

**The Greater Washington
Educational Telecommunications
Association, Inc. and Subsidiary**

Consolidated Financial Statements
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The Greater Washington Educational Telecommunications Association, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Greater Washington Educational Telecommunications Association and Subsidiary as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Organization, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated November 30, 2017, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the June 30, 2018 consolidated financial statements taken as a whole. The accompanying supplemental schedules of support and gains and supplemental statement of activities by grantees on pages 24-25 are presented for purposes 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 for the year ended June 30, 2018 has been subjected to the auditing procedures applied in the audit of the 2018 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 for the year ended June 30, 2018 is fairly stated in all material respects in relation to the 2018 financial statements as a whole. The supplementary information for the year ended June 30, 2017, was audited by other auditors, whose report, dated November 30, 2017, expressed an unmodified opinion on such information in relation to the 2017 financial statements as a whole.

RSM US LLP

McLean, Virginia
December 3, 2018

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 12,125,619	\$ 16,558,575
Accounts and grants and contributions receivable, net	25,199,496	20,938,003
Investments	49,639,410	46,407,059
Deferred compensation assets	1,340,999	1,228,926
Prepaid expenses and other assets	1,774,133	1,395,661
Film assets	41,016,584	50,340,574
Property and equipment, net	12,197,506	13,606,868
	<u>143,293,747</u>	<u>150,475,666</u>
Total assets	\$ 143,293,747	\$ 150,475,666
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,127,242	\$ 6,601,621
Deferred revenue	379,684	397,498
Deferred compensation liability	1,340,999	1,228,926
Long-term debt	3,704,044	4,662,158
	<u>10,551,969</u>	<u>12,890,203</u>
Total liabilities	10,551,969	12,890,203
Commitments and contingencies (Notes 7 and 12)		
Net assets:		
Unrestricted:		
Undesignated	14,436,308	14,077,533
Designated	16,830,397	16,097,275
Temporarily restricted	91,620,901	97,656,483
Permanently restricted	9,854,172	9,754,172
	<u>132,741,778</u>	<u>137,585,463</u>
Total net assets	132,741,778	137,585,463
	<u>143,293,747</u>	<u>150,475,666</u>
Total liabilities and net assets	\$ 143,293,747	\$ 150,475,666

See notes to consolidated financial statements.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in unrestricted net assets:		
Revenues and other support, including amounts released from restrictions:		
Production funding from public broadcasting system	\$ 26,118,428	\$ 27,298,838
Corporate underwriting and funding	15,170,077	16,080,861
Membership and individuals	29,409,032	22,978,485
Foundations and nonprofit organizations	31,003,359	19,144,374
Federal, state and local government grants	3,667,921	2,212,121
Community service grants from the Corporation for Public Broadcasting	8,114,992	5,587,963
Rental income and other	2,183,736	2,547,185
Total unrestricted revenues and other support	115,667,545	95,849,827
Expenses:		
National programming and productions	74,855,689	58,151,255
Television broadcast operations	14,445,084	11,032,095
Radio broadcast operations	2,674,158	2,709,771
Promotion, education and outreach	5,658,535	5,598,714
Fundraising and membership development	7,353,129	8,146,735
Underwriting and grant solicitation	4,897,771	4,606,653
Management and general	3,470,763	3,274,185
Total expenses	113,355,129	93,519,408
Change in unrestricted net assets before other changes	2,312,416	2,330,419
Other changes:		
Net investment return	1,317,573	2,156,177
Loss on disposal of property and equipment	(1,578)	(5,201)
Depreciation and amortization	(2,035,225)	(2,174,177)
Interest expense	(93,760)	(114,326)
Property tax expense	(407,529)	(415,208)
Total other changes	(1,220,519)	(552,735)
Total change in unrestricted net assets	1,091,897	1,777,684
Changes in temporarily restricted net assets:		
Television production and other restricted contributions	81,897,656	64,867,411
Endowment investment return	1,819,230	2,817,200
Endowment distributions	(695,110)	(359,854)
Net assets released from restrictions	(89,057,358)	(67,766,763)
Total change in temporarily restricted net assets	(6,035,582)	(442,006)
Changes in permanently restricted net assets:		
Endowment gifts	100,000	10,051
Total change in permanently restricted net assets	100,000	10,051
Change in total net assets	(4,843,685)	1,345,729
Net assets:		
Beginning of year	137,585,463	136,239,734
End of year	\$ 132,741,778	\$ 137,585,463

