

**DULUTH-SUPERIOR AREA EDUCATIONAL
TELEVISION CORPORATION AND AFFILIATE**
COMBINED FINANCIAL REPORT
SEPTEMBER 30, 2023 AND 2022

DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION AND AFFILIATE

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
COMBINED FINANCIAL STATEMENTS:	
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statement of Functional Expenses - 2023	5
Combined Statement of Functional Expenses - 2022	6
Combined Statements of Cash Flows	7
Notes to Combined Financial Statements	8 – 18
SUPPLEMENTARY FINANCIAL INFORMATION:	
Schedule of Assets, Liabilities and Net Assets by Grantee	19
Schedule of Revenues and Expenses by Grantee	20
Schedules of Assets, Liabilities and Net Assets – The Beck Foundation of DSAET	21
Schedules of Revenues and Expenses – The Beck Foundation of DSAET	22

DULUTH OFFICE
302 W Superior St
Ste 200
Duluth, MN 55802

P 218-727-6846
F 218-720-6999



SUPERIOR OFFICE
1511 Tower Avenue
Superior, WI 54880

P 715-392-5101
F 715-392-6600

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Duluth-Superior Area Educational Television Corporation
The Beck Foundation of DSAET
Duluth, Minnesota

Opinion

We have audited the accompanying combined financial statements of Duluth-Superior Area Educational Television Corporation (a nonprofit organization) and Affiliate, which comprise the combined statement of financial position as of September 30, 2023 and 2022, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Duluth-Superior Area Educational Television Corporation and Affiliate as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Duluth-Superior Area Educational Television Corporation and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Duluth-Superior Area Educational Television Corporation and Affiliate's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Duluth-Superior Area Educational Television Corporation and Affiliate 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Duluth-Superior Area Educational Television Corporation and Affiliate 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of assets, liabilities and net assets by grantee, schedule of revenues and expenses by grantee, schedules of assets, liabilities, and net assets - Beck Foundation of DSAET, and the schedules of revenues and expenses - Beck Foundation of DSAET is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Esterbrooks Certified Public Accountants, Ltd.

Duluth, Minnesota
February 27, 2024

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022**

<u>ASSETS</u>	2023	2022
CURRENT ASSETS:		
Cash	\$ 283,595	\$ 1,264,759
Certificates of deposit	350,000	-
Underwriting revenue receivable	42,330	37,152
Grants receivable	312,083	285,648
Prepaid expenses	92,408	115,644
Total current assets	1,080,416	1,703,203
PROPERTY AND EQUIPMENT:		
Land	13,863	13,863
Buildings	1,665,167	1,664,272
Broadcasting equipment	8,338,378	8,155,137
Office equipment	195,134	195,134
Vehicles	162,671	116,858
Total cost	10,375,213	10,145,264
Less: Accumulated depreciation	(8,781,047)	(8,402,934)
Net property and equipment	1,594,166	1,742,330
OTHER ASSETS:		
Operating lease right-of-use asset, net	238,695	-
Investments	17,000,641	15,267,428
Prepaid lease expense, net of amortization	-	3,172
Promise to give, use of facilities	26,604	49,407
FCC license	66,547	66,547
Total other assets	17,332,487	15,386,554
Total assets	\$ 20,007,069	\$ 18,832,087

<u>LIABILITIES AND NET ASSETS</u>	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 98,305	\$ 119,111
Accrued expenses	158,524	159,500
Deferred revenue	64,763	5,063
Current portion of operating lease liability	42,889	-
Amounts held on behalf of others	<u>14,925</u>	<u>14,925</u>
Total current liabilities	<u>379,406</u>	<u>298,599</u>
LONG-TERM LIABILITIES:		
Operating lease liability, net of current portion	<u>196,056</u>	<u>-</u>
Total liabilities	<u>575,462</u>	<u>298,599</u>
NET ASSETS:		
Without Donor Restrictions:		
Available for operations	2,205,134	2,180,080
Designated for long-term investment	<u>16,771,916</u>	<u>15,263,703</u>
Total net assets without donor restrictions	18,977,050	17,443,783
With Donor Restrictions	<u>454,557</u>	<u>1,089,705</u>
Total net assets	<u>19,431,607</u>	<u>18,533,488</u>
Total liabilities and net assets	<u>\$ 20,007,069</u>	<u>\$ 18,832,087</u>

