

**MINNEAPOLIS TELECOMMUNICATIONS
NETWORK, INC.**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minneapolis Telecommunications Network, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Minneapolis Telecommunications Network, Inc. (MTN), a nonprofit corporation, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneapolis Telecommunications Network, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Minneapolis Telecommunications Network, Inc.'s 2013 financial statements, and our report dated September 5, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
July 16, 2015

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 186,767	\$ 287,952
Cash - fiscal agent	9,379	2,729
Receivables	9,635	9,809
Prepaid expenses	59,917	25,913
Total current assets	265,698	326,403
Investments	20,500	44,265
Leasehold improvements and equipment, net	225,824	8,224
Total assets	\$ 512,022	\$ 378,892
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 938	\$ 5,500
Accrued payroll and related	31,531	31,005
Fiscal agent payable	9,379	2,729
Long-term debt	118,194	-
Total liabilities	160,042	39,234
Net assets:		
Unrestricted net assets	351,980	324,658
Temporarily restricted net assets	-	15,000
Total net assets	351,980	339,658
Total liabilities and net assets	\$ 512,022	\$ 378,892

See Accompanying Notes to Financial Statements.

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	
Revenue and support:				
City of Minneapolis operating funds	\$ 472,496	\$ -	\$ 472,496	\$ 513,232
Production fees	46,226	-	46,226	43,273
Training and youth	3,855	-	3,855	15,590
Contributions	15,115	-	15,115	33,825
Memberships	12,240	-	12,240	10,627
Investment income	1,499	-	1,499	1,180
Other earned revenue	2,909	-	2,909	6,250
Net assets released from restrictions	15,000	(15,000)	-	-
Total revenue and support	<u>569,340</u>	<u>(15,000)</u>	<u>554,340</u>	<u>623,977</u>
Expenses:				
Program	473,626	-	473,626	505,086
Management and general	121,924	-	121,924	150,151
Fundraising	21,468	-	21,468	-
Total expenses	<u>617,018</u>	<u>-</u>	<u>617,018</u>	<u>655,237</u>
Change in net assets before contributions for leasehold improvements and equipment	(47,678)	(15,000)	(62,678)	(31,260)
City of Minneapolis contributions for leasehold improvements and equipment	75,000	-	75,000	-
Change in net assets	27,322	(15,000)	12,322	(31,260)
Net assets:				
Beginning of year	<u>324,658</u>	<u>15,000</u>	<u>339,658</u>	<u>370,918</u>
End of year	<u>\$ 351,980</u>	<u>\$ -</u>	<u>\$ 351,980</u>	<u>\$ 339,658</u>

See Accompanying Notes to Financial Statements.

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			Total	2013
	Program	Management and general	Fundraising		
Salaries	\$ 215,291	\$ 81,215	\$ 17,587	\$ 314,093	\$ 336,770
Payroll taxes	25,371	9,571	2,073	37,015	37,523
Employee benefits	17,724	6,686	1,448	25,858	25,355
Total salaries and related expenses	258,386	97,472	21,108	376,966	399,648
Professional fees	1,455	9,818	119	11,392	9,462
Contracted services	31,559	-	-	31,559	37,534
Occupancy	130,190	6,853	-	137,043	135,272
Insurance	17,083	899	-	17,982	18,784
Youth program	6,088	-	-	6,088	7,202
Consulting and legal	-	396	-	396	141
Maintenance	541	11	-	552	1,267
Meetings, subscriptions and memberships	2,065	398	14	2,477	4,142
Production and office supplies	1,315	366	79	1,760	10,080
Travel and transportation	677	-	-	677	276
Depreciation	11,361	598	-	11,959	9,249
Office equipment	6,138	323	-	6,461	-
Cost of sales and services	-	-	-	-	2,079
Internet	3,317	1,106	-	4,423	3,514
Postage	-	313	-	313	432
Telephone	1,537	580	126	2,243	3,066
Staff and board development	270	102	22	394	5,608
Advertising	-	665	-	665	3,543
Miscellaneous expenses	1,644	2,024	-	3,668	3,938
Total expenses	\$ 473,626	\$ 121,924	\$ 21,468	\$ 617,018	\$ 655,237

See Accompanying Notes to Financial Statements.