See notes to consolidated financial statements.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	National Programming and Productions	Television Broadcast Operations	Radio Broadcast Operations	Promotion, Education and Outreach	Total Program Services	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total Support Services	Total Expenses 2018
Compensation of officers and directors	\$ 2,018,637	\$ -	\$ -	\$ -	\$ 2,018,637	\$ -	\$ 320,338	\$ 1,915,687	\$ 2,236,025	\$ 4,254,662
Other salaries and wages	16,296,664	2,543,174	1,554,893	2,912,747	23,307,478	1,883,144	1,863,808	763,703	4,510,655	27,818,133
Pension plan contributions	1,262,847	177,634	108,619	203,744	1,752,844	131,633	150,183	93,599	375,415	2,128,259
Other employee benefits	2,063,588	290,268	177,492	332,933	2,864,281	215,097	245,410	152,948	613,455	3,477,736
Payroll taxes	1,234,728	173,679	106,201	199,208	1,713,816	128,702	146,839	91,515	367,056	2,080,872
Professional fundraising fees	-	-	-	-	-	213,462	-	-	213,462	213,462
Accounting fees	66,442	10,865	6,686	13,372	97,365	8,357	7,522	13,790	29,669	127,034
Legal fees	72,641	11,768	7,242	14,484	106,135	9,052	8,443	14,936	32,431	138,566
Supplies	139,625	13,889	7,476	64,364	225,354	20,707	24,570	14,996	60,273	285,627
Telephone, rent and utilities	821,047	516,102	160,593	5,152	1,502,894	96,298	3,768	1,752	101,818	1,604,712
Postage and shipping	76,108	6,789	927	224,052	307,876	736,561	2,677	1,784	741,022	1,048,898
Occupancy	1,463,341	239,289	147,254	294,509	2,144,393	184,068	165,661	75,490	425,219	2,569,612
Equipment rental and maintenance	202,593	123,435	89,721	11,505	427,254	2,059	3,603	3,398	9,060	436,314
Printing and publications	67,143	5,388	34	279,576	352,141	490,918	889	69	491,876	844,017
Travel	1,346,395	19,753	8,248	63,636	1,438,032	27,744	77,762	22,434	127,940	1,565,972
Conferences, conventions and meetings	416,921	20,980	2,526	113,312	553,739	63,295	40,398	7,579	111,272	665,011
Production and acquisition costs	40,116,382	1,887,664	134,233	235,797	42,374,076	207,038	17,349	14,844	239,231	42,613,307
Public Broadcasting Service dues	-	7,654,984	-	-	7,654,984	-	-	-	-	7,654,984
Advertising and promotions	477,392	21,972	67	325,915	825,346	1,156,830	78,907	619	1,236,356	2,061,702
Memberships and affiliations	7,126	1,703	28,919	3,554	41,302	21,562	679	127,643	149,884	191,186
All other expenses	6,706,069	725,748	133,027	360,675	7,925,519	1,756,602	1,738,965	153,977	3,649,544	11,575,063
Total expenses	74,855,689	14,445,084	2,674,158	5,658,535	97,633,466	7,353,129	4,897,771	3,470,763	15,721,663	113,355,129
Property tax expense	247,835	29,457	41,408	36,255	354,955	22,659	20,393	9,522	52,574	407,529
Interest expense	49,038	8,019	4,935	9,870	71,862	6,168	5,552	10,178	21,898	93,760
Depreciation and amortization	1,326,648	251,733	229,027	73,910	1,881,318	88,679	40,612	24,616	153,907	2,035,225
Grand totals	\$ 76,479,210	\$ 14,734,293	\$ 2,949,528	\$ 5,778,570	\$ 99,941,601	\$ 7,470,635	\$ 4,964,328	\$ 3,515,079	\$ 15,950,042	\$ 115,891,643

See notes to consolidated financial statements.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2017

	National Programming and Productions	Television Broadcast Operations	Radio Broadcast Operations	Promotion, Education and Outreach	Total Program Services	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total Support Services	Total Expenses 2017
Compensation of officers and directors	\$ 2,612,188	\$ -	\$ -	\$ -	\$ 2,612,188	\$ -	\$ -	\$ 1,632,730	\$ 1,632,730	\$ 4,244,918
Other salaries and wages	15,954,462	2,480,354	1,521,033	2,743,785	22,699,634	1,984,051	2,343,328	744,199	5,071,578	27,771,212
Pension plan contributions	1,207,962	163,896	100,468	181,461	1,653,787	131,454	154,065	109,254	394,773	2,048,560
Other employee benefits	1,754,591	238,063	145,931	263,576	2,402,161	190,940	223,782	158,693	573,415	2,975,576
Payroll taxes	1,276,159	173,149	106,140	191,706	1,747,154	138,876	162,763	115,422	417,061	2,164,215
Professional fundraising fees	-	-	-	-	-	372,943	-	-	372,943	372,943
Accounting fees	90,445	13,459	8,075	15,613	127,592	12,382	9,152	19,919	41,453	169,045
Legal fees	79,193	10,391	6,717	12,054	108,355	9,560	8,921	15,379	33,860	142,215
Supplies	236,815	20,187	8,037	62,717	327,756	33,990	23,679	28,019	85,688	413,444
Telephone, rent and utilities	996,544	478,654	171,613	4,086	1,650,897	126,997	4,790	2,589	134,376	1,785,273
Postage and shipping	81,760	6,728	460	209,501	298,449	894,574	3,300	1,638	899,512	1,197,961
Occupancy	1,480,211	220,269	132,162	255,513	2,088,155	202,648	149,783	75,227	427,658	2,515,813
Equipment rental and maintenance	159,382	131,231	76,875	9,982	377,470	2,191	1,642	3,524	7,357	384,827
Printing and publications	34,988	8,181	68	258,836	302,073	608,161	383	466	609,010	911,083
Travel	1,790,910	25,254	8,094	172,180	1,996,438	34,412	165,678	28,344	228,434	2,224,872
Conferences, conventions and meetings	685,557	20,666	4,027	165,292	875,542	107,083	30,706	16,169	153,958	1,029,500
Production and acquisition costs	21,560,886	1,739,115	122,802	256,136	23,678,939	443,714	9,768	21,653	475,135	24,154,074
Public Broadcasting Service dues	-	4,646,276	-	-	4,646,276	-	-	-	-	4,646,276
Advertising and promotions	294,992	19,951	52	450,424	765,419	971,760	56,828	381	1,028,969	1,794,388
Memberships and affiliations	7,989	2,144	27,677	2,269	40,079	21,185	443	112,411	134,039	174,118
All other expenses	7,846,221	634,127	269,540	343,583	9,093,471	1,859,814	1,257,642	188,168	3,305,624	12,399,095
Total expenses	58,151,255	11,032,095	2,709,771	5,598,714	77,491,835	8,146,735	4,606,653	3,274,185	16,027,573	93,519,408
Property tax expense	257,337	28,688	40,146	33,278	359,449	26,393	19,508	9,858	55,759	415,208
Interest expense	61,169	9,102	5,461	10,559	86,291	8,374	6,190	13,471	28,035	114,326
Depreciation and amortization	1,365,892	329,134	253,004	65,981	2,014,011	90,729	39,433	30,004	160,166	2,174,177
Grand totals	\$ 59,835,653	\$ 11,399,019	\$ 3,008,382	\$ 5,708,532	\$ 79,951,586	\$ 8,272,231	\$ 4,671,784	\$ 3,327,518	\$ 16,271,533	\$ 96,223,119