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<u>OPERATING</u>			
REVENUE AND OTHER SUPPORT:			
Contributions and grants	\$ 1,150,802	\$ 1,973,796	\$ 3,124,598
Legacies and bequests	232,000	-	232,000
Underwriting	246,072	-	246,072
Production and other income	90,382	-	90,382
Rental income	41,252	-	41,252
Investment income, net	416,657	-	416,657
Contributions of nonfinancial assets	40,912	-	40,912
Net assets released from restriction	2,608,944	(2,608,944)	-
Total revenues and other support	4,827,021	(635,148)	4,191,873
EXPENSES:			
Program services -			
Programming and production	2,217,550	-	2,217,550
Broadcasting	1,020,182	-	1,020,182
Program information	601,665	-	601,665
Total program services	3,839,397	-	3,839,397
Supporting services -			
Management and general	851,108	-	851,108
Fundraising and membership	559,672	-	559,672
Total supporting services	1,410,780	-	1,410,780
Total expenses	5,250,177	-	5,250,177
Change in net assets from operating activities	(423,156)	(635,148)	(1,058,304)
<u>NONOPERATING</u>			
Contributions and grants	-	212,069	212,069
Gains on investments	1,744,154	-	1,744,154
Gain on asset disposition	200	-	200
Net assets released from restriction	212,069	(212,069)	-
Change in net assets from nonoperating activities	1,956,423	-	1,956,423
Change in net assets	1,533,267	(635,148)	898,119
NET ASSETS:			
Beginning of year	17,443,783	1,089,705	18,533,488
End of year	\$ 18,977,050	\$ 454,557	\$ 19,431,607

2022

Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,129,621	\$ 2,406,463	\$ 3,536,084
50	-	50
361,239	-	361,239
47,989	-	47,989
40,310	-	40,310
428,656	-	428,656
109,321	-	109,321
<u>2,036,850</u>	<u>(2,036,850)</u>	<u>-</u>
<u>4,154,036</u>	<u>369,613</u>	<u>4,523,649</u>
2,081,514	-	2,081,514
1,031,239	-	1,031,239
598,864	-	598,864
<u>3,711,617</u>	<u>-</u>	<u>3,711,617</u>
812,394	-	812,394
369,176	-	369,176
<u>1,181,570</u>	<u>-</u>	<u>1,181,570</u>
<u>4,893,187</u>	<u>-</u>	<u>4,893,187</u>
<u>(739,151)</u>	<u>369,613</u>	<u>(369,538)</u>
-	88,972	88,972
(3,107,301)	-	(3,107,301)
-	-	-
<u>132,657</u>	<u>(132,657)</u>	<u>-</u>
<u>(2,974,644)</u>	<u>(43,685)</u>	<u>(3,018,329)</u>
(3,713,795)	325,928	(3,387,867)
<u>21,157,578</u>	<u>763,777</u>	<u>21,921,355</u>
<u>\$ 17,443,783</u>	<u>\$ 1,089,705</u>	<u>\$ 18,533,488</u>

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Program Services			Supporting Services				Total
	Program and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries, payroll taxes and employee benefits	\$ 1,047,617	\$ 444,320	\$ 347,588	\$ 1,839,525	\$ 342,403	\$ 344,510	\$ 686,913	\$ 2,526,438
Professional services	153,026	36,630	24,065	213,721	214,863	3,931	218,794	432,515
Program acquisition	694,040	-	-	694,040	4	-	4	694,044
Program production	63,217	220	-	63,437	-	4,004	4,004	67,441
Membership	517	-	-	517	74,707	2,010	76,717	77,234
Fundraising	9,880	51	6,174	16,105	2,733	82,675	85,408	101,513
Advertising	9,995	132	192,270	202,397	6,915	1,800	8,715	211,112
Bad debt	-	-	9,497	9,497	-	-	-	9,497
Office, postage and printing	11,362	12,277	18,219	41,858	21,494	73,740	95,234	137,092
Insurance	-	489	-	489	97,130	-	97,130	97,619
Rent	-	67,720	-	67,720	40,912	-	40,912	108,632
Repairs and maintenance	4,548	65,182	359	70,089	974	21,937	22,911	93,000
Utilities	-	228,676	-	228,676	11,321	-	11,321	239,997
Travel	13,117	9,135	230	22,482	28,324	15,693	44,017	66,499
Miscellaneous	2,568	582	-	3,150	2,794	313	3,107	6,257
Depreciation and amortization	207,663	154,768	3,263	365,694	6,534	9,059	15,593	381,287
Total Expenses	\$ 2,217,550	\$ 1,020,182	\$ 601,665	\$ 3,839,397	\$ 851,108	\$ 559,672	\$ 1,410,780	\$ 5,250,177

