

COMMONWEALTH PUBLIC BROADCASTING

Financial Statements

June 30, 2014 and 2013



> Certified Public
Accountants & Consultants
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COMMONWEALTH PUBLIC BROADCASTING

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
of Commonwealth Public Broadcasting

Report on the Financial Statements

We have audited the accompanying financial statements of Commonwealth Public Broadcasting, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Public Broadcasting as of June 30, 2014 and 2013, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keiter", with a long, sweeping horizontal stroke extending to the right.

January 7, 2015
Glen Allen, Virginia

COMMONWEALTH PUBLIC BROADCASTING

Statements of Financial Position June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 988,526	\$ 805,111
Accounts receivable, net	210,393	738,241
Contributions receivable - current	415,907	92,828
Inventory	-	122,513
Prepaid expenses	<u>83,190</u>	<u>1,758,848</u>
Total current assets	1,698,016	3,517,541
Contributions receivable	40,000	-
Property and equipment, net	5,883,745	7,041,311
Investments	<u>7,332,304</u>	<u>6,043,922</u>
Total assets	<u>\$ 14,954,065</u>	<u>\$ 16,602,774</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ -	\$ 1,267,116
Accounts payable	231,504	231,550
Accrued expenses	242,676	530,123
Accrued pension liability - current	665,303	613,643
Deferred revenue	<u>176,003</u>	<u>753,923</u>
Total current liabilities	1,315,486	3,396,355
Accrued pension liability	<u>1,974,079</u>	<u>2,241,264</u>
Total liabilities	<u>3,289,565</u>	<u>5,637,619</u>
Net assets:		
Unrestricted:		
Undesignated	13,975,345	13,894,494
Board designated	328,153	328,153
Minimum pension liability adjustment	<u>(3,762,574)</u>	<u>(3,864,138)</u>
Total unrestricted net assets	10,540,924	10,358,509
Temporarily restricted	737,085	220,155
Permanently restricted	<u>386,491</u>	<u>386,491</u>
Total net assets	<u>11,664,500</u>	<u>10,965,155</u>
Total liabilities and net assets	<u>\$ 14,954,065</u>	<u>\$ 16,602,774</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2014, with Comparative Totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Support and revenue:					
Operating:					
Community support:					
Membership contributions and corporate support	\$ 3,348,948	\$ 862,835	\$ -	\$ 4,211,783	\$ 3,601,976
Underwriting	1,718,032	-	-	1,718,032	1,674,146
Public support - community service grants:					
Corporation for Public Broadcasting	1,264,357	-	-	1,264,357	1,296,340
Educational services:					
Participation fees and other	25,491	-	-	25,491	-
Broadcast services:					
Data transmission	2,950,316	-	-	2,950,316	4,019,587
Production services	1,930,031	-	-	1,930,031	2,290,472
Gain on disposal of equipment (Note 5)	8,986,133	-	-	8,986,133	-
Miscellaneous	319,210	-	-	319,210	211,879
Total operating revenue	20,542,518	862,835	-	21,405,353	13,094,400
Investment income, net	888,090	-	-	888,090	631,570
Rental income	786,878	-	-	786,878	1,121,977
Total support and revenue	22,217,486	862,835	-	23,080,321	14,847,947
Net assets released from restrictions	345,905	(345,905)	-	-	-

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2014, with Comparative Totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Expenses:					
Programming:					
Educational television	\$ 249,073	\$ -	\$ -	\$ 249,073	\$ 310,447
Public broadcasting	2,426,739	-	-	2,426,739	3,446,273
Support functions	418,624	-	-	418,624	482,169
Broadcasting:					
Engineering	3,289,599	-	-	3,289,599	3,632,105
Production	3,166,239	-	-	3,166,239	2,581,413
General and administrative	909,163	-	-	909,163	1,047,762
Fundraising	2,685,542	-	-	2,685,542	2,841,390
Contribution to MHz (Note 2)	9,337,561	-	-	9,337,561	-
Total expenses	<u>22,482,540</u>	<u>-</u>	<u>-</u>	<u>22,482,540</u>	<u>14,341,559</u>
Change in net assets before change in minimum pension liability	80,851	516,930	-	597,781	506,388
Change in minimum pension liability	<u>101,564</u>	<u>-</u>	<u>-</u>	<u>101,564</u>	<u>1,365,620</u>
Total change in net assets	182,415	516,930	-	699,345	1,872,008
Net assets at beginning of year	<u>10,358,509</u>	<u>220,155</u>	<u>386,491</u>	<u>10,965,155</u>	<u>9,093,147</u>
Net assets at end of year	<u>\$ 10,540,924</u>	<u>\$ 737,085</u>	<u>\$ 386,491</u>	<u>\$ 11,664,500</u>	<u>\$ 10,965,155</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Operating:				
Community support:				
Membership contributions	\$ 3,237,166	\$ 364,810	\$ -	\$ 3,601,976
Corporate support/underwriting and foundation grants	1,674,146	-	-	1,674,146
Public support - community service grants:				
Corporation for Public Broadcasting	1,296,340	-	-	1,296,340
Broadcast services:				
Data transmission	4,019,587	-	-	4,019,587
Production services	2,290,472	-	-	2,290,472
Miscellaneous	211,879	-	-	211,879
Total operating revenue	12,729,590	364,810	-	13,094,400
Investment income, net	631,570	-	-	631,570
Rental income	1,121,977	-	-	1,121,977
Total support and revenue	14,483,137	364,810	-	14,847,947
Net assets released from restrictions	359,922	(359,922)	-	-