See notes to consolidated financial statements.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (4,843,685)	\$ 1,345,729
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for long-term purposes	(100,000)	(10,051)
Depreciation and amortization	2,035,225	2,174,177
Unrealized and realized gain on investments	(1,725,609)	(3,598,242)
Change in unamortized discount on grants and contributions receivable	24,629	(19,447)
Change in provision for uncollectible accounts and contributions receivable	76,624	11,478
Loss on disposal of property	1,578	5,201
Changes in operating accounts:		
Restricted cash	-	12
Accounts and contributions receivable	(4,362,746)	9,274,209
Prepaid expenses and other assets	(378,472)	542,803
Film assets	9,323,990	(5,647,942)
Accounts payable and accrued expenses	(1,474,379)	(1,052,764)
Deferred revenue	(17,814)	(230,528)
Net cash (used in) provided by operating activities	(1,440,659)	2,794,635
Cash flows from investing activities:		
Purchases of investment securities	(1,553,833)	(1,639,739)
Sales of investment securities	47,091	1,710,293
Purchases of property and equipment	(627,441)	(989,857)
Net cash used in investing activities	(2,134,183)	(919,303)
Cash flows from financing activities:		
Contributions restricted for long-term purposes	100,000	10,051
Increase on long-term debt	-	15,860
Payments on long-term debt	(958,114)	(805,615)
Net cash used in financing activities	(858,114)	(779,704)
Net (decrease) increase in cash and cash equivalents	(4,432,956)	1,095,628
Cash and cash equivalents:		
Beginning	16,558,575	15,462,947
Ending	\$ 12,125,619	\$ 16,558,575
Supplemental disclosure of cash flow information:		
Interest paid	\$ 94,204	\$ 97,889
Taxes paid	\$ 398,879	\$ 403,543
Supplemental disclosure of financing activities		
Noncash debt refinance	\$ -	\$ 4,977,278

See notes to consolidated financial statements.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Greater Washington Educational Telecommunications Association, Inc. (WETA) is a nonprofit Washington, D.C. corporation chartered in 1953 to operate a public television and public FM radio station.

NewsHour Productions LLC, a wholly owned nonprofit subsidiary of WETA, was formed in May 2014, for the primary business purpose of producing the PBS NewsHour program and other related activities. NewsHour Productions LLC is a single member limited liability company (LLC) with WETA as its sole member. NewsHour Productions LLC is consolidated with WETA for financial statement and tax purposes.

The following program and supporting services are included in the statements of functional expenses.

National programming and productions: This program includes national program development and the production center facility.

Television broadcast operations: This program includes TV station program acquisition and scheduling functions, as well as the master control and engineering functions related to television.

Radio broadcast operations: This program includes radio station program acquisition and scheduling functions, as well as the FM studio and engineering functions related to radio.

Promotion, education and outreach: This program includes communications, Learning Media and audience services.

Fundraising and membership development: This supporting service category includes the departments focused on raising a high volume of relatively low dollar membership gifts from individuals, as well as major giving.

Underwriting and grant solicitation: This supporting service category includes foundation and government development, and local and national corporate program and production underwriting.

Management and general: This supporting service category includes the functions necessary to support the proper administrative functioning of the Organization such as human resources, management information systems, accounting and finance, legal, executive offices and facilities.

A summary of the Organization's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of WETA and NewsHour Productions LLC, collectively the Organization. Intercompany balances and transactions have been eliminated in consolidation.

Basis of accounting: The financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned, unconditional support is recognized when received and expenses are recognized when incurred.

Basis of presentation: The financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities topics of the Codification, balance sheet and income statement, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Organization invests in a professionally managed portfolio that contains various securities that are exposed to risks, such as interest, market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the financial statements.

Cash and cash equivalents: The Organization considers highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents except for the cash accounts held as part of investments.

Accounts receivable: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts, based on management's evaluation of collectability, as \$128,844 and 52,220, at June 30, 2018 and 2017.

Investments: The fair value of marketable investments in equity and debt securities (which includes both domestic and foreign issues) are based on the published current market value at June 30, 2018 and 2017.

Realized gains and losses from sales of investments and unrealized gains and losses from market fluctuations of the underlying investments are included in the consolidated statements of activities during the period in which they occur.

Film assets: The Organization capitalizes the production cost of television programs. The capitalized costs are direct costs of production and production overhead. The costs are recognized as expense when the program segment is first aired. All film assets are for direct-to-television projects and all capitalized film assets relate to projects which have not aired at June 30, 2018 and 2017. The Organization expects approximately \$14,700,000 and \$19,000,000 of film assets to be expensed during the years ending June 30, 2019 and 2020, respectively.

