

Commonwealth Public Broadcasting

Financial Statements

June 30, 2016 and 2015



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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, 2016 and 2015, 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, 2016 and 2015, 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 "Keita", with a long, sweeping horizontal stroke extending to the right.

January 24, 2017
Glen Allen, Virginia

COMMONWEALTH PUBLIC BROADCASTING

Statements of Financial Position
June 30, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,180,491	\$ 775,126
Accounts receivable, net	200,314	218,852
Contributions receivable - current	405,198	322,246
Income tax receivable	-	79,432
Prepaid expenses	<u>126,243</u>	<u>138,210</u>
Total current assets	1,912,246	1,533,866
Contributions receivable	244,561	235,062
Property and equipment, net	4,474,674	5,615,813
Investments	<u>7,578,063</u>	<u>7,456,831</u>
Total assets	<u>\$ 14,209,544</u>	<u>\$ 14,841,572</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 222,084	\$ 303,353
Accrued expenses	317,344	251,330
Accrued pension liability - current	689,000	672,000
Deferred revenue	<u>147,806</u>	<u>265,691</u>
Total current liabilities	1,376,234	1,492,374
Accrued pension liability	<u>4,030,876</u>	<u>2,737,044</u>
Total liabilities	<u>5,407,110</u>	<u>4,229,418</u>
Net assets:		
Unrestricted:		
Undesignated	12,755,511	13,766,719
Board designated	328,153	328,153
Minimum pension liability adjustment	<u>(5,614,004)</u>	<u>(4,451,551)</u>
Total unrestricted net assets	7,469,660	9,643,321
Temporarily restricted	946,283	582,342
Permanently restricted	<u>386,491</u>	<u>386,491</u>
Total net assets	<u>8,802,434</u>	<u>10,612,154</u>
Total liabilities and net assets	<u>\$ 14,209,544</u>	<u>\$ 14,841,572</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2016, with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support and revenue:					
Operating:					
Community support:					
Membership contributions and corporate support	\$ 4,016,190	\$ 971,195	\$ -	\$ 4,987,385	\$ 4,641,587
Underwriting	1,891,442	-	-	1,891,442	1,823,733
Public support - community service grants:					
Corporation for Public Broadcasting	1,205,326	-	-	1,205,326	1,185,775
Broadcast services:					
Data transmission	554,448	-	-	554,448	541,448
Production services	781,680	-	-	781,680	829,561
Gain on disposal of equipment	7,000	-	-	7,000	-
Miscellaneous	834,281	-	-	834,281	763,722
Total operating revenue	9,290,367	971,195	-	10,261,562	9,785,826
Investment (loss) income, net	(207,277)	-	-	(207,277)	125,317
Rental income	313,154	-	-	313,154	317,255
Total support and revenue	9,396,244	971,195	-	10,367,439	10,228,398
Net assets released from restrictions	607,254	(607,254)	-	-	-