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2013

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Expenses:				
Programming:				
Educational television	\$ 310,447	\$ -	\$ -	\$ 310,447
Public broadcasting	3,446,273	-	-	3,446,273
Support functions	482,169	-	-	482,169
Broadcasting:				
Engineering	3,632,105	-	-	3,632,105
Production	2,581,413	-	-	2,581,413
General and administrative	1,047,762	-	-	1,047,762
Fundraising	<u>2,841,390</u>	<u>-</u>	<u>-</u>	<u>2,841,390</u>
 Total expenses	 <u>14,341,559</u>	 <u>-</u>	 <u>-</u>	 <u>14,341,559</u>
 Change in net assets before change in minimum pension liability	 501,500	4,888	-	506,388
Change in minimum pension liability	<u>1,365,620</u>	<u>-</u>	<u>-</u>	<u>1,365,620</u>
 Total change in net assets	 1,867,120	4,888	-	1,872,008
Net assets at beginning of year	<u>8,491,389</u>	<u>215,267</u>	<u>386,491</u>	<u>9,093,147</u>
Net assets at end of year	<u>\$ 10,358,509</u>	<u>\$ 220,155</u>	<u>\$ 386,491</u>	<u>\$ 10,965,155</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Functional Expenses Year Ended June 30, 2014

	Program Services					General & Administrative	Fundraising	Other	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production				
Salaries, wages and benefits	\$ 94,230	\$ 552,848	\$ 192,180	\$ 923,554	\$ 1,417,121	\$ 592,594	\$ 1,277,113	\$ -	\$ 5,049,640
Business supplies and equipment	2,458	8,706	1,746	161,111	9,879	14,185	12,636	-	210,721
Technical supplies and equipment	-	46	-	129,293	35,155	293	-	-	164,787
Occupancy	33,072	181,940	14,046	342,400	125,996	19,552	73,103	-	790,109
Communications	4,746	35,791	4,499	348,760	21,026	5,116	69,359	-	489,297
Postage and shipping	2,756	3,418	2,895	6,448	52,674	1,397	318,113	-	387,701
Printing and duplication	17,420	1,405	-	-	505	-	35,301	-	54,631
Vehicles	2,170	430	65	7,668	3,155	171	594	-	14,253
Travel and entertainment	2,509	16,777	2,183	6,571	33,309	2,373	52,307	-	116,029
Professional services	35,637	154,367	42,412	95,469	56,429	240,260	117,963	-	742,537
Dues, professional affiliations	214	29,203	99	2,289	5,417	2,429	3,491	-	43,142
Advertising and public relations	545	239	114,396	859	600	1,363	5,589	-	123,591
Computer services	968	25,032	12,343	64,606	85,592	364	136,141	-	325,046
Program acquisitions	1,675	1,326,716	-	-	901,605	-	279,178	-	2,509,174
Conferences and meetings	8	25	8	25	2,412	1,134	752	-	4,364
Production	3,255	18,102	-	28,462	325,115	8,339	8,339	-	391,612
Premiums	1,721	5,164	-	5,164	5,164	-	208,622	-	225,835
Special events	9,781	362	12,233	214	804	779	13,403	-	37,576
Contribution to MHz (Note 2)	-	-	-	-	-	-	-	9,337,561	9,337,561
	<u>213,165</u>	<u>2,360,571</u>	<u>399,105</u>	<u>2,122,893</u>	<u>3,081,958</u>	<u>890,349</u>	<u>2,612,004</u>	<u>9,337,561</u>	<u>21,017,606</u>
Depreciation	34,567	60,804	18,178	1,165,365	82,940	14,443	72,197	-	1,448,494
Interest	1,341	5,364	1,341	1,341	1,341	4,371	1,341	-	16,440
	<u>\$ 249,073</u>	<u>\$ 2,426,739</u>	<u>\$ 418,624</u>	<u>\$ 3,289,599</u>	<u>\$ 3,166,239</u>	<u>\$ 909,163</u>	<u>\$ 2,685,542</u>	<u>\$ 9,337,561</u>	<u>\$ 22,482,540</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Functional Expenses Year Ended June 30, 2013