Property and equipment: Property and equipment is recorded at cost. Contributed property is recorded at the estimated fair value at the date of contribution. The Organization capitalizes all expenditures for property and equipment over \$1,000. The useful life of the asset is determined on a case-by-case basis, and the estimated useful lives currently range from one to 31.5 years. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

Deferred revenue: Deferred revenue represents receipts for local broadcast underwriting in advance of the revenue being earned.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Net assets: Unconditional contributions are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions. Revenue is reported as an increase in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as an increase or decrease in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions that may or will be met either by the actions of the Organization and/or the passage of time. Releases of temporary restrictions on net assets are reported as reclassifications from temporarily restricted to unrestricted net assets when the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed. The Organization considers federal grants to be unconditional and are recorded as temporarily restricted net assets when received.

Permanently restricted net assets: Net assets that must be maintained permanently by the Organization in accordance with donor-imposed restrictions.

Endowment: The Organization's endowment consists of individual funds established for a variety of purposes that are subject to varying levels of donor-imposed restrictions and funds designated by the Board of Trustees.

The Organization classifies amounts designated by the donor to be preserved in perpetuity as permanently restricted. Donor-restricted funds that are not designated by the donor to be preserved in perpetuity are classified as temporarily restricted. Earnings from all donor-restricted funds are classified as temporarily restricted until such time as they are appropriated for use. Both the principal and earnings of Board-designated funds are classified as unrestricted. Investment income and investment gains and losses are attributed to individual endowment funds in proportion to their pro rata share of the investment balance at the beginning of the fiscal year.

Television and radio production: The Organization receives contributions and grants from entities to underwrite the cost of some of its programs and productions. In such instances, the Organization recognizes the total contribution and grant as a temporarily restricted contribution upon receipt of the gift. When the donor restriction expires through performance and/or lapse of time, the contribution and grant are transferred from temporarily restricted net assets to unrestricted net assets.

Membership and contributions from individuals: Unconditional contributions, which include unconditional contributions receivable, are recognized as support at the earlier of the period received or when the promise is made. Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give during the years ended June 30, 2018 and 2017.

Contributed services, materials and equipment: The Organization receives contributed goods and services from outside sources to assist with outreach, education, fundraising and advertising. Such goods and services include, but are not limited to, airfare, advertising and other services. These amounts are recorded at fair value in the accompanying consolidated statements of activities within corporate underwriting and funding revenue and the related expense of \$102,524 and \$239,646 for the years ended June 30, 2018 and 2017, respectively.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing various program and supporting activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates: The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The Organization is also required to make estimates and assumptions that affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising: Advertising expenditures are expensed as incurred. Advertising expense was \$916,364 and \$861,155 for the years ended June 30, 2018 and 2017, respectively.

Income taxes: WETA is recognized as exempt from federal income taxes, except on unrelated activities, under Internal Revenue Code (IRC) Section 501(c)(3). The Internal Revenue Service has also determined that WETA is not a private foundation. NewsHour Productions LLC is a single member LLC and is a disregarded entity for federal income tax purposes.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Pending accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU is effective for the year ending June 30, 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The standard is effective for the Organization on July 1, 2020, with early adoption permitted.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassifications: Certain items in the June 30, 2017 financial statements were reclassified to conform to the current year presentation. These items had no impact on net assets or change in net assets.

Subsequent events: The Organization evaluated subsequent events through December 3, 2018, which is the date the consolidated financial statements were available to be issued. No material subsequent events were noted that required disclosure in or adjustment to the consolidated financial statements.

Note 2. Accounts and Grants and Contributions Receivable

Accounts and grants and contributions receivable are comprised of the following amounts at June 30:

	2018	2017
Unconditional grants and contributions	\$ 20,794,909	\$ 17,888,570
Accounts receivable, net	3,338,146	2,829,955
Federal billed and unbilled	1,243,098	294,882
Discount on long-term receivables	(47,813)	(23,184)
Allowance for doubtful accounts	(128,844)	(52,220)
Accounts and grants and contributions receivable, net	<u>\$ 25,199,496</u>	<u>\$ 20,938,003</u>

Unconditional contributions that are expected to be received more than one year into the future are discounted using weighted average risk free rates of 2.5% and 0.89% for the years ended June 30, 2018 and 2017, respectively. Amortization of the discount is recorded as additional contribution revenue, typically ratably, and is used in accordance with donor-imposed restrictions, if any, on the contributions. When necessary, an allowance is made for uncollectible contributions, based upon management's judgment, past collection experience, and other relevant factors. For both years ended June 30, 2018 and 2017, the Organization wrote off \$131,290 and \$11,838 of receivables, respectively.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Accounts and Grants and Contributions Receivable (Continued)

Unconditional grants and contributions receivable are expected to be collected over the following periods:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 19,069,909	\$ 16,500,236
Due after one year and before five years	1,725,000	1,388,334
Discount of long-term receivables	(47,813)	(23,184)
Allowance for doubtful accounts	(128,844)	(52,220)
Unconditional grants and contributions receivable, net	<u>\$ 20,618,252</u>	<u>\$ 17,813,166</u>

Long-term receivables arise primarily from grants and contributions restricted to fund television projects, which often have multiyear production schedules.