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Services			Supporting Services				Total
	Program and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries, payroll taxes and employee benefits	\$ 997,919	\$ 468,247	\$ 389,155	\$ 1,855,321	\$ 334,529	\$ 167,899	\$ 502,428	\$ 2,357,749
Professional services	60,595	36,778	5,335	102,708	201,632	21,149	222,781	325,489
Program acquisition	628,933	-	-	628,933	-	14	14	628,947
Program production	188,044	-	50,000	238,044	-	-	-	238,044
Membership	1,238	-	104	1,342	70,979	1,419	72,398	73,740
Fundraising	9,191	335	11,998	21,524	1,021	80,263	81,284	102,808
Advertising	1,574	-	132,768	134,342	-	178	178	134,520
Office, postage and printing	13,007	14,086	249	27,342	19,337	52,499	71,836	99,178
Insurance	3,000	11,967	-	14,967	92,115	-	92,115	107,082
Rent	-	70,007	-	70,007	40,912	-	40,912	110,919
Repairs and maintenance	278	62,118	1,506	63,902	1,647	18,199	19,846	83,748
Utilities	-	190,121	-	190,121	13,535	-	13,535	203,656
Travel	16,886	10,323	3,803	31,012	28,873	18,482	47,355	78,367
Miscellaneous	3,536	-	-	3,536	1,345	3,064	4,409	7,945
Depreciation and amortization	157,313	167,257	3,946	328,516	6,469	6,010	12,479	340,995
Total Expenses	\$ 2,081,514	\$ 1,031,239	\$ 598,864	\$ 3,711,617	\$ 812,394	\$ 369,176	\$ 1,181,570	\$ 4,893,187

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Reconciliation of change in net assets to net cash (used for) provided by operating activities:		
Change in net assets	\$ 898,119	\$ (3,387,867)
Adjustments to reconcile to net cash provided:		
Depreciation and amortization	381,287	340,995
Amortization of operating lease right-of-use asset	3,769	-
Gain on sale of assets	(200)	-
Loss (gain) on investments	(1,744,154)	3,107,301
(Increase) decrease in:		
Underwriting revenue receivable	(5,178)	(11,661)
Grants receivable	(26,435)	44,714
Prepaid expenses	23,236	(7,699)
Promise to give, use of facilities	22,803	(49,407)
Increase (decrease) in:		
Accounts payable and accrued expenses	(21,782)	132,636
Deferred revenue	59,700	(53,005)
Operating lease liability	(3,519)	-
Net cash (used for) provided by operating activities	(412,354)	116,007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(229,751)	(550,762)
Purchase of certificates of deposit	(350,000)	-
Proceeds from sale of investments	1,748,565	4,661,462
Purchases of investments	(1,737,624)	(4,218,449)
Net cash used for investing activities	(568,810)	(107,749)
NET (DECREASE) INCREASE IN CASH	(981,164)	8,258
CASH - Beginning of year	1,264,759	1,256,501
CASH - End of year	\$ 283,595	\$ 1,264,759
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Lease assets obtained in exchange for lease liabilities:		
Operating leases	\$ 242,464	\$ -

See notes to combined financial statements.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Organization -

The Duluth-Superior Area Educational Television Corporation is a non-profit Minnesota corporation which operates the non-commercial public television station WDSE in Duluth, Minnesota. The financial statements include the accounts of The Beck Foundation of DSAET, a non-profit Minnesota corporation which provides financial support for WDSE. All significant inter-organization accounts and transactions have been eliminated.

On November 30, 2021 WDSE purchased the FCC license and assets of the noncommercial educational radio station KUMD-FM from the University of Minnesota. WDSE operates this station as The North 103.3 FM.

Basis of Presentation -

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

WDSE is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. A description of the two net asset categories follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents -

WDSE considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents. At September 30, 2023 and 2022 WDSE had no cash equivalents.