	Program Services					General & Administrative	Fundraising	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production			
Salaries, wages and benefits	\$ 166,667	\$ 744,947	\$ 283,337	\$ 1,149,785	\$ 1,548,513	\$ 793,385	\$ 1,408,977	\$ 6,095,611
Business supplies and equipment	2,498	4,686	1,600	133,229	10,749	5,931	9,155	167,848
Technical supplies and equipment	-	5,176	-	54,626	2,719	-	1,155	63,676
Occupancy	37,084	183,578	22,128	273,453	105,983	20,231	68,778	711,235
Communications	3,828	14,020	6,132	16,704	16,479	6,634	40,812	104,609
Postage and shipping	828	9,509	1,747	10,233	42,660	1,273	363,298	429,548
Printing and duplication	13,232	7,930	2,256	4	6,460	4	13,491	43,377
Vehicles	2,086	367	77	10,253	5,701	-	376	18,860
Travel and entertainment	3,659	18,157	14,281	8,803	46,232	2,718	40,413	134,263
Professional services	41,813	267,361	39,577	145,498	87,081	156,022	204,516	941,868
Dues, professional affiliations	839	39,768	94	4,496	5,651	2,785	5,548	59,181
Advertising and public relations	105	283	58,029	90	4,815	65	15,753	79,140
Computer services	678	19,167	21,461	55,841	91,789	4,137	118,908	311,981
Program acquisitions	3,435	1,991,741	-	11,274	501,643	5,995	278,857	2,792,945
Conferences and meetings	602	196	50	221	2,630	883	784	5,366
Production	-	56,879	-	564,765	6,045	-	-	627,689
Premiums	-	-	-	-	-	-	178,704	178,704
Special events	14,977	-	7,671	-	-	-	9,618	32,266
Bad debt expense (recovery)	(488)	(468)	(488)	984	968	16,469	919	17,896
	<u>291,843</u>	<u>3,363,297</u>	<u>457,952</u>	<u>2,440,259</u>	<u>2,486,118</u>	<u>1,016,532</u>	<u>2,760,062</u>	<u>12,816,063</u>
Depreciation	16,159	73,195	21,772	1,189,401	92,850	22,410	78,881	1,494,668
Interest	<u>2,445</u>	<u>9,781</u>	<u>2,445</u>	<u>2,445</u>	<u>2,445</u>	<u>8,820</u>	<u>2,447</u>	<u>30,828</u>
	<u>\$ 310,447</u>	<u>\$ 3,446,273</u>	<u>\$ 482,169</u>	<u>\$ 3,632,105</u>	<u>\$ 2,581,413</u>	<u>\$ 1,047,762</u>	<u>\$ 2,841,390</u>	<u>\$ 14,341,559</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 699,345	\$ 1,872,008
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,448,494	1,494,668
Net gain on investments	(888,090)	(631,570)
Gain on disposal of equipment	(8,986,133)	-
Changes in assets and liabilities:		
Accounts receivable, net	527,848	(196,972)
Contributions receivable	(363,079)	(71,066)
Inventory	122,513	(61,728)
Prepaid expenses	1,675,658	(669,253)
Accounts payable	(46)	(75,460)
Accrued expenses	(287,447)	(48,083)
Accrued pension liability	(215,525)	(1,405,611)
Deferred revenue	(577,920)	(145,929)
Net cash (used in) provided by operating activities	(6,844,382)	61,004
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	465,174	1,703,530
Purchases of investments	(865,466)	(1,115,741)
Purchases of property and equipment	(409,870)	(144,009)
Proceeds from sale of equipment	9,105,075	-
Net cash provided by investing activities	8,294,913	443,780
Cash flows from financing activities:		
Payments on line of credit, net	(1,267,116)	-
Net change in cash	183,415	504,784
Cash at the beginning of the year	805,111	300,327
Cash at the end of the year	\$ 988,526	\$ 805,111
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 16,440	\$ 30,828
Non-cash transactions:		
Contribution of working capital to MHz (see Note 2)	\$ 2,360,535	\$ -

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Business: Commonwealth Public Broadcasting Corporation (the "Corporation") is a nonprofit corporation whose primary operations consist of the production and/or broadcasting of instructional and noncommercial public interest television and radio programs in Central Virginia over its stations WCVE, WCVW and WCVE-FM in Richmond, WHTJ in Charlottesville, WCNV-FM in Heathsville, and WMVE-FM in Chase City.