Note 3. Investments and Fair Value Measurement

The Organization follows the Codification topic, Fair Value Measurement. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. The topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Organization had no Level 2 or Level 3 investments at June 30, 2018 and 2017.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurement (Continued)

The tables below present the balances of assets and liabilities at June 30, 2018 and 2017, measured at fair value on a recurring basis by level within the hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Asset category:				
Money market fund:	\$ 261,874	\$ -	\$ -	\$ 261,874
Equity mutual and exchange traded funds:				
Large blend	18,983,720	-	-	18,983,720
International growth and value	11,545,026	-	-	11,545,026
Small cap blend	274,159	-	-	274,159
Mid cap blend	74,479	-	-	74,479
Emerging markets	48,939	-	-	48,939
Real estate	24,929	-	-	24,929
	30,951,252	-	-	30,951,252
Fixed income mutual funds:				
Intermediate term	16,261,809	-	-	16,261,809
Short-term	3,463,079	-	-	3,463,079
High yield	27,244	-	-	27,244
International bond	11,162	-	-	11,162
	19,763,294	-	-	19,763,294
Real estate limited partnerships:				
JP Morgan Alternative Property Fund	-	-	-	3,989
Total investments at fair value	\$ 50,976,420	\$ -	\$ -	\$ 50,980,409
Liabilities:				
Deferred compensation plan liabilities	\$ -	\$ 1,340,999	\$ -	\$ 1,340,999
Total liabilities at fair value	\$ -	\$ 1,340,999	\$ -	\$ 1,340,999

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurement (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of June 30, 2017
Asset category:				
Money market fund:	\$ 255,321	\$ -	\$ -	\$ 255,321
Equity mutual and exchange traded funds:				
Large blend	16,934,860	-	-	16,934,860
International growth and value	10,361,367	-	-	10,361,367
Small cap blend	208,917	-	-	208,917
Mid cap blend	70,049	-	-	70,049
Emerging markets	42,092	-	-	42,092
Real estate	22,469	-	-	22,469
	<u>27,639,754</u>	-	-	<u>27,639,754</u>
Fixed income mutual funds:				
Intermediate term	16,236,861	-	-	16,236,861
Short-term	3,467,299	-	-	3,467,299
High yield	23,483	-	-	23,483
International bond	9,567	-	-	9,567
	<u>19,737,210</u>	-	-	<u>19,737,210</u>
Real estate limited partnerships:				
JP Morgan Alternative Property Fund	-	-	-	3,700
Total investments at fair value	<u>\$ 47,632,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,635,985</u>
Liabilities:				
Deferred compensation plan liabilities	\$ -	\$ 1,228,926	\$ -	\$ 1,228,926
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 1,228,926</u>	<u>\$ -</u>	<u>\$ 1,228,926</u>

The money market, mutual, and exchange traded funds are considered Level 1 assets as they are actively traded on public exchanges. The limited partnerships are not subject to the hierarchy as they are valued using a practical expedient. The deferred compensation plan liabilities are based on the fair market value of the deferred compensation plan assets, which are observable inputs; however, the liabilities are not publicly traded and are, therefore, considered Level 2 items.

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

	2018	2017
Unrealized gain and realized gain	\$ 1,725,609	\$ 3,598,242
Interest and dividends	1,458,838	1,420,230
Investment management fees	(47,644)	(45,095)
	<u>\$ 3,136,803</u>	<u>\$ 4,973,377</u>

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Production and other equipment	\$ 31,580,021	\$ 31,040,642
Building and improvements	19,626,638	19,536,344
Land	2,255,367	2,255,367
Fixed assets purchased, but not yet placed in service	<u>229,295</u>	<u>274,266</u>
	53,691,321	53,106,619
Less accumulated depreciation and amortization	<u>(41,493,815)</u>	<u>(39,499,751)</u>
Property and equipment, net	<u><u>\$ 12,197,506</u></u>	<u><u>\$ 13,606,868</u></u>

Depreciation and amortization expense was \$2,035,225 and \$2,174,177 for the years ended June 30, 2018 and 2017, respectively

Note 5. Long-Term Debt

The Organization has a commercial, unsecured loan agreement with Bank of America. The loan agreement has a fixed interest rate of 2.23% per annum.

Interest expense on the long-term debt totaled \$93,760 and \$114,326 for the years ended June 30, 2018 and 2017, respectively.

Scheduled principal payments on the long-term debt, by year and in aggregate, are as follows:

	<u>Amount</u>
Years ending June 30:	
2019	\$ 980,002
2020	1,002,263
2021	1,025,288
2022	<u>696,491</u>
	<u><u>\$ 3,704,044</u></u>

The long-term debt has a restrictive debt covenant under the terms of the loan agreement. At June 30, 2018 and 2017, the Organization was in compliance with all covenants.

Note 6. Line of Credit

The Organization has a revolving line of credit with Bank of America in the amount of \$4,000,000. The Organization had no outstanding amounts due under the line of credit at June 30, 2018 and 2017.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Retirement Plan

The Organization provides retirement benefits for substantially all of its employees through a 403(b) defined contribution savings plan. The Organization's financial liability under this plan is limited to current contributions. Total employer contributions to the plan were \$2,128,259 and \$2,048,560 for the years ended June 30, 2018 and 2017, respectively.