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2016, with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Expenses:					
Programming:					
Educational television	\$ 277,849	\$ -	\$ -	\$ 277,849	\$ 188,800
Public broadcasting	3,002,321	-	-	3,002,321	2,682,684
Support functions	273,367	-	-	273,367	252,742
Broadcasting:					
Engineering	2,533,379	-	-	2,533,379	2,568,052
Production	1,124,511	-	-	1,124,511	891,457
General and administrative	1,133,698	-	-	1,133,698	1,425,451
Fundraising	2,669,581	-	-	2,669,581	2,582,581
Total expenses	<u>11,014,706</u>	<u>-</u>	<u>-</u>	<u>11,014,706</u>	<u>10,591,767</u>
Change in net assets before change in minimum pension liability	(1,011,208)	363,941	-	(647,267)	(363,369)
Change in minimum pension liability	<u>(1,162,453)</u>	<u>-</u>	<u>-</u>	<u>(1,162,453)</u>	<u>(688,977)</u>
Total change in net assets	(2,173,661)	363,941	-	(1,809,720)	(1,052,346)
Net assets at beginning of year	<u>9,643,321</u>	<u>582,342</u>	<u>386,491</u>	<u>10,612,154</u>	<u>11,664,500</u>
Net assets at end of year	<u>\$ 7,469,660</u>	<u>\$ 946,283</u>	<u>\$ 386,491</u>	<u>\$ 8,802,434</u>	<u>\$10,612,154</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Operating:				
Community support:				
Membership contributions	\$ 3,297,486	\$ 1,344,101	\$ -	\$ 4,641,587
Corporate support/underwriting and foundation grants	1,823,733	-	-	1,823,733
Public support - community service grants:				
Corporation for Public Broadcasting	1,185,775	-	-	1,185,775
Broadcast services:				
Data transmission	541,448	-	-	541,448
Production services	829,561	-	-	829,561
Miscellaneous	<u>763,722</u>	<u>-</u>	<u>-</u>	<u>763,722</u>
Total operating revenue	8,441,725	1,344,101	-	9,785,826
Investment income, net	125,317	-	-	125,317
Rental income	<u>317,255</u>	<u>-</u>	<u>-</u>	<u>317,255</u>
Total support and revenue	<u>8,884,297</u>	<u>1,344,101</u>	<u>-</u>	<u>10,228,398</u>
Net assets released from restrictions	<u>1,498,844</u>	<u>(1,498,844)</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Programming:				
Educational television	\$ 188,800	\$ -	\$ -	\$ 188,800
Public broadcasting	2,682,684	-	-	2,682,684
Support functions	252,742	-	-	252,742
Broadcasting:				
Engineering	2,568,052	-	-	2,568,052
Production	891,457	-	-	891,457
General and administrative	1,425,451	-	-	1,425,451
Fundraising	<u>2,582,581</u>	<u>-</u>	<u>-</u>	<u>2,582,581</u>
 Total expenses	<u>10,591,767</u>	<u>-</u>	<u>-</u>	<u>10,591,767</u>
 Change in net assets before change in minimum pension liability	(208,626)	(154,743)	-	(363,369)
Change in minimum pension liability	<u>(688,977)</u>	<u>-</u>	<u>-</u>	<u>(688,977)</u>
 Total change in net assets	(897,603)	(154,743)	-	(1,052,346)
 Net assets at beginning of year	<u>10,540,924</u>	<u>737,085</u>	<u>386,491</u>	<u>11,664,500</u>
 Net assets at end of year	<u>\$ 9,643,321</u>	<u>\$ 582,342</u>	<u>\$ 386,491</u>	<u>\$ 10,612,154</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Functional Expenses Year Ended June 30, 2016

	Program Services					General & Administrative	Fundraising	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production			
Salaries, wages and benefits	\$ 152,158	\$ 1,309,205	\$ 185,345	\$ 589,200	\$ 638,596	\$ 716,681	\$ 1,263,278	\$ 4,854,463
Business supplies and equipment	2,822	13,961	975	106,886	8,675	13,448	13,754	160,521
Technical supplies and equipment	117	383	-	46,761	8,258	-	452	55,971
Occupancy	21,742	143,792	3,741	369,276	86,461	2,818	65,902	693,732
Communications	3,795	12,449	1,436	37,694	7,602	3,557	61,473	128,006
Postage and shipping	1,095	1,038	-	1,657	175	3,147	355,200	362,312
Printing and duplication	13,412	519	9,106	-	65	294	14,061	37,457
Vehicles	845	670	80	6,375	5,409	3	595	13,977
Travel and entertainment	5,665	24,724	4,966	564	28,039	2,799	48,473	115,230
Professional services	18,200	23,506	3,092	80,515	26,720	237,370	86,709	476,112
Dues, professional affiliations	199	33,806	-	2,651	3,626	10,626	5,754	56,662
Advertising and public relations	2,107	2,863	1,667	1,473	1,253	1,560	148,440	159,363
Computer services	4,626	51,961	801	88,693	13,720	-	106,867	266,668
Program acquisitions	-	1,260,495	-	-	-	-	204,270	1,464,765
Conferences and meetings	35	302	-	-	-	710	707	1,754
Production	5,400	36,191	-	13,005	195,355	138,054	13,614	401,619
Premiums	135	-	-	-	-	-	192,797	192,932
Special events	12,854	180	47,942	101	290	125	23,473	84,965
Miscellaneous	78	1,276	2,231	31	187	880	804	5,487
	<u>245,285</u>	<u>2,917,321</u>	<u>261,382</u>	<u>1,344,882</u>	<u>1,024,431</u>	<u>1,132,072</u>	<u>2,606,623</u>	<u>9,531,996</u>
Depreciation	<u>32,564</u>	<u>85,000</u>	<u>11,985</u>	<u>1,188,497</u>	<u>100,080</u>	<u>1,626</u>	<u>62,958</u>	<u>1,482,710</u>
	<u>\$ 277,849</u>	<u>\$ 3,002,321</u>	<u>\$ 273,367</u>	<u>\$ 2,533,379</u>	<u>\$ 1,124,511</u>	<u>\$ 1,133,698</u>	<u>\$ 2,669,581</u>	<u>\$ 11,014,706</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Functional Expenses Year Ended June 30, 2015

