; therefore, the call option expired.

Interest expense related to the debt for 2017 was approximately $138,000.

As part of the New Markets Tax Credit structuring, the Corporation issued a loan receivable to WNIT Investment Fund, LLC, an unrelated entity, for $9,127,385. The receivable required quarterly interest-only payments at a rate of 1.00 percent with the repayment of principal beginning on June 29, 2017. The note receivable was satisfied during the year ended September 30, 2017 in conjunction with the NMTC unwind.

Note 7 - Capital Lease

The Corporation sold one of its towers in November 2013. In addition to the sales agreement, the Corporation signed a lease agreement with the purchaser to lease the tower. The future minimum lease payments under the capital lease are as follows:

Years Ending September 30	Amount
2019	$ 109,237
2020	110,440
2021	110,440
2022	110,440
2023	110,440
Thereafter	1,374,452
Total	1,925,449
Less amount representing interest	606,317
Present value of net minimum lease payments	$ 1,319,132

Equipment purchased under the capital lease arrangements has been capitalized and is included in property and equipment (see Note 4).

The interest rate on this capital lease is 5.00 percent.

The gain on the sale-leaseback of the tower and related assets amounted to $677,697 and has been deferred over the 20-year life of the lease. The deferred gain as of the years ended September 30, 2018 and 2017 is $511,097 and $544,982, respectively. The Corporation recognized gains of approximately $34,000 during both 2018 and 2017, which are reported within the consolidated statement of activities and changes in net assets.

Note 8 - Employee Benefit Plan

The Corporation has a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code, which covers all of its employees. The plan is a defined contribution plan that allows an employee to make voluntary contributions not to exceed the limits imposed by Section 415 and Section 403(b) of the IRC. Under the plan, the Corporation is obligated to match up to 3 percent of the participant’s annual compensation. The Corporation’s expense under the plan aggregated \$17,423 and \$18,087 for the years ended September 30, 2018 and 2017, respectively.

Note 9 - Community Foundation

Certain funds donated by outside donors for the benefit of MPBC are held and managed by the Community Foundation of St. Joseph County (the "Foundation"). The Foundation maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of MPBC. The fair market value of these funds is approximately \$383,000 and \$376,000 at September 30, 2018 and 2017, respectively. These funds are not reflected in the financial statements. Earnings are available for distribution to MPBC at the discretion of the Foundation and, therefore, are not reflected as revenue in the financial statements until received by MPBC.

In addition, the Corporation established a fund at Elkhart County Community Foundation (ECCF). This fund consists mainly of donations directed to ECCF by the Corporation. ECCF maintains legal ownership of the fund and, as such, continues to report the fund as an asset and liability. The Corporation made an initial contribution of \$5,000, which is recorded as other assets on the consolidated statement of financial position. The fair value of funds held at ECCF is approximately \$15,000 and \$11,000 at September 30, 2018 and 2017, respectively. These funds, with the exception of the Corporation's initial contribution, are not reflected in the consolidated financial statements.

During the year ended September 30, 2017, the Corporation established a fund at the Marshall County Community Foundation (MCCF) with an initial contribution of \$1,000 by the Corporation. MCCF maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of the Corporation, with the exception of the Corporation's initial contribution, which is recorded as other assets on the consolidated statement of financial position. The fair value of funds held at MCCF is approximately \$1,100 at September 30, 2018 and 2017.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
Michiana Public Broadcasting Corporation

We have audited the consolidated financial statements of Michiana Public Broadcasting Corporation (the "Corporation") as of and for the years ended September 30, 2018 and 2017 and have issued our report thereon dated November 19, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities and changes in net assets (deficit) are presented for the purpose of additional analysis and are 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

November 19, 2018

Consolidating Statement of Financial Position

September 30, 2018

	MPBC	MPBC Real Estate, LLC	Eliminating Entries	Total
Assets				
Cash	$ 20,187	$ -	$ -	$ 20,187
Underwriting receivable - Less allowance for doubtful receivables of $5,660	66,026	-	-	66,026
Grants and other receivables - Less allowance for doubtful receivables of $6,520	248,255	-	-	248,255
Program contract rights	481,315	-	-	481,315
Other assets	61,823	-	-	61,823
Property and equipment - Net	5,544,694	-	-	5,544,694
Total assets	**$ 6,422,300**	**$ -**	**$ -**	**$ 6,422,300**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 108,829	$ -	$ -	$ 108,829
Bank line of credit	174,981	-	-	174,981
Deferred revenue	170,461	-	-	170,461
Deferred gain on sale-leaseback transaction	511,097	-	-	511,097
Program contract rights payable	639,853	-	-	639,853
Accrued compensation	73,825	-	-	73,825
Capital lease obligation	1,319,132	-	-	1,319,132
Total liabilities	2,998,178	-	-	2,998,178
Net Assets				
Unrestricted	3,278,378	-	-	3,278,378
Temporarily restricted	145,744	-	-	145,744
Total net assets	3,424,122	-	-	3,424,122
Total liabilities and net assets	**$ 6,422,300**	**$ -**	**$ -**	**$ 6,422,300**