Note 8. Deferred Compensation Plan

The Organization has a 457(b) Deferred Compensation Plan (the Plan). The Plan is intended to be a deferred compensation plan for corporate officers of the Organization in accordance with Section 457(b) of the IRC. The recorded asset and liability for the deferred compensation plan was \$1,340,999 and \$1,228,926 for the years ended June 30, 2018 and 2017, respectively.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
National television production	\$ 71,024,305	\$ 78,678,224
Local broadcasting	20,277,140	18,441,730
Learning media projects	319,456	536,529
Temporarily restricted net assets	<u>\$ 91,620,901</u>	<u>\$ 97,656,483</u>

Net assets released from restrictions included in support within the consolidated statements of activities are as follows:

	2018	2017
Foundations and nonprofit organizations	\$ 30,644,473	\$ 18,511,977
Production funding from public broadcasting system	26,161,180	27,203,153
Corporate underwriting and funding	12,825,941	13,369,669
Community service grants from Corporation for Public Broadcasting	8,114,992	5,587,963
Membership and individuals contributions	7,650,699	1,041,881
Federal, state and local government grants	3,660,073	2,052,120
Total net assets released from restricted	<u>\$ 89,057,358</u>	<u>\$ 67,766,763</u>

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 10. Permanently Restricted Net Assets

	2018	2017
The Leonore Annenberg Endowment	\$ 5,000,000	\$ 5,000,000
Capital Campaign Fund – Program Trust	2,505,421	2,505,421
Eugene B. Casey Endowment	1,000,000	1,000,000
Fisher Endowment	950,000	950,000
Arts Program Fund	200,000	200,000
Other Named Endowments	198,751	98,751
Total permanently restricted net assets	<u>\$ 9,854,172</u>	<u>\$ 9,754,172</u>

The Leonore Annenberg Endowment

The Annenberg Foundation established The Leonore Annenberg Endowment to support projects that are important, national in scope and consistent with the values and integrity of its namesake. As of September 30 each year, the Organization will determine the Fund's market value, including income and both realized and unrealized gains and losses net of fees, and calculate the amount that may be withdrawn.

Capital Campaign Fund – Program Trust

The Capital Campaign Fund was established to help fund the development of new facilities and to create an endowment to support the development of radio and television programming for public broadcasting. The National Endowment for the Humanities awarded the Organization a \$562,000 endowment challenge grant, which was matched by \$2,443,421 from private sources. Net assets associated with these grants are recorded as permanently restricted net assets, except for \$500,000 that is unrestricted having been applied toward the purchase of equipment pursuant to donor restrictions. Income generated by this fund is applied to the development of radio and television programming for public broadcasting.

Eugene B. Casey Endowment

The Eugene B. Casey Foundation made a \$1,000,000 permanently restricted contribution to establish the Eugene B. Casey Endowment Fund. The income from the endowment fund is used to provide programming for children and young people that will enrich them through knowledge of their bodies, minds and spirit.

Fisher Endowment

The Robert M. Fisher Memorial Foundation, Inc. established a \$1,000,000 program Endowment Fund at the Organization. The Fisher Endowment Fund will be used to acquire, produce and broadcast television and radio programs in the fulfillment of the mission of the Organization. The Organization will use five percent (5%) of the value of the fund as of December 31 the year prior, or \$50,000, whichever is greater, each year. If the earnings are less than \$50,000 in any one year, the \$50,000 shall be funded by the earnings and an amount from principal to bring the annual total to \$50,000. The Organization only used principal amount in the first year of this fund.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 10. Permanently Restricted Net Assets (Continued)

Arts Endowment and Arts Program

The Organization previously received a \$600,000 challenge grant from the National Endowment for the Arts (NEA). The Organization was required by the terms of the grant to provide matching contributions totaling \$1,800,000. Together, the grant and matching funds were used to establish an Arts Endowment Fund of \$1,000,000 and an Arts Program Fund of \$1,400,000 (together, the Funds). The original principal of the Funds was permanently restricted under the terms of the original grants, though internal borrowing from the Arts Program Fund principal is permitted. As of June 30, 2018 and 2017, the Organization had not borrowed from the Funds. NEA subsequently informed the Organization that the permanent restriction on the funds had been removed. The Organization then reclassified \$2,200,000 of those funds into unrestricted net assets. \$200,000 of the Arts Program Fund remains permanently restricted since the funds were matching funds and have not been released from restriction by the donors.

Other Named Endowments

During fiscal years 2018 and 2017, the Organization received \$100,000 and \$10,051, respectively, in endowment contributions from several donors to support the Organization's mission and the community it serves.

Note 11. Endowment

The Organization's endowment consists of individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization follows the Codification subtopic, Reporting Endowment Funds.

Description of Endowment Funds

At June 30, 2018 and 2017, the Organization had ten endowment funds totaling \$44,563,713 and \$42,606,471, respectively. As of June 30, 2018 and 2017, seven of these funds have donor-imposed restrictions on the use of the funds, including six funds with amounts totaling \$9,854,172 and \$9,754,172, respectively, and that are permanently restricted – that is, intended to be preserved in perpetuity. In addition to the six permanently restricted endowment funds, the Organization has one additional donor-restricted endowment fund and four Board-designated endowment funds.

Donor Restricted Fund

Arts Endowment Fund and Arts Program Fund: To establish an arts endowment fund for the Organization. A significant portion of the funds were released from permanently restricted net assets in a previous fiscal year in accordance with the donor's instructions. At June 30, 2018 and 2017, \$200,000 of the Arts Program Fund remained permanently donor-restricted.

Board-Designated Funds

WETA Endowment Fund: To provide a continued source of income for operations or to fund special projects, capital improvements or emergency needs.

Capital Building Fund: To be used for the purchase of capital assets without obligation (or donor expectation) to preserve any amount of capital.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Endowment (Continued)

Program Investment Fund: To provide a continuing source of investment capital for expenditure in the development of and participation in projects of interest to the Organization.

Program Fund for Excellence: To be used to develop programming of intellectual integrity and cultural merit and to support other projects related to the mission of the Organization.

