
Interlochen Center for the Arts WIAA-FM

Financial Report
May 31, 2022

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Independent Auditor's Report

To the Board of Directors
Interlochen Center for the Arts WIAA-FM

Opinion

We have audited the financial statements of Interlochen Center for the Arts WIAA-FM, a department of Interlochen Center for the Arts, (the "Station"), which comprise the statement of financial positions as of May 31, 2022 and 2021 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Station as of May 31, 2022 and 2021 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Station and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

We draw attention to Note 1 to the financial statements, which explains that these financial statements of the Station are intended to present the financial position, changes in financial position, and changes in cash flows of only that portion of the Interlochen Center for the Arts' financial statements that are attributable to the transactions of the department. They do not purport to, and do not, present fairly the financial position of the Interlochen Center for the Arts as of May 31, 2022 and 2021 or the changes in its financial position or its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 3 to the financial statements, on June 1, 2020, the Station adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective adoption method. Our opinion is not modified with respect to this matter.

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 the Station's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

To the Board of Directors
Interlochen Center for the Arts WIAA-FM

Auditor's Responsibilities for the Audits 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 audits conducted in accordance with GAAS 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 audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Station'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 the Station'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moreau, PLLC

January 12, 2023

Statement of Financial Position

May 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash held by Interlochen Center for the Arts	\$ 4,291,428	\$ 3,700,425
Accounts receivable - Net of allowance of \$6,250 as of May 31, 2022 and 2021	94,814	34,258
Total current assets	4,386,242	3,734,683
Right-to-use Operating Lease Assets (Note 7)	1,154,974	1,243,222
Property and Equipment - Net (Note 5)	573,640	660,974
Other Assets (Note 6)	994,178	994,178
Total assets	\$ 7,109,034	\$ 6,633,057
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accruals	\$ 28,083	\$ 34,599
Current portion of lease liabilities - Operating (Note 7)	90,745	85,317
Advances	2,927	2,674
Total current liabilities	121,755	122,590
Lease Liabilities - Operating (Note 7)	1,124,655	1,215,400
Net Assets - Without donor restrictions	5,862,624	5,295,067
Total liabilities and net assets	\$ 7,109,034	\$ 6,633,057

Interlochen Center for the Arts WIAA-FM

Statement of Activities and Changes in Net Assets

Years Ended May 31, 2022 and 2021

	2022	2021
Support and Revenue - Without donor restrictions		
Contributions	\$ 1,251,935	\$ 1,145,003
Donated facilities and administrative support from Interlochen Center for the Arts	394,948	393,221
Community service and advertising grant from the Corporation for Public Broadcasting	224,064	500,326
Program underwriting	213,834	166,916
Other income	107,089	116,440
Capital campaign proceeds	150,687	188,297
Total support and revenue - Without donor restrictions	2,342,557	2,510,203
Expenses		
Program services:		
Programming and production	609,806	628,795
Broadcasting	264,340	260,005
Program information	22,432	1,536
Total program services	896,578	890,336
Management and general	800,818	821,114
Fundraising and membership development	77,604	71,989
Total expenses	1,775,000	1,783,439
Increase in Net Assets	567,557	726,764
Net Assets - Beginning of year	5,295,067	4,568,303
Net Assets - End of year	<u><u>\$ 5,862,624</u></u>	<u><u>\$ 5,295,067</u></u>