Financial Statement Presentation: The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include undesignated and board designated net assets. Board designated net assets represent contributions with no donor-imposed stipulations as to their purpose which the Corporation's Board of Directors have earmarked for specific purposes.

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expended to support the activities of the Corporation.

Recognition of Support and Revenue, Contributions and Grants: Contributions and grants are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the fiscal year in which the contribution or grant is recognized. All other donor-restricted contributions and grants are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted. Revenue from services is recorded as the service is rendered. Corporate underwriting support revenue is treated as an exchange transaction in which funds received are exchanged for underwriting credits with an equal value.

Inventory: Inventory consists of purchased DVDs that are valued at the lower of cost or market, with cost being determined by the first-in, first-out method. All inventory was contributed to MHz during 2014 (see Note 2).

Fair Value of Financial Instruments: Due to the short-term nature of the Corporation's accounts receivable, contributions receivable, prepaid expenses, accounts payable, and accrued liabilities, there are no significant differences between their recorded and fair values.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Investments: All investments are measured at fair value with gains and losses included in operations (see Notes 3 and 6). Unrealized gains and losses are included in the accompanying statement of activities.

Property and Equipment: Purchased property and equipment are stated at cost. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The lives range from 3-15 years for equipment and 15-30 years for buildings and leasehold improvements.

Concentrations of Credit Risk: Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and receivables. The majority of receivables at June 30, 2014 are from underwriting, and the majority of receivable at June 30, 2013 are from underwriting and DVD sales. The Corporation had five customers that accounted for 36% of accounts receivable and two contributors accounted for 55% of contributions receivable at June 30, 2014. The Corporation had two customers that accounted for 43% of accounts receivable and no concentrations within contributions receivable at June 30, 2013.

The Corporation maintains its cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Corporation periodically has funds in excess of the federally insured limits.

Allowance for Doubtful Accounts: The Corporation uses the reserve method of accounting for bad debts on accounts receivable for financial reporting purposes. The balance of the Corporation's allowance for doubtful accounts was \$14,000 at June 30, 2014 and \$32,565 at June 30, 2013.

Deferred Revenue: The Corporation receives in advance payments primarily for data transmission and rental of tower space. These advance payments are recorded as deferred revenue when received and reclassified to support and revenue in the period to which they apply.

Tax Status: The Internal Revenue Service has determined that the Corporation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of Section 501, the Corporation is exempt from income taxes on income other than unrelated business income.

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Corporation has no significant financial statement exposure to uncertain income tax positions at June 30, 2014 or 2013. The Corporation's income tax returns for years since 2010 remain open for examination by tax authorities. The Company is not currently under audit by any tax jurisdiction.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Pension Benefits: The Corporation has a noncontributory defined benefit pension plan (the "Plan") that covered substantially all full-time employees. The Plan was frozen by the Board of Directors as of June 30, 2006. The Plan provides benefits that are based on compensation during the last five years before retirement and total years of service. The Corporation accounts for its pension plans in accordance with FASB guidance relating to employer's accounting for defined benefit pension and other postretirement plans. The guidance requires recognition of the funded status of the Corporation's benefit plan in its statement of financial position as of June 30, 2014 and 2013 and to recognize the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. These amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost. The impact of changes to assumptions, including the discount rate, used to determine the minimum pension liability is shown on the accompanying statements of activities as the change in minimum pension liability (see Note 9). The Corporation's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Corporation may determine to be appropriate from time to time.

Sales Returns and Allowances: A provision for estimated returns is recorded when revenue is recognized on DVD sales, based on the Corporation's historical experience and estimate of current activities. Should actual return rates differ from the Corporation's estimates, revisions to the reserve may be required. The reserve for returns of DVDs was \$93,600 as of June 30, 2013 and has been recorded as a component of accrued expenses on the accompanying statements of financial position. The provision for expected returns was \$84,306 for the year ended June 30, 2013, and is reflected in production services revenue on the accompanying statements of activities. There was no reserve or provision for returns of DVDs as of June 30, 2014, because DVDs were sold by MHz.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

2. Separation Agreement:

In May 2013, the Corporation entered into a Separation Agreement with Northern Virginia stations to form a separate Section 501(c)(3) exempt organization, MHz Networks ("MHz"). Effective January 22, 2014, the Corporation sold its towers in Northern Virginia (see Note 5). Upon the sale of the towers, the Corporation contributed a portion of the proceeds from the sale and certain assets and liabilities to MHz. The assets and liabilities contributed to MHz were as follows:

Cash and cash equivalents	\$ 6,977,026
Accounts receivable	868,080
Inventory	138,127
Prepaid expenses	2,438,625
Property and equipment	89,586
Accrued expenses	(57,058)
Deferred revenue	<u>(1,116,825)</u>
Total net assets contributed	<u>\$ 9,337,561</u>