Certificates of Deposit –

Certificates of deposit with initial maturities of three months or more that are not debt securities are included in “Certificates of deposit” on the statement of financial position. WDSE reports all certificates of deposit, regardless of maturity as current assets

Accounts and Underwriting Receivables -

Receivables are stated at the amount management expects to collect from outstanding balances. Based on management’s assessments of the credit history with customers and others having outstanding balances, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Grants Receivable -

WDSE receives grants from federal, state, and private agencies for various programs. Grants receivable represents amounts requested from granting agencies for services performed. Grants receivable is reduced once the cash has been received from the granting agencies.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property and Equipment -

Expenditures for minor additions of equipment are charged to expense when incurred. Expenditures for land, buildings, major improvements and equipment additions are capitalized and recorded as additions to net assets without donor restrictions. Property and equipment are stated at cost, except for those assets acquired by donation, which are stated at fair value at the date of the gift. Depreciation is calculated by the straight-line method over the estimated useful lives of the depreciable assets. Depreciation recorded during the fiscal years ending September 30, 2023 and 2022 was \$378,115 and \$334,492, respectively.

Donated Equipment -

Gifts of land, buildings, and equipment are recorded as contributions at their fair value at the date of donation. Such donations are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments -

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values based on quoted prices in active markets (Level 1 measurements) in the statements of financial position. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities.

Fair Value Measurements -

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that WDSE has the ability to access.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

FCC License -

The FCC license purchased in November 2021 for KUMD-FM is considered an indefinite-lived intangible asset and is recorded at cost. Such intangible assets are not amortized but instead are subject to annual impairment tests or more frequently if an event occurs or circumstances change that would indicate an impairment in accordance with ASC Topic 350, *Intangibles – Goodwill and Other*.

WDSE tests the license for impairment by first assessing qualitative factors to determine the existence of events and circumstances that may indicate it is more likely than not that the indefinite-lived intangible assets could be impaired. If, after assessing the totality of events and circumstances, WDSE concludes that it is not more likely than not that the indefinite-lived intangible assets are impaired, then no further action is taken. However, if WDSE concludes otherwise, then it determines the fair value of the indefinite-lived intangible assets and performs a quantitative impairment test by comparing the fair value with the carrying amount.

There were no indications of impairment noted in the annual test performed for the year ended September 30, 2023.

Pledges -

WDSE engages in fundraising campaigns manifested by offering special television programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the statements of financial position. Contributions and collected pledges are reported as without donor restriction inasmuch as their usage is not limited to specific activities. This usage is consistent with appeals for contributions and pledges.

Revenue Recognition -

Contributions and grants are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. Contributions and grants are classified as conditional if a barrier must be overcome to be entitled to the funds or if a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. As of September 30, 2023 and 2022, WDSE has received conditional grants totaling \$1,936,792 and \$2,805,222, respectively, for which the conditions stipulated by the grantor have not yet been met.

WDSE reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Underwriting revenue includes amounts received in exchange for recognition within WDSE's programming. WDSE recognizes underwriting revenue as the performance obligation is satisfied over the contract period. The contract period is the timeframe in which the agreed-upon number of underwriting spots occur. Payment terms vary by contract and may be received all at once or over the term of the contract.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Revenue Recognition (continued) -

Production and other income include various production and content activities, as well as royalty payments received. Production activity is recognized as revenue as the performance obligations are satisfied over the contract period.

Deferred revenue represents revenues received in advance, which will be recognized in future periods as they are earned. Program underwriting revenues recorded as deferred revenue at September 30, 2023 and 2022 were \$64,763 and \$5,063, respectively.

Advertising Costs –

WDSE uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred.

Leases –

WDSE determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the combined statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. WDSE does not report ROU assets and leases liabilities for short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Functional Expenses –

Expenses incurred for a specific function are assigned directly to that function by management. Expenses that affect more than one specific function are allocated among the functions using a reasonable basis that is consistently applied. The expenses allocated include salaries, payroll taxes and benefits which are allocated on the basis of estimates of time and effort, as well as depreciation, utilities, office expenses, and other, which are allocated on the basis of estimated usage.

Income Taxes -

WDSE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Minnesota statutes. However, income from certain activities not directly related to WDSE's tax-exempt purpose is subject to taxation as unrelated business income. There was no required provision for income taxes for the years ended September 30, 2023 and 2022.

Uncertain Tax Positions -

WDSE follows the recognition requirements of uncertain tax positions as required by generally accepted accounting principles. WDSE believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. WDSE is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2020.