Statement of Functional Expenses

Year Ended May 31, 2022

	Program Services				Support Services			
	Programming and Production	Broadcasting	Program Information	Total	Management and General	Fundraising and Membership Development	Total	Total
Salaries, payroll taxes, and benefits	\$ 203,734	\$ 150,556	\$ 20,270	\$ 374,560	\$ 526,831	\$ 75,145	\$ 601,976	\$ 976,536
Program production and acquisition costs	350,189	-	-	350,189	3,669	-	3,669	353,858
Occupancy expenses	-	54,071	-	54,071	29,270	-	29,270	83,341
Professional services	8,264	-	-	8,264	65,932	1,560	67,492	75,756
Production materials and supplies	-	27,877	-	27,877	-	-	-	27,877
Printing and publications	-	-	1,000	1,000	-	-	-	1,000
Postage and shipping	-	-	1,162	1,162	973	899	1,872	3,034
Communications	-	-	-	-	7,137	-	7,137	7,137
Equipment lease and interest expense	-	-	-	-	117,839	-	117,839	117,839
Meetings, travel, and conferences	-	-	-	-	18,367	-	18,367	18,367
Insurance	-	3,265	-	3,265	-	-	-	3,265
Office supplies	-	-	-	-	11,753	-	11,753	11,753
Depreciation	47,619	28,571	-	76,190	19,047	-	19,047	95,237
Total functional expenses	<u>\$ 609,806</u>	<u>\$ 264,340</u>	<u>\$ 22,432</u>	<u>\$ 896,578</u>	<u>\$ 800,818</u>	<u>\$ 77,604</u>	<u>\$ 878,422</u>	<u>\$ 1,775,000</u>

Statement of Functional Expenses

Year Ended May 31, 2021

	Program Services				Support Services			
	Programming and Production	Broadcasting	Program Information	Total	Management and General	Fundraising and Membership Development	Total	Total
Salaries, payroll taxes, and benefits	\$ 250,288	\$ 168,656	\$ -	\$ 418,944	\$ 513,873	\$ 70,780	\$ 584,653	\$ 1,003,597
Program production and acquisition costs	331,260	-	-	331,260	41,150	-	41,150	372,410
Occupancy expenses	-	55,351	-	55,351	21,670	-	21,670	77,021
Professional services	-	-	-	-	38,265	-	38,265	38,265
Production materials and supplies	-	7,650	-	7,650	-	-	-	7,650
Postage and shipping	-	-	1,536	1,536	1,287	1,209	2,496	4,032
Communications	-	-	-	-	4,211	-	4,211	4,211
Equipment lease and interest expense	-	-	-	-	176,512	-	176,512	176,512
Meetings, travel, and conferences	-	-	-	-	1,831	-	1,831	1,831
Office supplies	-	-	-	-	3,417	-	3,417	3,417
Depreciation	47,247	28,348	-	75,595	18,898	-	18,898	94,493
Total functional expenses	<u>\$ 628,795</u>	<u>\$ 260,005</u>	<u>\$ 1,536</u>	<u>\$ 890,336</u>	<u>\$ 821,114</u>	<u>\$ 71,989</u>	<u>\$ 893,103</u>	<u>\$ 1,783,439</u>

Statement of Cash Flows

Years Ended May 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Increase in net assets	\$ 567,557	\$ 726,764
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	95,237	94,493
Amortization of lease assets	88,248	132,903
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable	(60,556)	5,987
Accounts payable and accruals	(6,516)	(15,091)
Advances	253	(400)
Net cash provided by operating activities	684,223	944,656
Cash Flows Used in Investing Activities - Purchase of property and equipment	(7,903)	(38,634)
Cash Flows Used in Financing Activities - Principal and interest payments on lease liabilities	(85,317)	(75,408)
Net Increase in Cash	591,003	830,614
Cash - Beginning of year	3,700,425	2,869,811
Cash - End of year	<u><u>\$ 4,291,428</u></u>	<u><u>\$ 3,700,425</u></u>

May 31, 2022 and 2021

Note 1 - Nature of Business

WIAA-FM (the "Station") is a public radio station owned and operated by Interlochen Center for the Arts (the "Center"). The Station is organized for the purpose of providing entertainment and informational programming to listeners in northern Michigan. The Station does not have separate legal status or existence. The financial position and activities of the Station are included in the financial statements of the Center.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Station have been prepared on the basis of generally accepted accounting principles (GAAP), as outlined in the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Organizations* and the Corporation for Public Broadcasting publication, *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Cash Held by Interlochen Center for the Arts

Cash is held by the Center. The amounts reflected in the accompanying statement of financial position represent the amounts due to the Station from the Center's pooled cash.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at market value at the date of donation. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives ranging from 3 to 45 years. Costs of maintenance and repairs are charged to expense when incurred.