3. Investments:

The Corporation's investment policies describe overall investment objectives as well as defining types of authorized investments to provide for a diversified portfolio. Under these policies, investments are managed to maintain funds for future needs. The funds may be invested in U.S. government and corporate obligations, domestic and international equities, and other instruments meeting criteria established by the Board of Directors. Because of the long-term perspective and purpose, the Corporation's invested funds are reported as non-current assets.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

3. Investments, Continued:

Costs and fair values as of June 30, 2014 and 2013 are summarized as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Corporate obligations	\$ 1,856,525	\$ 2,029,532	\$ 1,700,074	\$ 1,846,522
Equities	3,803,817	4,941,987	2,885,736	3,641,170
Mortgage and asset-backed securities	290,386	323,377	383,592	424,975
Temporary cash investments	<u>37,408</u>	<u>37,408</u>	<u>131,255</u>	<u>131,255</u>
	<u>\$ 5,988,136</u>	<u>\$ 7,332,304</u>	<u>\$ 5,100,657</u>	<u>\$ 6,043,922</u>

Investment transactions are reported as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Interest and dividends	\$ 248,003	\$ 188,166
Net realized gain	263,015	89,217
Net unrealized gain	<u>400,903</u>	<u>378,055</u>
Investment gain	911,921	655,438
Investment transaction costs and management fees	<u>(23,831)</u>	<u>(23,868)</u>
Investment income, net	<u>\$ 888,090</u>	<u>\$ 631,570</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

4. Contributions Receivable:

As of June 30, 2014 and 2013, contributors to the Corporation made unconditional written promises to give related to the following purposes:

	2014	2013
Unrestricted	\$ 73,643	\$ 76,828
Temporarily restricted:		
Capital campaign	278,264	9,000
TV	74,000	7,000
FM	30,000	-
Total temporarily restricted	382,264	16,000
Total contributions receivable	\$ 455,907	\$ 92,828

The Corporation projects that contributors will remit these contributions as follows:

	2014	2013
Less than one year	\$ 415,907	\$ 92,828
One year to five years	40,000	-
	\$ 455,907	\$ 92,828

5. Property and Equipment:

As of June 30, 2014 and 2013, property and equipment consisted of the following:

	2014	2013
Land	\$ 278,661	\$ 278,661
Buildings and leasehold improvements	6,269,135	6,229,834
Equipment	24,080,905	25,224,020
	30,628,701	31,732,515
Less accumulated depreciation	24,744,956	24,691,204
	\$ 5,883,745	\$ 7,041,311

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. Property and Equipment, Continued:

On January 22, 2014, the Corporation sold its transmission towers in Northern Virginia to facilitate the spin-off of MHz (see Note 2). The towers' carrying values were \$118,942 and the Corporation received proceeds of \$9,105,075, net of disposal costs of \$381,925. The Corporation recorded a gain of \$8,986,133 on the sale of the towers.

6. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

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

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

Corporate obligations: Valued at original cost adjusted for any premium or coupon. At June 30, 2014 and 2013, the corporate obligations have no unfunded commitments and can be redeemed immediately upon notice with no other redemption restrictions.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mortgage and asset-backed securities: Valued at original cost adjusted for any premium or coupon.

Temporary cash investments: Valued at the realizable cash value equivalent to the specific sum of money held by the Corporation at year end.

Pension plan assets and liabilities: Valued by the actuarial valuation as of July 1, 2014 (see Note 9).

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

Common collective trusts: Valued daily at the net asset value (“NAV”) of shares or units held by the Plan based on quoted market value of the underlying assets (see Note 9).

Pooled separate account: Valued daily at the NAV of units of participation in the separate account. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying mutual fund or collective trust shares held by the fund less its liabilities. The accumulation unit value (“AUV”) is the value of each unit in the separate account, and the separate account is valued daily as the number of accumulation units held multiplied by the AUV. The AUV is first established when a new fund starts (typically the beginning AUV is \$10.00) and is then determined daily based on the net asset value of the shares of the underlying fund, the fund’s dividends and the contract’s separate account charges (see Note 9).

Insurance company general account: The contract is included in the financial statements at contract value, which represents earnings, less withdrawals and administrative expenses (see Note 9).