	Program Services					General & Administrative	Fundraising	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production			
Salaries, wages and benefits	\$ 79,862	\$ 1,070,370	\$ 63,131	\$ 588,699	\$ 507,308	\$ 985,199	\$ 1,266,011	\$ 4,560,580
Business supplies and equipment	1,350	4,834	325	147,204	5,138	6,753	13,146	178,750
Technical supplies and equipment	43	861	43	44,847	13,153	43	43	59,033
Occupancy	20,418	148,664	4,594	382,591	84,970	10,908	61,591	713,736
Communications	2,285	9,867	524	37,880	7,188	2,655	55,218	115,617
Postage and shipping	903	1,226	10	2,275	272	3,103	350,199	357,988
Printing and duplication	18,154	806	-	-	1,763	484	34,889	56,096
Vehicles	1,077	372	80	7,967	3,668	-	625	13,789
Travel and entertainment	2,170	18,150	94	1,499	22,698	1,409	117,083	163,103
Professional services	12,147	47,948	9,275	9,643	24,562	226,666	71,333	401,574
Dues, professional affiliations	262	39,675	79	2,791	3,589	2,611	5,516	54,523
Advertising and public relations	652	3,140	160,175	-	-	-	6,454	170,421
Computer services	1,862	14,044	2,004	106,061	3,359	2,072	142,868	272,270
Program acquisitions	-	1,264,385	-	-	115,004	-	-	1,379,389
Conferences and meetings	-	183	-	27	27	1,522	1,552	3,311
Production	3,703	18,733	-	18,733	18,733	7,623	7,623	75,148
Premiums	-	-	-	-	-	-	360,025	360,025
Special events	17,569	857	4	4	93	1,083	21,112	40,722
Miscellaneous	16	26	-	-	26	170,624	-	170,692
	<u>162,473</u>	<u>2,644,141</u>	<u>240,338</u>	<u>1,350,221</u>	<u>811,551</u>	<u>1,422,755</u>	<u>2,515,288</u>	<u>9,146,767</u>
Depreciation	26,327	38,543	12,404	1,217,831	79,906	2,529	67,293	1,444,833
Interest	-	-	-	-	-	167	-	167
	<u>\$ 188,800</u>	<u>\$ 2,682,684</u>	<u>\$ 252,742</u>	<u>\$ 2,568,052</u>	<u>\$ 891,457</u>	<u>\$ 1,425,451</u>	<u>\$ 2,582,581</u>	<u>\$ 10,591,767</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Cash Flows Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,809,720)	\$ (1,052,346)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,482,710	1,444,834
Reinvested net investment loss (income)	207,277	(125,317)
Gain on disposal of equipment	(7,000)	-
Changes in assets and liabilities:		
Accounts receivable, net	18,538	(8,459)
Contributions receivable	(92,451)	(101,401)
Income tax receivable	79,432	(79,432)
Prepaid expenses	11,967	(55,020)
Accounts payable	(64,133)	71,849
Accrued expenses	66,014	8,654
Accrued pension liability	1,310,832	769,662
Deferred revenue	(117,885)	89,688
	<u>1,085,581</u>	<u>962,712</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	10,026	571,180
Proceeds from sale of property and equipment	7,000	-
Purchases of investments	(338,535)	(570,390)
Purchases of property and equipment	(358,707)	(1,176,902)
	<u>(680,216)</u>	<u>(1,176,112)</u>
Net cash used in investing activities		
Net change in cash	405,365	(213,400)
Cash at the beginning of the year	<u>775,126</u>	<u>988,526</u>
Cash at the end of the year	<u>\$ 1,180,491</u>	<u>\$ 775,126</u>
Supplemental disclosure of cash flow information:		
Cash (refunds) payments for taxes	<u>\$ (79,432)</u>	<u>\$ 249,330</u>
Cash payments for interest	<u>\$ -</u>	<u>\$ 167</u>
Supplemental disclosure of noncash information:		
Disposal of property and equipment through accounts payable	<u>\$ 17,136</u>	<u>\$ -</u>

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.

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 2 and 5). Unrealized gains and losses are included in the accompanying statements of activities. Realized gains and losses on dispositions are based on the net proceeds and the carrying value of the securities sold, using the specific identification method. Interest is accrued as earned, and dividends are recorded on the ex-dividend date.

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, 2016 and 2015 are from underwriting. The Corporation had three contributors account for 34% of contributions receivable at June 30, 2016 and 37% at June 30, 2015, respectively.

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 \$13,443 and \$14,000 at June 30, 2016 and 2015, respectively.

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.

Advertising Expenses: The Company expenses advertising costs as they are incurred. Advertising expense amounted to \$148,440 for 2016 and \$159,363 for 2015.

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. The Corporation incurred excise taxes during 2015 of \$170,000 on unrelated business income resulting from the sale of transmission towers during 2014.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Tax Status, Continued: 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, 2016 or 2015. The Corporation is not currently under audit by any tax jurisdiction.