Classification of Net Assets

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Station. All net assets of the Station are classified as net assets without donor restrictions as of May 31, 2022 and 2021.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Capital campaign proceeds represent funds that the Center originally received directly from donors. The Station records revenue from capital campaign funds in the period the Center decides to expend those funds on behalf of the Station. Since the funds are received and spent in the same period, the Station records these proceeds as support without donor restrictions.

Program underwriting revenue is support for programs and events and is recognized as the programs and events occur.

Donated Facilities and Administrative Support from Interlochen Center for the Arts

Donated facilities and administrative support from the Center represent an allocation of common services that the Center provides to the Station. The allocation of these services is based on a formula that was prescribed by the Corporation for Public Broadcasting and agreed upon by the Center and the Station.

May 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Corporation for Public Broadcasting Community Service Grants

The Corporation for Public Broadcasting (the "CPB") is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years, as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

Revenue received for grants is considered a nonexchange contribution transaction and is recognized as the conditions of the grants have been met. Grant funding received in advance of conditions being met is recorded as advances. All grant funding is expended in the year received, and, therefore, there are no amounts that are conditional at May 31, 2022 and 2021.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services and office supplies, are considered to be management and general expenses. Other expenses utilized by all employees, such as occupancy and program production and acquisition costs, are also allocated on the basis of time and effort. Costs have been allocated between the various program and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Impact of the COVID-19 Pandemic

During fiscal year 2021, COVID-19 impacted the Station requiring broadcasting to be conducted virtually at times. The overall operations of the Station remained largely unchanged. The Station did receive grants and other relief primarily from the American Rescue Plan Stabilization Grant. For the year ended May 31, 2021, the Station recognized grant revenue totaling \$250,252 through the American Rescue Plan Stabilization Grant, which is recorded within community service and advertising grant from the Corporation for Public Broadcasting on the statement of activities and changes in net assets. The grant funds were used to maintain the Station's public media programming and services impacted by the coronavirus and attendant loss of revenue. No additional funds were received in fiscal year 2022, and operations have returned to in person.

Income Taxes

The Station is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

May 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Station's year ending May 31, 2023 and will be applied using the retrospective method.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 12, 2023, which is the date the financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncement

As of June 1, 2020, the Station adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. The Station elected to adopt the ASU using the modified retrospective method as of June 1, 2020. The Station has elected to apply the following practical expedients:

- The Station did not reassess if expired or existing contracts are or contain a lease.
- The Station did not reassess the lease classification for expired or existing leases.
- The Station did not reassess initial direct costs for any existing leases.
- The Station has used hindsight to determine the lease term and for assessing impairment of the right-to-use assets for existing leases.
- The Station has not reassessed whether any existing or expired land easements that were not previously classified as leases are or contain a lease.

As a result of the adoption of the ASU, the Station recorded a right-to-use asset of \$1,376,125 and a lease liability of \$1,376,125 as of June 1, 2020 for existing operating leases. There was no impact to net assets as a result of adopting the ASU.

Note 4 - Liquidity and Availability of Resources

The Station has \$4,386,242 and \$3,734,683 of financial assets available within one year of May 31, 2022 and 2021 to meet cash needs for general expenditure consisting of cash held by the Center of \$4,291,428 and \$3,700,425 and accounts receivable of \$94,814 and \$34,258, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Station has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Center invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Notes to Financial Statements

May 31, 2022 and 2021

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021
Buildings	\$ 1,055,598	\$ 1,055,598
Machinery and equipment	2,323,430	2,315,525
Furniture and fixtures	78,773	78,773
Total cost	3,457,801	3,449,896
Accumulated depreciation	2,884,161	2,788,922
Net property and equipment	<u>\$ 573,640</u>	<u>\$ 660,974</u>

Depreciation expense for 2022 and 2021 was \$95,237 and \$94,493, respectively.