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 12,322	\$ (31,260)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	11,959	9,249
Loss (gain) on investments, net	(362)	1
Loss on disposal	-	728
Contributions for leasehold improvements and equipment	(75,000)	-
Changes in operating assets and liabilities:		
Receivables	174	4,188
Prepaid expenses	(34,004)	10,860
Accounts payable	(4,562)	4,631
Accrued payroll and related	526	(1,319)
Net cash from operating activities	(88,947)	(2,922)
Cash flows from investing activities:		
Purchase of leasehold improvements and equipment	(229,559)	(2,141)
Sales of investments	24,127	44,000
Net cash from investing activities	(205,432)	41,859
Cash flows from financing activities:		
Proceeds from issuance of debt	120,000	-
Payments of debt	(1,806)	-
Contributions for leasehold improvements and equipment	75,000	-
Net cash from financing activities	193,194	-
Net increase (decrease) in cash and equivalents	(101,185)	38,937
Cash and equivalents, beginning of year	287,952	249,015
Cash and equivalents, end of year	\$ 186,767	\$ 287,952

See Accompanying Notes to Financial Statements.

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

1. ORGANIZATION

The Minneapolis Telecommunications Network, Inc. (MTN) is a nonprofit corporation founded on December 13, 1983. MTN's mission centers on empowering communities within the City of Minneapolis to bring their own unique voices to cable television. MTN supports public access to media in three ways:

- Provides training in the use of video, television and internet technologies
- Provides direct community access to cable television channels
- Provides unique education and mentoring programs for young people in grades six through twelve

The board of MTN is appointed by the City of Minneapolis. In accordance with the agreement with the City of Minneapolis, MTN receives its primary operating funds directly from the City. These funds have been made available to the City through the city's cable franchise ordinance with the local cable provider. MTN also receives support from contributions, memberships, training, and production fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation - MTN is required to report information regarding its financial position and activities in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions with restrictions from donors that do not expire and that allow, in certain cases, only the income earned thereon to be expended. At this time, MTN has no permanently restricted net assets.

Cash and Cash Equivalents - MTN considers cash and all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

(Continued)

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - Investments consist of negotiable certificates of deposit. Investments are reported at fair value. Investment income is recorded net of changes in fair value. Realized and unrealized gains and losses on investments are reported as changes in unrestricted net assets.

Fair Value Measurements - The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that MTN has the ability to access.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; and inputs other than quoted prices that are observable for the asset.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair value measurements are used for investments.

Receivables - Receivables are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. Management has evaluated the receivables at December 31, 2014, and believes that no allowance is necessary.

Leasehold Improvements and Equipment - MTN follows the practice of capitalizing all expenditures over \$1,000 for leasehold improvements and equipment. The current fair value of donated fixed assets is similarly capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Routine repairs and maintenance are expensed as incurred. Absent explicit donor restrictions regarding how long donated assets must be used, MTN reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Fiscal Agency - MTN acts as an agent for donors and grantors. It accepts assets from donors and agrees to use those amounts to benefit a specified beneficiary. These transactions are not included in the statement of activities and changes in net assets since MTN has no discretion in determining how the funds are used. Such agency amounts collected are recorded as liabilities until released to the beneficiary.

(Continued)

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Revenues - Revenue from production, training and other earned revenue sources is recognized when billed, which approximates when services are provided. Amounts collected in advance of performing the services are recorded as deferred revenue.

Contributions - Contributions are recognized when the donor makes an unconditional commitment to give to MTN. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Conditional contributions are recognized when the conditions on which they depend are substantially met. Contributions received with restrictions that are met in the same fiscal year they are received are included in unrestricted revenue and support.

Contributed Materials - Contributed materials are recorded at fair value.

Contributed Services - Contributed services are recorded if the service creates or enhances a nonfinancial asset or if the service requires specialized skills, is provided by an individual possessing those skills, and would typically need to be purchased.

Memberships - Membership fees are recorded in the year received, since members receive no significant benefits.

Functional Expenses - Expenses have been allocated between program and supporting services classifications based upon direct expenditures and estimates made by management. Expenses which are common to program and to supporting services are allocated based on employee time allocations determined by management and by the square footage used for each function.

Income Taxes - MTN is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income that is not related to its tax exempt purpose. Minneapolis Telecommunications Network, Inc. did not have any unrelated business income in 2014 or 2013. Management believes the MTN has appropriate support for any tax positions taken, and accordingly, do not have any uncertain tax positions that are material to the financial statements.

Federal and state tax authorities generally have the right to examine the current and three previous years' returns. MTN is not currently under examination by any taxing jurisdiction.

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MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Comparative Total Column - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Minneapolis Telecommunications Network, Inc.'s financial statements for the year ended December 31, 2013, from which the summarized information was derived.

3. **FAIR VALUE MEASUREMENTS - INVESTMENTS**

The following is a description of the valuation methodology used for investments measured at fair value.