Reclassification -

Certain amounts in the 2022 financial statements have been reclassified for comparative purposes to conform with the current year financial statements. Such reclassification had no effect on net earnings or net assets as previously reported.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operations -

WDSE has reported its activities as operating or non-operating. Operating activities are an integral part of the programs, services and mission of WDSE. Non-operating activities do not directly affect the programs and services of WDSE such as items associated with acquisition of property and equipment and gain (loss) on investments.

Subsequent Events -

In preparing these financial statements, WDSE has evaluated events and transactions for potential recognition or disclosure through February 27, 2024, which is the date the financial statements were issued.

Accounting Standards Adopted –

In 2023, WDSE adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. WDSE elected not to restate the comparative period (2022). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. WDSE did not have to recognize right-of-use assets and lease liabilities in its combined statement of financial position as of October 1, 2022 as a result of implementing ASU No. 2016-02. The adoption did not result in a significant effect on amounts reported in the consolidated statement of activities for the year ended September 30, 2022.

2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES:

WDSE manages its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, as described in Note 4, WDSE may request funds for capital projects or operating expenses from the Beck Foundation, which holds a board-designated endowment of \$16,771,916 and \$15,291,703 as of September 30, 2023 and 2022, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES (CONTINUED):

As of September 30, 2023 and 2022, financial assets available within one year of the statement of financial position for general expenditures, such as operating expenses, are as follows:

	2023	2022
Financial assets:		
Cash	\$ 283,595	\$ 1,264,759
Certificates of deposit	350,000	-
Underwriting receivable	42,330	37,152
Grants receivable	312,083	285,648
Total financial assets available within one year	988,008	1,587,559
Less amounts unavailable for general expenditure with one year:		
Donor-imposed restrictions	(454,557)	(1,089,705)
Amounts held on behalf of others	(14,925)	(14,925)
Financial assets available to meet cash needs		
For general expenditures within one year	\$ 518,526	\$ 482,929

3. INVESTMENTS:

The fair values of investments at September 30, 2023 and 2022 were as follows:

	2023	2022
Money market funds	\$ 1,695,199	\$ 716,961
U.S. Government and agency bonds and notes	1,053,344	1,003,010
Corporate bonds	810,739	817,068
Mutual bond funds	1,560,312	1,622,629
Real estate funds	915,342	934,086
Mutual stock funds	5,975,540	5,164,364
Publicly held corporate stock	3,803,861	3,557,503
Alternative investments	1,186,304	1,451,807
Totals	\$ 17,000,641	\$ 15,267,428

Investments are measured at fair value on a recurring basis using Level 1 inputs. For additional information on how WDSE measures fair value refer to Note 1.

4. BOARD-DESIGNATED ENDOWMENT:

Investment assets held by The Beck Foundation have been designated by the boards of WDSE and the Foundation to be functioning as an endowment. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

4. BOARD-DESIGNATED ENDOWMENT (CONTINUED):

The Beck Foundation's investment policies for endowment assets have the following goals:

- (1) to preserve the purchasing power of the investment assets without putting the funds at imprudent risk,
- (2) to support current and future operations of WDSE through a flow of investment income, and
- (3) to provide long-term growth in principal through additional contributions and capital appreciation.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

Duluth-Superior Area Educational Television Corporation has a policy of appropriating for distribution each year up to 10 percent of its endowment funds at value of the preceding fiscal year in which the distribution is planned. In establishing this policy, WDSE considered the long-term expected investment return on its endowment. Accordingly, over the long term, WDSE expects the current spending policy to allow its endowment funds to grow at an average of 4 percent annually. This is consistent with the WDSE's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Composition of and Changes in Endowment Net Assets for the Years Ended September 30, 2023 and 2022

	2023	2022
Board-designated endowment net assets, beginning of year	\$ 15,263,703	\$ 18,803,017
Contributions	12,000	13,092
Investment return, net	2,159,713	(2,678,406)
Appropriation of endowment assets for expenditure	(663,500)	(874,000)
Board-designated endowment net assets, end of year	\$ 16,771,916	\$ 15,263,703

5. PREPAID LEASE EXPENSE:

During the fiscal year ended September 30, 2003, WDSE entered into a lease agreement for use of fiber cables over a 20-year period. The total required payments under the lease agreement of \$130,000 were paid in full on that date. This amount is being amortized over the life of the agreement on a straight-line basis. During the years ended September 30, 2023 and 2022, amortization expense charged against this lease were \$3,172 and \$6,504, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