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2014, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 2,029,532	\$ -	\$ 2,029,532
Equities:				
Value	732,027	-	-	732,027
Growth	698,599	-	-	698,599
Blend	901,874	-	-	901,874
International	1,039,462	-	-	1,039,462
Allocation	796,722	-	-	796,722
Technology	187,225	-	-	187,225
Health	223,260	-	-	223,260
Financial	169,287	-	-	169,287
Other	193,531	-	-	193,531
Mortgage and asset-backed securities	-	323,377	-	323,377
Temporary cash investments	37,408	-	-	37,408
Total assets	<u>\$ 4,979,395</u>	<u>\$ 2,352,909</u>	<u>\$ -</u>	<u>\$ 7,332,304</u>
Liabilities:				
Pension plan assets	\$ -	\$ 10,978,609	\$ -	\$ 10,978,609
Pension plan liabilities	<u>-</u>	<u>-</u>	<u>(13,617,991)</u>	<u>(13,617,991)</u>
Net pension plan assets (liabilities) at fair value	<u>\$ -</u>	<u>\$ 10,978,609</u>	<u>\$ (13,617,991)</u>	<u>\$ (2,639,382)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 1,846,522	\$ -	\$ 1,846,522
Equities:				
Value	766,308			766,308
Growth	317,338	-	-	317,338
Blend	864,440	-	-	864,440
International	553,955	-	-	553,955
Allocation	645,257	-	-	645,257
Technology	149,315	-	-	149,315
Health	172,780	-	-	172,780
Other	171,777	-	-	171,777
Mortgage and asset-backed securities	-	424,975	-	424,975
Temporary cash investments	131,255	-	-	131,255
Total assets	<u>\$ 3,772,425</u>	<u>\$ 2,271,497</u>	<u>\$ -</u>	<u>\$ 6,043,922</u>
Liabilities:				
Pension plan assets	\$ -	\$ 9,531,341	\$ -	\$ 9,531,341
Pension plan liabilities	-	-	(12,386,248)	(12,386,248)
Net pension plan assets (liabilities) at fair value	<u>\$ -</u>	<u>\$ 9,531,341</u>	<u>\$ (12,386,248)</u>	<u>\$ (2,854,907)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table provides a reconciliation between the beginning and ending balances of assets measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

Balance, July 1, 2012	\$ (12,761,496)
Interest cost	(583,630)
Actuarial losses	469,925
Benefits paid	<u>488,953</u>
Balance, June 30, 2013	(12,386,248)
Interest cost	(618,663)
Actuarial gains	(1,139,978)
Benefits paid	<u>526,898</u>
Balance, June 30, 2014	<u>\$ (13,617,991)</u>

7. Line of Credit:

The Corporation had available a line of credit with a bank providing for maximum borrowings of \$1,400,000 through February 20, 2014. The line of credit carried interest at the LIBOR Market Index Rate plus 2% (2.15% at February 20, 2014 and 2.19% at June 30, 2013). As of June 30, 2013, the outstanding balance on the line of credit was \$1,267,116. The line of credit was paid in full on February 20, 2014. Effective March 27, 2014, the Corporation obtained a new line of credit with a different bank providing for maximum borrowings of \$500,000 that will accrue interest at the bank's Prime Rate (3.25% at June 30, 2014). On the same date, the Corporation also entered into a revolving credit agreement with the same bank providing for maximum borrowings of \$1,000,000 to fund capital improvements that will accrue interest at the 30-Day LIBOR Rate plus 2.35% (2.50% at June 30, 2014). Both credit facilities will expire on June 18, 2015. The Corporation had no borrowings on either credit facility at June 30, 2014.

8. Accrued Expenses:

Accrued expenses at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Accrued payroll	\$ 85,740	\$ 162,923
Accrued vacation	149,483	203,169
Other accrued expenses	<u>7,453</u>	<u>164,031</u>
	<u>\$ 242,676</u>	<u>\$ 530,123</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

9. Retirement Plans:

The Corporation has a noncontributory defined benefit pension plan that covered all employees meeting certain service requirements. The Plan was frozen by the Board of Directors as of June, 30, 2006. The Corporation recognizes the funded status (the difference between the benefit obligation and the fair value of plan assets) in its statement of financial position and recognizes previously unrecognized gains or losses and prior service costs or credits. The latest actuarial valuations were as of July 1, 2014 and 2013.

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the aforementioned pension plan to the net amounts measured and recognized in the statement of financial position:

	<u>2014</u>	<u>2013</u>
Accumulated benefit obligation at the end of the year	<u>\$ 13,617,991</u>	<u>\$ 12,386,248</u>
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 12,386,248	\$ 12,761,496
Interest cost	618,663	583,630
Actuarial (gain) loss	1,139,978	(469,925)
Benefits paid	<u>(526,898)</u>	<u>(488,953)</u>
Projected benefit obligation at the end of the year	<u>13,617,991</u>	<u>12,386,248</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	9,531,341	8,500,978
Actual return on plan assets	1,607,166	1,067,574
Employer contributions	367,000	451,742
Benefits paid	<u>(526,898)</u>	<u>(488,953)</u>
Fair value of plan assets at the end of the year	<u>10,978,609</u>	<u>9,531,341</u>
Accrued cost recognized in accrued liabilities	<u>\$ (2,639,382)</u>	<u>\$ (2,854,907)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

9. Retirement Plans, Continued:

The following table provides a reconciliation on the pension activity for the years ended June 30:

	2014	2013
Net periodic cost	\$ 253,039	\$ 411,751
Change in minimum pension liability	(101,564)	(1,365,620)
	151,475	(953,869)
Employer contributions	(367,000)	(451,742)
 Change in accrued pension liability	 \$ (215,525)	 \$ (1,405,611)

Net periodic cost is included in salaries, wages and benefits in the accompanying statements of functional expenses.