Certificates of deposit (Level 2)

Certificates of deposit are priced using a market value pricing model which is primarily based on current interest rates, the terms of the certificates of deposit, and other special features. The pricing is determined by the investment broker that holds the certificates on behalf of MTN.

One certificate of deposit is held at December 31, 2014, having a face value of \$20,500; maturing May 2016; and bearing a 0% interest rate. The return for the certificate is linked to foreign currencies and there is no assurance of any return.

The level of input used to measure fair value does not reflect market risk. There have been no changes in valuation techniques and related inputs.

4. **UNEMPLOYMENT FUND DEPOSIT**

Minneapolis Telecommunications Network, Inc. has elected to opt out of participation in the Minnesota Unemployment Insurance Program. MTN is self-insured for unemployment claims through Unemployment Services Trust (UST). Contributions to UST are accumulated and used to pay future claims. MTN could be required to make additional payments to UST if claims exceed the accumulated contributions. The unemployment fund deposit at December 31, 2014 and 2013, was \$29,686 and \$7,127, respectively, and is included in prepaid expenses.

(Continued)

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

5. LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consists of the following at December 31:

	<u>2014</u>	<u>2013</u>	<u>Estimated useful life - years</u>
Equipment and vehicles	\$ 1,163,131	\$ 1,176,496	3 - 5
Leasehold improvements	<u>195,000</u>	<u>-</u>	5
Total leasehold improvements and equipment	1,358,131	1,176,496	
Accumulated depreciation	<u>(1,132,307)</u>	<u>(1,168,272)</u>	
	<u>\$ 225,824</u>	<u>\$ 8,224</u>	

Leasehold improvements relate to the new operating lease (See Note 9) which will commence in 2015. Amortization will begin at that time.

6. LONG-TERM DEBT

MTN has a \$60,000 loan through the City of Minneapolis. Monthly payments of \$1,052, including interest at 2%, are due until maturity on November 30, 2019. Unsecured. As of December 31, 2014, the balance of this loan is \$59,047.

MTN has an additional \$60,000 loan through the Minnesota Nonprofits Assistance Fund. Monthly payments of \$1,174, including interest at 6.5%, are due until maturity on November 30, 2019. Secured by all business assets. As of December 31, 2014, the balance of this loan is \$59,147.

Maturities of the notes are as follows:

2015	\$ 22,163
2016	23,093
2017	24,074
2018	25,109
2019	<u>23,755</u>
	<u>\$ 118,194</u>

(Continued)

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes:

	<u>2014</u>	<u>2013</u>
MTN for V.O.I.C.E.S. Multiplied	\$ -	\$ 10,000
Metropolitan Regional Arts Council	-	5,000
	<u>\$ -</u>	<u>\$ 15,000</u>

8. RETIREMENT PLAN

MTN maintains a qualified defined contribution pension plan covering substantially all employees after attainment of specified periods of service and minimum age requirements. Employees are permitted to make contributions to the plan. MTN contributes a match of up to 3% of gross wages for all employees who work at least half-time and have been employed by MTN for at least one year. Total employer matching contributions were \$5,102 and \$8,518 for 2014 and 2013, respectively.

9. OPERATING LEASES

MTN leases office and studio space under an operating lease that expires April 30, 2015. The lease requires monthly payments of \$8,200, increasing 3% each year. MTN also pays an additional amount for a percentage of property taxes and electricity as part of this agreement. Rent expense for 2014 and 2013 was \$101,352 and \$98,400.

On October 31, 2014, MTN entered into an operating lease for new office and studio space effective February 1, 2015, which expires January 31, 2020. The new lease requires (after three months of free rent) monthly payments of \$2,234, increasing 3% each year, plus \$100 for parking. MTN also pays an additional amount for building operating expenses.

In conjunction with the new lease, MTN was charged a brokerage fee of \$29,555 which is amortized at 9% interest over the term of the lease. Monthly payments of \$609 are required and are included with the rent payments.

(Continued)

MINNEAPOLIS TELECOMMUNICATIONS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

9. OPERATING LEASES (Continued)

The future minimum rental commitment is as follows:

2015	\$ 31,991
2016	37,775
2017	38,911
2018	39,977
2019	41,120
2020	<u>3,435</u>
Total	<u>\$ 193,209</u>

10. CONCENTRATIONS

MTN places its temporary cash investments with one financial institution. At times such investments may be in excess of FDIC insurance limits. Management believes MTN is not exposed to any significant credit risk related to cash.

MTN received approximately 88% and 84% of its 2014 and 2013 revenue and support from the City of Minneapolis.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 16, 2015, the date on which the financial statements were available for issue, and identified no significant events or transactions to disclose.