6. CONTRIBUTIONS OF NONFINANCIAL ASSETS:

Contributions of nonfinancial assets included in the statement of activities are comprised of the following as of September 30, 2023 and 2022:

	2023	2022
Contributed rent valued at estimated fair value based on rates used to charge other renters of similar spaces.		
Leased land	\$ 40,912	\$ 40,912
Use of facilities, 3-year promise to give	-	68,409
Total	\$ 40,912	\$ 109,321

7. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Net assets with donor restrictions are restricted for the following purposes or periods:

	2023	2022
Subject to expenditure for specified purpose:		
Future program activities	\$ 454,557	\$ 1,089,705

A portion of the net assets without donor restrictions has been designated by the Board of Directors for specific purposes, as follows:

	2023	2022
Long-term investment	\$ 16,771,916	\$ 15,263,703

8. NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2023 and 2022.

	2023	2022
Operating activities -		
Program expenditures	\$ 2,608,944	\$ 2,036,850
Non-operating activities		
Acquisition of property and equipment	212,069	132,657
Total	\$ 2,821,013	\$ 2,169,507

9. ARRANGEMENTS FOR LEASING TO OTHERS:

WDSE leases transmitter equipment to customers under operating leases. Equipment cost under operating leases was \$77,895 each year, respectively, and is included in broadcasting equipment in the accompanying statement of financial position. Accumulated depreciation on equipment under operating leases was \$77,895 each year at September 30, 2023 and 2022, respectively. During the years ended September 30, 2023 and 2022 rental income recognized under these agreements was \$41,252 and \$40,310, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

9. ARRANGEMENTS FOR LEASING TO OTHERS (CONTINUED):

Minimum future rental income at September 30, 2023 are as follows:

<u>Year Ending September 30,</u>		<u>Amount</u>
2024	\$	41,465
2025		42,294
2026		43,140
2027		21,748

10. TAX DEFERRED ANNUITY RETIREMENT PLANS:

WDSE contributes to a voluntary tax-sheltered annuity plan covering participating employees meeting certain service and age requirements. Contributions to the plan of \$36,506 and \$24,795 were charged to operations for the years ended September 30, 2023 and 2022, respectively.

11. CONCENTRATION OF REVENUE:

For the years ended September 30, 2023 and 2022, approximately 29% and 33% respectively, of WDSE's operating revenue was provided by grants from the Corporation for Public Broadcasting, and approximately 25% and 20% respectively, was provided by the State of Minnesota.

12. CONCENTRATION OF CREDIT RISK:

WDSE maintains its cash balances at institutions insured by the Federal Deposit Insurance Corporation (FDIC). These cash balances, at times, may exceed federally insured limits. At September 30, 2023 and 2022 total uninsured cash balances were \$100,000 and \$918,724, respectively. WDSE has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

13. LEASE COMMITMENTS:

Lease Site for Building -

A 99-year lease was entered into on January 2, 1976 (effective February 1, 1976) between WDSE and the Regents of the University of Minnesota for a building construction site on the campus of the University of Minnesota, Duluth. The lease was made in consideration of one dollar and the recognized benefit to be derived by the University from the proximity of an educational television station.

The lease contains, among other things, various significant restrictions and requirements concerning easement rights, use of the facility, potential tax assessments, and conditions of lease termination.

The lease provision relative to default of the lease covenants provides that in the event of default in any of the covenants of the lease to be kept by WDSE, the University may terminate the lease by thirty days' notice specifying such default and, if at the end of such period such default is not cured, the lease shall terminate and the University may re-enter and take possession within a reasonable time thereafter.

During the years ended September 30, 2023 and 2022, in-kind income and rental expense recognized under this agreement were \$40,912 and \$40,912, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

13. LEASE COMMITMENTS (CONTINUED):

Use of Radio Studio Facilities -

WDSE received the free use of the radio station studios for three years as part of the purchase of KUMD-FM. Activity under this agreement are included in these financial statements for the years ending September 30, 2023 and 2022 as follows:

	2023	2022
Promise to give, use of facilities	\$ <u>26,604</u>	\$ <u>49,407</u>
Contributions of nonfinancial assets	\$ <u>-</u>	\$ <u>68,409</u>
Rent expense	\$ <u>22,803</u>	\$ <u>19,003</u>

Operating Lease of Tower and Building Space –

WDSE evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent WDSE's right to use underlying assets for the lease term, and the lease liabilities represent WDSE's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. WDSE's has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted- average discount rate applied to calculate lease liabilities as of September 30, 2023, was 2.88%.