The following table sets forth the weighted average assumptions as of June 30, 2014 and 2013:

	2014	2013
Discount rate	4.47%	5.12%
Expected rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

The following table sets forth the other significant plan information for the plan years ended June 30, 2014 and 2013:

	2014	2013
Components of net periodic pension cost:		
Interest costs	\$ 618,663	\$ 583,630
Expected return on plan assets	(659,634)	(593,822)
Recognized losses	294,010	421,943
 Net periodic cost	 \$ 253,039	 \$ 411,751
 Benefits paid	 \$ 526,898	 \$ 488,953
 Employer contribution	 \$ 367,000	 \$ 451,742

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

9. Retirement Plans, Continued:

Plan assets consist principally of long-term fixed income securities held by an insurance company and several investment funds that invest primarily in equities and corporate obligations. The Corporation's pension plan assets allocations are as follows:

	2014	2013
Plan assets:		
Equity securities	73 %	70 %
Debt securities	26	30
Money market	1	-
Total	100 %	100 %

The fair value of the Corporation's pension plan assets at June 30, 2014 by asset category are as follows:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Common collective trusts:				
Money market	\$ -	\$ 100	\$ -	\$ 100
Fixed income	-	606,217	-	606,217
Senior loan	-	256,727	-	256,727
International equity	-	1,321,829	-	1,321,829
Large cap value	-	2,440,703	-	2,440,703
Large cap growth	-	2,446,225	-	2,446,225
Mid cap value	-	558,609	-	558,609
Mid cap growth	-	554,012	-	554,012
Small cap equity	-	663,414	-	663,414
Total common collective trusts	-	8,847,836	-	8,847,836
Pooled separate account	-	84,826	-	84,826
Insurance company general account	-	2,045,947	-	2,045,947
Total assets at fair value	\$ -	\$ 10,978,609	\$ -	\$ 10,978,609

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

9. Retirement Plans, Continued:

The fair value of the Corporation's pension plan assets at June 30, 2013 by asset category are as follows:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Common collective trusts:				
Money market	\$ -	\$ 2,887	\$ -	\$ 2,887
Fixed income	-	553,324	-	553,324
Index equity	-	2,025,471	-	2,025,471
International equity	-	1,108,553	-	1,108,553
Large cap value	-	1,010,887	-	1,010,887
Large cap growth	-	1,014,297	-	1,014,297
Mid cap value	-	460,809	-	460,809
Mid cap growth	-	460,778	-	460,778
Small cap equity	-	739,871	-	739,871
Total common collective trusts	-	7,376,877	-	7,376,877
Pooled separate account	-	77,272	-	77,272
Insurance company general account	-	2,077,192	-	2,077,192
Total assets at fair value	\$ -	\$ 9,531,341	\$ -	\$ 9,531,341

Based on the July 1, 2014 plan valuation, a contribution of \$599,000 is required for fiscal year 2015. Future benefit payments are expected to be \$665,303 in fiscal year 2015, \$653,218 in fiscal year 2016, \$652,510 in fiscal year 2017, \$719,398 in fiscal year 2018, \$705,277 in fiscal year 2019, and \$3,812,324 in the fiscal years thereafter.

The Corporation also maintains a contributory defined contribution plan under IRC Section 403(b), which allows eligible employees to defer a portion of their compensation. The Corporation provides a 25% match on employee contributions up to 4% of salary. The Board of Directors added an enhancement to the Defined Contribution Plan which provided for employees, who were employed as of the end of the Corporation's fiscal year, to receive a 3.5% base contribution to their 403(b) account. The enhancement was suspended by the Board of Directors in December 2009. The total expense for the 403(b) plan was \$24,718 for 2014 and \$27,486 for 2013.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

10. Support Received in Exchange Transactions:

The Corporation receives various donated services from governmental agencies, corporations and businesses, and nonprofit entities in exchange for underwriting credits of a similar value to the services donated. The value of these services is determined by the actual value of the underwriting credit provided to the entity or the fair value of the contributed service. These are included as underwriting revenue and various offsetting expenses as indicated below.