Consolidating Statement of Financial Position

September 30, 2017

	MPBC	MPBC Real Estate, LLC	Eliminating Entries	Total
Assets				
Cash	$ 21,775	$ -	$ -	$ 21,775
Underwriting receivable - Less allowance for doubtful receivables of $10,660	126,133	-	-	126,133
Grants and other receivables - Less allowance for doubtful receivables of $8,972	251,449	-	-	251,449
Program contract rights	470,588	-	-	470,588
Other assets	46,848	-	-	46,848
Investment in real estate	4,556,616	-	(4,556,616)	-
Property and equipment - Net	1,634,782	4,556,616	-	6,191,398
Total assets	**$ 7,108,191**	**$ 4,556,616**	**$ (4,556,616)**	**$ 7,108,191**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 202,895	$ -	$ -	$ 202,895
Bank line of credit	80,000	-	-	80,000
Deferred revenue	136,167	-	-	136,167
Deferred gain on sale-leaseback transaction	544,982	-	-	544,982
Program contract rights payable	628,658	-	-	628,658
Accrued compensation	67,008	-	-	67,008
Capital lease obligation	1,348,395	-	-	1,348,395
Total liabilities	3,008,105	-	-	3,008,105
Net Assets				
Unrestricted	3,931,461	-	-	3,931,461
Temporarily restricted	168,625	-	-	168,625
Members' capital	-	4,556,616	(4,556,616)	-
Total net assets	4,100,086	4,556,616	(4,556,616)	4,100,086
Total liabilities and net assets	**$ 7,108,191**	**$ 4,556,616**	**$ (4,556,616)**	**$ 7,108,191**

Consolidating Statement of Activities and Changes in Net Assets (Deficit)

Year Ended September 30, 2018

	MPBC	MPBC Real Estate, LLC	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue and support:				
Contributions and support, including in-kind contributions of $27,920	$ 142,045	$ -	$ -	$ 142,045
Corporation for Public Broadcasting grants	811,389	-	-	811,389
State grants	425,443	-	-	425,443
Member income	958,406	-	-	958,406
Program underwriting, including in-kind revenue of $220,266	1,036,054	-	-	1,036,054
Other income	161,975	-	37,399	199,374
Total revenue and support	3,535,312	-	37,399	3,572,711
Net assets released from restrictions	37,881	-	-	37,881
Total revenue, support, and net assets released from restrictions	3,573,193	-	37,399	3,610,592
Expenses:				
Program services:				
Broadcasting	1,579,310	26,255	-	1,605,565
Programming and education	781,546	-	-	781,546
Promotion	213,978	-	-	213,978
Total program services	2,574,834	26,255	-	2,601,089
Support services:				
Management and general	708,608	11,144	-	719,752
Memberships and development	976,719	-	-	976,719
Total support services	1,685,327	11,144	-	1,696,471
Total expenses	4,260,161	37,399	-	4,297,560
Loss from Operating Activities	(686,968)	(37,399)	37,399	(686,968)
Other - Amortization of deferred gain	33,885	-	-	33,885
Decrease in Unrestricted Net Assets	(653,083)	(37,399)	37,399	(653,083)
Changes in Temporarily Restricted Net Assets				
Contributions	15,000	-	-	15,000
Net assets released from restrictions	(37,881)	-	-	(37,881)
Decrease in Temporarily Restricted Net Assets	(22,881)	-	-	(22,881)
Changes in Members' Capital - Distributions	-	(4,519,217)	4,519,217	-
Decrease in Net Assets	(675,964)	(4,556,616)	4,556,616	(675,964)
Net Assets - Beginning of year	4,100,086	4,556,616	(4,556,616)	4,100,086
Net Assets - End of year	**$ 3,424,122**	**$ -**	**$ -**	**$ 3,424,122**

Consolidating Statement of Activities and Changes in Net Assets (Deficit)

Year Ended September 30, 2017

	MPBC	MPBC Real Estate, LLC	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue and support:				
Contributions and support, including in-kind contributions of $4,621	$ 131,790	$ -	$ -	$ 131,790
Corporation for Public Broadcasting grants	823,285	-	-	823,285
State grants	425,443	-	-	425,443
Member income	941,643	-	-	941,643
Program underwriting, including in-kind revenue of $238,295	1,097,588	-	-	1,097,588
Rental income	-	125,625	(125,625)	-
Interest income	70,991	-	-	70,991
Other income	2,065,659	-	(1,866,910)	198,749
Total revenue and support	5,556,399	125,625	(1,992,535)	3,689,489
Net assets released from restrictions	90,311	-	-	90,311
Total revenue, support, and net assets released from restrictions	5,646,710	125,625	(1,992,535)	3,779,800
Expenses:				
Program services:				
Broadcasting	1,245,459	315,055	-	1,560,514
Programming and education	771,771	-	-	771,771
Promotion	186,131	-	-	186,131
Total program services	2,203,361	315,055	-	2,518,416
Support services:				
Management and general	738,366	307,120	(125,625)	919,861
Memberships and development	1,001,638	-	-	1,001,638
Total support services	1,740,004	307,120	(125,625)	1,921,499
Total expenses	3,943,365	622,175	(125,625)	4,439,915
Income (Loss) from Operating Activities	1,703,345	(496,550)	(1,866,910)	(660,115)
Other Items				
New Markets Tax Credit gain	-	2,363,460	-	2,363,460
Amortization of deferred gain	33,885	-	-	33,885
Increase in Unrestricted Net Assets	1,737,230	1,866,910	(1,866,910)	1,737,230
Changes in Temporarily Restricted Net Assets				
Capital contributions	-	9,204,480	(9,204,480)	-
Net assets released from restrictions	(90,311)	-	-	(90,311)
(Decrease) Increase in Temporarily Restricted Net Assets	(90,311)	9,204,480	(9,204,480)	(90,311)
Changes in Members' Capital - Distributions	-	(51,248)	51,248	-
Increase in Net Assets	1,646,919	11,020,142	(11,020,142)	1,646,919
Net Assets (Deficit) - Beginning of year	2,453,167	(6,463,526)	6,463,526	2,453,167
Net Assets - End of year	**$ 4,100,086**	**$ 4,556,616**	**$ (4,556,616)**	**$ 4,100,086**