The distribution of endowment net assets between donor-restricted and board-designated for the years ending June 30, 2018 and 2017, are as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Leonore Annenberg Endowment	\$ -	\$ 2,698,652	\$ 5,000,000	\$ 7,698,652
Eugene B. Casey Endowment	-	728,596	1,000,000	1,728,596
Fisher Endowment	-	405,605	950,000	1,355,605
Other Named Endowments	-	33,058	198,751	231,809
Program Trust Fund	-	7,669,440	2,505,421	10,174,861
Arts Endowment Fund	-	3,670,790	-	3,670,790
Arts Program Fund	-	2,673,003	200,000	2,873,003
Donor restricted endowment funds	-	17,879,144	9,854,172	27,733,316
WETA Endowment Fund	5,696,294	-	-	5,696,294
Capital Building Fund	5,326,236	-	-	5,326,236
Program Investment Fund	4,213,973	-	-	4,213,973
Program Fund for Excellence	1,593,894	-	-	1,593,894
Board designated funds	16,830,397	-	-	16,830,397
Total endowment net assets	\$ 16,830,397	\$ 17,879,144	\$ 9,854,172	\$ 44,563,713

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Leonore Annenberg Endowment	\$ -	\$ 2,204,279	\$ 5,000,000	\$ 7,204,279
Eugene B. Casey Endowment	-	791,616	1,000,000	1,791,616
Fisher Endowment	-	374,351	950,000	1,324,351
Other Named Endowments	-	24,592	98,751	123,343
Program Trust Fund	-	7,357,557	2,505,421	9,862,978
Arts Endowment Fund	-	3,501,290	-	3,501,290
Arts Program Fund	-	2,501,339	200,000	2,701,339
Donor restricted endowment funds	-	16,755,024	9,754,172	26,509,196
WETA Endowment Fund	5,330,471	-	-	5,330,471
Capital Building Fund	4,984,231	-	-	4,984,231
Program Investment Fund	4,224,080	-	-	4,224,080
Program Fund for Excellence	1,558,493	-	-	1,558,493
Board designated funds	16,097,275	-	-	16,097,275
Total endowment net assets	\$ 16,097,275	\$ 16,755,024	\$ 9,754,172	\$ 42,606,471

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Endowment (Continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There were no endowment funds with deficiencies for the years ended June 30, 2018 and 2017.

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Endowment net assets, beginning of year	\$ 16,097,275	\$ 16,755,024	\$ 9,754,172	\$ 42,606,471
Investment income	496,996	818,440	-	1,315,436
Investment gains, net	607,727	1,000,790	-	1,608,517
Contributions and additions	-	-	100,000	100,000
Distributions	(371,601)	(695,110)	-	(1,066,711)
Endowment net assets, end of year	<u>\$ 16,830,397</u>	<u>\$ 17,879,144</u>	<u>\$ 9,854,172</u>	<u>\$ 44,563,713</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Endowment net assets, beginning of year	\$ 13,618,044	\$ 14,297,678	\$ 9,744,121	\$ 37,659,843
Investment income	441,797	779,971	-	1,221,768
Investment gains, net	1,153,940	2,037,229	-	3,191,169
Contributions and additions	2,493,494	-	10,051	2,503,545
Distributions	(1,610,000)	(359,854)	-	(1,969,854)
Endowment net assets, end of year	<u>\$ 16,097,275</u>	<u>\$ 16,755,024</u>	<u>\$ 9,754,172</u>	<u>\$ 42,606,471</u>

Endowment Investing Policies

Permanent endowments and other endowments are aggregated into a single pool along with other investment funds to permit optimal asset allocation. The Organization's primary investment objective is long-term growth to preserve and enhance the inflation-adjusted purchasing power of the total endowment.

The Organization has a well-diversified investment portfolio. The Organization's Investment Subcommittee monitors the portfolio and investment manager, and advises the Finance and Budget Committee of the Board of Trustees on investment matters in accordance with a written committee charter.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Endowment (Continued)

Endowment Spending Policies

Endowment gifts are spent in accordance with the wishes of the donor. The Organization may not spend certain endowment earnings every year if projects that meet donor restrictions are not undertaken. If earnings are not used in a particular year, the Organization reinvests them for appropriate use in a future year.

Allowable withdrawals that are not taken within a particular year may be withdrawn in subsequent years with the approval of the Organization's Finance and Budget Committee.

Unless a donor establishes a fund with other or more specific rules about how distributions are to be determined, distributable amounts are calculated as follows:

Permanent endowments whose principal is to be preserved in perpetuity: The Organization may annually withdraw up to 5% of the prior year's ending balance. This rate is reviewed periodically by the Organization's Finance and Budget Committee to ensure that it continues to be an appropriate rate to preserve the principal value of the gift in perpetuity.

The Capital Building Fund: The Organization may withdraw any amount authorized by the Finance and Budget Committee.

The Program Trust Fund: The Organization may withdraw any amount authorized by the Finance and Budget Committee, except for the \$2,505,421 that is permanently restricted.

For all other funds where principal preservation is not required: The Organization may annually withdraw up to 5% of the average ending balances of the prior three years.

The decision whether to include withdrawal of money for a particular year's annual budget is made by the Finance and Budget Committee and approved by the Board of Trustees. Subject to all donor-imposed restrictions, the Organization's Finance and Budget Committee may approve an extraordinary withdrawal to support essential operations in a significant or protracted economic downturn; cover critical capital expenditures lacking other sources of funding; provide cash flow for a strategic business initiative, or meet other organizational needs.