On September 2, 2008, WDSE entered into a 5-year lease with the option of one 5-year renewal of tower and building space. The lessor is WDIO-TV, LLC and the tower and building are located in Hibbing, Minnesota. The lease was amended as of September 1, 2018 for a term of 5 years with the option to renew for five additional 5-year terms. The lease agreement requires monthly payments of \$3,771 for the first year of the lease with inflation adjustments annually. The lease contains, among other things, requirements and restrictions regarding insurance, easement rights, and conditions of lease termination.

For the years ended September 30, 2023 and 2022, total lease cost, included in program expenses, was \$44,917 and \$51,005, respectively. As of September 30, 2023, the weighted-average remaining lease term for WDSE's operating lease was approximately 5 years and weighted average discount rate was 2.88%.

Right to use assets are as follows at September 30:

	2023	2022
ROU Assets	\$ <u>242,464</u>	\$ -
Less: Accumulated amortization	<u>(3,769)</u>	<u>-</u>
Total	\$ <u>238,695</u>	\$ <u>-</u>

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

13. LEASE COMMITMENTS (CONTINUED):

Minimum future rentals at September 30, 2023 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2024	\$ 49,207
2025	50,736
2026	52,258
2027	53,960
2028	<u>50,820</u>
Total lease payments	256,981
Less present value discount	<u>(18,036)</u>
Total lease obligations	<u>\$ 238,945</u>

14. NONMONETARY TRANSACTIONS:

WDSE enters into exchange transactions to provide program underwriting for operating expenses such as advertising and supplies. During the year ended September 30, 2023 and 2022, non-monetary transactions recorded as underwriting revenue and associated expenses totaled \$868 and \$8,065, respectively.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

SUPPLEMENTARY INFORMATION

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

**SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS BY GRANTEE
SEPTEMBER 30, 2023**

<u>ASSETS</u>	<u>WDSE-TV</u>	<u>WDSE-FM</u>	<u>Total</u>
CURRENT ASSETS:			
Cash	\$ 283,595	\$ -	\$ 283,595
Certificates of deposit	350,000	-	350,000
Underwriting revenue receivable	26,213	16,117	42,330
Grants receivable	306,369	5,714	312,083
Prepaid expenses	91,950	458	92,408
Due from WDSE-TV	<u>-</u>	<u>66,810</u>	<u>66,810</u>
Total current assets	<u>1,058,127</u>	<u>89,099</u>	<u>1,147,226</u>
PROPERTY AND EQUIPMENT:			
Land	13,863	-	13,863
Buildings	1,665,167	-	1,665,167
Broadcasting equipment	8,052,465	285,913	8,338,378
Office equipment	195,134	-	195,134
Vehicles	<u>116,858</u>	<u>45,813</u>	<u>162,671</u>
Total cost	10,043,487	331,726	10,375,213
Less: Accumulated depreciation	<u>(8,722,490)</u>	<u>(58,557)</u>	<u>(8,781,047)</u>
Net property and equipment	<u>1,320,997</u>	<u>273,169</u>	<u>1,594,166</u>
OTHER ASSETS:			
Operating lease right-of-use asset, net	238,695	-	238,695
Investments	17,000,641	-	17,000,641
Promise to give, use of facilities	-	26,604	26,604
FCC license	<u>-</u>	<u>66,547</u>	<u>66,547</u>
Total other assets	<u>17,239,336</u>	<u>93,151</u>	<u>17,332,487</u>
 Total assets	 <u>\$ 19,618,460</u>	 <u>\$ 455,419</u>	 <u>\$ 20,073,879</u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 98,305	\$ -	\$ 98,305
Accrued expenses	152,359	6,165	158,524
Deferred revenue	50,598	14,165	64,763
Current portion of operating lease liability	42,889	-	42,889
Due to WDSE-FM	66,810	-	66,810
Amounts held on behalf of others	<u>14,925</u>	<u>-</u>	<u>14,925</u>
Total current liabilities	<u>425,886</u>	<u>20,330</u>	<u>446,216</u>
LONG-TERM LIABILITIES:			
Operating lease liability, net of current portion	<u>196,056</u>	<u>-</u>	<u>196,056</u>
 Total liabilities	 <u>621,942</u>	 <u>20,330</u>	 <u>642,272</u>
NET ASSETS:			
Without Donor Restrictions:			
Available for operations	1,957,268	247,866	2,205,134
Designated for long-term investment	<u>16,771,916</u>	<u>-</u>	<u>16,771,916</u>
Total net assets without donor restrictions	18,729,184	247,866	18,977,050
With Donor Restrictions	<u>267,334</u>	<u>187,223</u>	<u>454,557</u>
Total net assets	<u>18,996,518</u>	<u>435,089</u>	<u>19,431,607</u>
 Total liabilities and net assets	 <u>\$ 19,618,460</u>	 <u>\$ 455,419</u>	 <u>\$ 20,073,879</u>