The values of the support recognized in the financial statements through exchange transactions are as follows:

	<u>2014</u>	<u>2013</u>
WCVE-TV	\$ 157,583	\$ 154,953
WCVE-FM	<u>131,780</u>	<u>116,278</u>
	<u>\$ 289,363</u>	<u>\$ 271,231</u>

This support represented donations of:

	<u>2014</u>	<u>2013</u>
Advertising and public relations	\$ 226,330	\$ 169,286
Special events	61,278	95,370
Professional services and other	<u>1,755</u>	<u>6,575</u>
	<u>\$ 289,363</u>	<u>\$ 271,231</u>

11. Commitments and Contingencies:

The Corporation has received federal grants for property and equipment acquisitions. Should the Corporation sell the assets acquired under a grant within 10 years, the Corporation is required to remit proceeds from the sale to the grantor agency. The Corporation has received approximately \$1,000,000 in grants during the last 10 years, which are subject to this contingency. However, the Corporation has no intent to dispose of any of the related assets.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

12. Operating Leases:

The Corporation leased space for television and radio transmitter equipment, office equipment and space, and vehicles at an expense of approximately \$78,025 in 2014 and \$84,526 in 2013.

The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014:

<u>Year Ended June 30:</u>	<u>Amount</u>
2015	\$ 50,077
2016	38,344
2017	18,004
2018	17,635
2019	987
	<u>\$ 125,047</u>

13. Rental Income:

The Corporation leases space to government agencies and telecommunications companies for the placement of antennas and other communications equipment on the Corporation's broadcast towers. The following is a schedule, by year, of minimum future rentals on noncancelable operating leases as of June 30, 2014:

<u>Year Ended June 30:</u>	<u>Amount</u>
2015	\$ 283,914
2016	298,921
2017	301,498
2018	303,857
2019 and thereafter	306,301
	<u>\$ 1,494,491</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

13. Rental Income, Continued:

In September 2001, the Corporation entered into agreements with SpectraSite Broadcast Towers, Inc. for construction and management of a new broadcast tower, with construction to be provided by SpectraSite. The Corporation paid \$600,000 in April 2004 to SpectraSite upon substantial completion of the tower.

As part of the agreement with SpectraSite, the Corporation will receive 50% of net revenue generated from non-broadcast tenants by the new tower.

In September 2006, the Corporation entered into an Educational Broadband Service Long-Term Agreement to lease capacity on channels (WNC686, WHG238 and WHR972) to transmit in the Richmond, Virginia area. The initial term is ten years with two renewal terms of ten years each. The Corporation has been issued an irrevocable standby letter of credit that automatically terminates upon termination of the Agreement.

14. Restricted Net Assets:

Net assets of \$345,905 and \$359,922 were released from donor-imposed restrictions during the years ended June 30, 2014 and 2013, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets of \$737,085 as of June 30, 2014 and \$220,155 as of June 30, 2013 consist of contributions/grants received for Ready to Learn projects, future programming, and a capital campaign for planned giving and to fund technology improvements.

15. Endowment Funds:

The Corporation's endowment consists of two individual funds established for television and radio purposes. Its endowment includes both donor-restricted funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

15. Endowment Funds, Continued:

The Board of Directors of the Corporation has interpreted Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment Investing and Spending Policies: The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment funds are invested in a manner that is intended to produce stated investment results while assuming a moderate level of investment risk. The Corporation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective return through diversification of asset classes. The current long-term return objective is to achieve a total rate of return that consistently ranks in the top quartile of investments with the same average asset allocation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Corporation 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). Historically, the Corporation has targeted a diversified asset allocation that placed a greater value on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

15. Endowment Funds, Continued:

The spending policy calculates the amount of money annually distributed from the Corporation's various endowed funds for programs and administration. The current spending policy is to distribute earnings, as available, to fund television and radio programs.

Funds with Deficits: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with GAAP, it is the policy of the Corporation to absorb these losses into unrestricted net assets. These deficiencies result from unfavorable market fluctuations.

16. Guarantees:

Pursuant to its Articles of Incorporation, the Corporation has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Corporation's request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia. The Corporation's insurance policies serve to further limit its exposure. The Corporation believes that the estimated fair value of these indemnification obligations is minimal.

In accordance with the terms of tower rental lease agreements, the Corporation generally agrees to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. The Corporation is responsible for all repairs and maintenance of all towers that are owned by the Corporation. The Corporation also leases equipment and is responsible for all damages to the equipment while in its possession, exclusive of that caused by fire, flood, or other act of God.

17. Subsequent Events:

Management has evaluated subsequent events for potential recognition and/or disclosure through January 7, 2015, the date the financial statements were available to be issued.