Note 12. Commitments

The Organization uses warehouse space, television towers, and related technical facilities under noncancelable operating leases that expire at various dates through 2022. Selected leases contain escalation clauses to cover increased operating expenses borne by the lessor.

Additionally, the Organization generates rental income from office space and transmission facilities under noncancelable leases that expire at various dates through 2022.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 12. Commitments (Continued)

Minimum future lease payments and receipts are as follows:

	Lease Payments	Lease Receipts
Years ending June 30:		
2019	\$ 418,473	\$ 370,818
2020	361,280	268,973
2021	17,492	279,732
2022	1,458	290,922
	<u>\$ 798,703</u>	<u>\$ 1,210,445</u>

Total lease expense was \$505,655 and \$890,783 for the years ended June 30, 2018 and 2017, respectively. Total lease income was \$661,138 and \$654,061 for years ended June 30, 2018 and 2017, respectively.

Contingencies

The federal funding that supports public broadcasting may decline in the future as part of on-going deficit reduction efforts of Congress. It is not possible to estimate the probability of funding cuts, the amount or the timing of any federal funding cuts, or the effect that any cuts might have on the Organization. The impact on the Organization will depend on how the particular federally-funded programs that benefit the Organization are affected, and how the public broadcasting system overall is affected.

The total of direct federal funding and funding from the Corporation for Public Broadcasting, which receives a direct Congressional appropriation, was approximately \$26 and \$27 million in fiscal years 2018 and 2017, respectively, which is approximately 23% and 28% of total support for fiscal year 2018 and 2017, respectively.

From time to time, the Organization may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management of the Organization, there are no material pending legal proceedings against the Organization.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Schedule I – Supplemental Schedules of Support and Gains
Years Ended June 30, 2018 and 2017

	2018	2017
Consolidated schedule of revenues and gains:		
Federal government	\$ 2,661,609	\$ 1,576,154
Corporation for Public Broadcasting – CSGs	8,636,020	5,624,997
Corporation for Public Broadcasting – other	18,664,398	16,362,313
Public Broadcasting Service	7,822,275	9,317,741
Other public broadcasting stations	200,000	145,000
Local government sources	325,000	375,000
State government sources	1,002,000	30,000
Private colleges and universities	-	1,500,000
Foundations and nonprofit organizations	31,354,895	29,852,613
Business and industry	13,182,758	9,948,637
Membership and individuals	23,845,164	17,280,881
Investment return	1,317,573	2,156,177
Loss on disposal of property and equipment	(1,578)	(5,201)
In-kind contributions	102,524	239,646
Endowment contributions	100,000	10,051
Endowment investment return	1,819,230	2,817,199
Rental income and other	711,200	697,494
	\$ 111,743,068	\$ 97,928,702
Reported in the consolidated statements of activities as:		
Total unrestricted revenues and other support	\$ 115,667,545	\$ 95,849,827
Net assets released from restrictions	(89,057,358)	(67,766,763)
Investment return	1,317,573	2,156,177
Loss on disposal of property and equipment	(1,578)	(5,201)
Endowment contributions	100,000	10,051
Endowment investment return	1,819,230	2,817,200
Television production and other restricted contributions	81,897,656	64,867,411
	\$ 111,743,068	\$ 97,928,702

This schedule reconciles the GAAP-basis support reported in audited consolidated financial statements to the total support reported to the Corporation for Public Broadcasting (CPB) in the Annual Financial Report (AFR). The AFR is prepared according to CPB's rules, which do not differentiate among unrestricted revenue, temporarily restricted revenue and permanently restricted revenue in the manner required by GAAP accounting.

The Greater Washington Educational Telecommunications Association, Inc. and Subsidiary

Schedule II – Supplemental Statement of Activities by Grantee
Year Ended June 30, 2018

	WETA-TV	WETA-Radio	Total
Changes in unrestricted net assets:			
Revenues and other support, including amounts released from restrictions:			
Production funding from public broadcasting system	\$ 26,118,259	\$ 169	\$ 26,118,428
Corporate underwriting and funding	14,058,684	1,111,393	15,170,077
Membership and individuals	25,048,867	4,360,165	29,409,032
Foundations and nonprofit organizations	30,890,681	112,678	31,003,359
Federal, state and local government grants	3,667,921	-	3,667,921
Community service grants from the Corporation for Public Broadcasting	7,766,078	348,914	8,114,992
Rental income and other	1,401,074	782,662	2,183,736
Total unrestricted revenues and other support	108,951,564	6,715,981	115,667,545
Operating expenses:			
National programming and productions	74,863,510	-	74,863,510
Television broadcast operations	14,445,084	-	14,445,084
Radio broadcast operations	-	2,674,158	2,674,158
Promotion, education and outreach	4,526,826	1,131,709	5,658,535
Fundraising and membership development	5,882,510	1,462,798	7,345,308
Underwriting and grant solicitation	4,597,090	300,681	4,897,771
Management and general	2,776,611	694,152	3,470,763
Total expenses	107,091,631	6,263,498	113,355,129
Change in unrestricted net assets before other changes	1,859,933	452,483	2,312,416
Other changes:			
Net investment return	730,659	586,914	1,317,573
Loss on disposal of property	(1,578)	-	(1,578)
Depreciation and amortization	(1,713,083)	(322,142)	(2,035,225)
Interest expense	(75,008)	(18,752)	(93,760)
Income and property tax expense	(321,136)	(86,393)	(407,529)
Total other changes	(1,380,146)	159,627	(1,220,519)
Total change in unrestricted net assets	\$ 479,787	\$ 612,110	\$ 1,091,897