Note 6 - Other Assets

Other assets include broadcasting licenses for three FM stations, as follows:

	2022	2021
88.5 MHz - Mackinaw City, Michigan	\$ 496,600	\$ 496,600
89.7 MHz - Manistee, Michigan	215,065	215,065
90.1 MHz - Harbor Springs, Michigan	282,513	282,513
Total	<u>\$ 994,178</u>	<u>\$ 994,178</u>

The broadcasting licenses have been deemed to have an indefinite useful life. The Center tests the broadcasting licenses for impairment annually, or more frequently if events or changes in circumstances indicate a possibility of impairment. For the years ended May 31, 2022 and 2021, the Center has identified no such impairment.

Note 7 - Leases

The Station is obligated under operating leases primarily for tower space for broadcasting antennas, expiring at various dates through April 2036. The right-to-use asset and related lease liability have been calculated using discount rates ranging from 1.84 percent to 6.18 percent. The leases require the Station to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$118,827 and \$116,154 for 2022 and 2021, respectively.

Included in lease expense are variable lease payments totaling \$11,170 and \$10,610 for 2022 and 2021, respectively, which are dependent on the annual change in the Consumer Price Index for All Urban Consumers (CPI-U) for All Cities, as promulgated by the Bureau of Labor Statistics of the United States Department of Labor using 1982-94 as a base of 100.

Notes to Financial Statements

May 31, 2022 and 2021

Note 7 - Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending May 31	Amount
2023	\$ 121,166
2024	123,408
2025	125,717
2026	101,142
2027	90,113
Thereafter	<u>854,984</u>
Total	1,416,530
Less amount representing interest	<u>201,130</u>
Present value of net minimum lease payments	<u>\$ 1,215,400</u>

Expenses recognized under these leases for the years ended May 31, 2022 and 2021 consist of the following:

	2022	2021
Operating lease cost	\$ 107,657	\$ 105,544
Variable lease cost	<u>11,170</u>	<u>10,610</u>
Total lease cost	<u>\$ 118,827</u>	<u>\$ 116,154</u>

The Station is also a lessor and receives income under operating leases primarily for tower space for broadcasting antennas, expiring at various dates through April 2037. Total rent income under the leases was \$106,280 and \$116,440 for 2022 and 2021, respectively.

Included in lease income is a variable lease payment that is dependent on the annual change in the Consumer Price Index for All Urban Consumers for All Cities, as promulgated by the Bureau of Labor Statistics of the United States Department of Labor using 1982-84 as a base of 100.

The underlying owned asset for which the operating leases relate is a communications tower in Interlochen, Michigan with a cost of \$44,299. The communications tower has an accumulated depreciation of \$44,299 for 2022 and 2021. The communications tower is recorded within buildings in the property and equipment (see Note 5).

Future minimum annual income under these operating leases are as follows:

Years Ending May 31	Amount
2023	\$ 108,008
2024	109,779
2025	111,593
2026	113,452
2027	115,358
Thereafter	<u>588,574</u>
Total	<u>\$ 1,146,764</u>

May 31, 2022 and 2021

Note 8 - Retirement Plan

The Station has a defined contribution retirement plan (through the Center) for all eligible employees. Employer contributions are discretionary and are based on a percentage of employee compensation for the year. Contributions to the plan totaled \$42,406 for the year ended May 31, 2022. There were no contributions to the plan for the year ended May 31, 2021.

Note 9 - Nonfederal Financial Support (NFFS)

The Corporation for Public Broadcasting allocates a portion of its funds annually to public broadcasting entities, primarily based on NFFS. NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A contribution is cash, property, or services given to a public broadcasting entity for general operational purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation, or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution, or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station. However, to eliminate distortions in the TV CSG program precipitated by extraordinary infusions of new capital investments in DTV, all capital contributions received for purposes of acquiring new equipment or upgrading existing or building new facilities regardless of source or form of the contribution are not included in calculating the 2022 or 2021 NFFS. This change excludes all revenue received for any capital purchases.

A payment is cash, property, or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization, or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

Reported NFFS for the Station was \$1,616,456 and \$1,500,216 for 2022 and 2021, respectively.