See independent auditor's report.

**DULUTH-SUPERIOR AREA EDUCATIONAL TELEVISION CORPORATION
AND AFFILIATE**

SCHEDULE OF REVENUES AND EXPENSES BY GRANTEE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

<u>OPERATING</u>	<u>WDSE-TV</u>	<u>WDSE-FM</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT:			
Contributions and grants	\$ 2,814,710	\$ 309,888	\$ 3,124,598
Legacies and bequests	232,000	-	232,000
Underwriting	173,787	72,285	246,072
Production and other income	88,639	1,743	90,382
Rental income	41,252	-	41,252
Investment income, net	241,232	175,425	416,657
Contributions of nonfinancial assets	40,912	-	40,912
Total revenues and other support	<u>3,632,532</u>	<u>559,341</u>	<u>4,191,873</u>
EXPENSES:			
Program services -			
Programming and production	1,854,141	363,409	2,217,550
Broadcasting	924,843	95,339	1,020,182
Program information	574,610	27,055	601,665
Total program services	<u>3,353,594</u>	<u>485,803</u>	<u>3,839,397</u>
Supporting services -			
Management and general	680,006	171,102	851,108
Fundraising and membership	542,398	17,274	559,672
Total supporting services	<u>1,222,404</u>	<u>188,376</u>	<u>1,410,780</u>
Total expenses	<u>4,575,998</u>	<u>674,179</u>	<u>5,250,177</u>
Change in net assets from operating activities	<u>(943,466)</u>	<u>(114,838)</u>	<u>(1,058,304)</u>
<u>NONOPERATING</u>			
Contributions and grants	203,716	8,353	212,069
Gains on investments	1,744,154	-	1,744,154
Gain on asset disposition	200	-	200
Change in net assets from nonoperating activities	<u>1,948,070</u>	<u>8,353</u>	<u>1,956,423</u>
Change in net assets	1,004,604	(106,485)	898,119
NET ASSETS:			
Beginning of year	<u>17,991,914</u>	<u>541,574</u>	<u>18,533,488</u>
End of year	<u>\$ 18,996,518</u>	<u>\$ 435,089</u>	<u>\$ 19,431,607</u>

See independent auditor's report.

THE BECK FOUNDATION OF DSAET
SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2023 AND 2022

<u>ASSETS</u>	2023	2022
Investments	\$ 16,975,106	\$ 15,251,929
Accrued investment income	25,535	15,499
Total assets	\$ 17,000,641	\$ 15,267,428
<u>LIABILITIES AND NET ASSETS</u>		
Due to WDSE-TV	\$ 228,725	\$ 3,725
Total liabilities	228,725	3,725
Net assets -		
Without Donor Restrictions:		
Designated for long-term investment	16,771,916	15,263,703
Total net assets	16,771,916	15,263,703
Total liabilities and net assets	\$ 17,000,641	\$ 15,267,428

See independent auditor's report.

THE BECK FOUNDATION OF DSAET
SCHEDULES OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
REVENUE:		
Contributions and bequests	\$ 12,000	\$ 13,092
Interest	106,283	57,450
Dividends	362,491	421,284
Net gains (losses) on investments	1,744,154	(3,107,301)
Less: Investment fees	(53,215)	(49,839)
Total revenues	2,171,713	(2,665,314)
EXPENSES:		
Program services		
Grants to Duluth-Superior Area Educational Television Corporation	663,500	874,000
	663,500	874,000
Total expenses	663,500	874,000
Change in net assets	1,508,213	(3,539,314)
NET ASSETS, Beginning of year	15,263,703	18,803,017
NET ASSETS, End of year	\$ 16,771,916	\$ 15,263,703

See independent auditor's report.