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 statements of financial position as of June 30, 2016 and 2015 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 8). 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.

Subsequent Events: Management has evaluated subsequent events for potential recognition and/or disclosure through January 24, 2017, the date the financial statements were available to be issued and has determined there are no subsequent events to be reported in the accompanying financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

2. 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.

Costs and fair values as of June 30, 2016 and 2015 are summarized as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Corporate obligations	\$ 1,770,326	\$ 1,777,060	\$ 1,533,932	\$ 1,552,106
Equities	4,969,881	5,505,572	4,843,970	5,621,091
Mortgage and asset-backed securities	80,901	90,279	200,126	214,304
Temporary cash investments	<u>205,152</u>	<u>205,152</u>	<u>69,330</u>	<u>69,330</u>
	<u>\$ 7,026,260</u>	<u>\$ 7,578,063</u>	<u>\$ 6,647,358</u>	<u>\$ 7,456,831</u>

Investment transactions are reported as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 196,819	\$ 189,408
Net realized (loss) gain	(115,972)	499,832
Net unrealized loss	<u>(257,670)</u>	<u>(534,695)</u>
Investment (loss) gain	(176,823)	154,545
Investment transaction costs and management fees	<u>(30,454)</u>	<u>(29,228)</u>
Investment (loss) income, net	<u>\$ (207,277)</u>	<u>\$ 125,317</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

3. Contributions Receivable:

As of June 30, 2016 and 2015, contributors to the Corporation made unconditional written promises to give related to the following purposes:

	2016	2015
Unrestricted	\$ 174,385	\$ 69,273
Temporarily restricted:		
Capital campaign	424,874	409,464
TV	20,500	78,571
FM	30,000	-
Total temporarily restricted	475,374	488,035
Total contributions receivable	\$ 649,759	\$ 557,308

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

Less than one year	\$ 405,198	\$ 322,246
One year to five years	244,561	235,062
	\$ 649,759	\$ 557,308

Management has considered the present value of contributions receivable and has determined that the discount to net present value would be immaterial to the financial statements.

4. Property and Equipment:

As of June 30, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Land	\$ 278,661	\$ 278,661
Buildings and leasehold improvements	6,482,062	6,443,496
Equipment	25,386,451	25,083,446
	32,147,174	31,805,603
Less accumulated depreciation	27,672,500	26,189,790
	\$ 4,474,674	\$ 5,615,813

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. 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.

Corporate obligations: Valued at original cost adjusted for any premium or coupon. At June 30, 2016 and 2015, 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 liabilities: Valued by the actuarial valuation as of July 1, 2016 (see Note 8).

Pension plan assets:

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 8).

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Plan at year end (see Note 8).

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Pension plan assets, Continued:

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 8).

Cash equivalents: Considered highly liquid securities that were purchased with a maturity of three months or less. Valued at face value (see Note 8).

Insurance company general account: The contract is included in the financial statements at fair value, which represents earnings, less withdrawals and administrative expenses (see Note 8).

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 1,777,060	\$ -	\$ 1,777,060
Equities:				
Value	383,759	-	-	383,759
Growth	1,319,120	-	-	1,319,120
Blend	1,046,450	-	-	1,046,450
International	1,044,670	-	-	1,044,670
Allocation	767,622	-	-	767,622
Technology	289,798	-	-	289,798
Health	274,029	-	-	274,029
Financial	243,644	-	-	243,644
Energy	136,480	-	-	136,480
Mortgage and asset-backed securities	-	90,279	-	90,279
Temporary cash investments	205,152	-	-	205,152
Total assets	<u>\$ 5,710,724</u>	<u>\$ 1,867,339</u>	<u>\$ -</u>	<u>\$ 7,578,063</u>
Liabilities:				
Pension plan assets	\$ -	\$ 9,873,606	\$ -	\$ 9,873,606
Pension plan liabilities	-	-	(14,593,482)	(14,593,482)
Net pension plan assets (liabilities) at fair value	<u>\$ -</u>	<u>\$ 9,873,606</u>	<u>\$ (14,593,482)</u>	<u>\$ (4,719,876)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2015, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 1,552,106	\$ -	\$ 1,552,106
Equities:				
Value	338,175	-	-	338,175
Growth	1,232,548	-	-	1,232,548
Blend	1,103,050	-	-	1,103,050
International	1,375,877	-	-	1,375,877
Allocation	582,899	-	-	582,899
Technology	276,635	-	-	276,635
Health	363,896	-	-	363,896
Financial	141,560	-	-	141,560
Other	206,451	-	-	206,451
Mortgage and asset-backed securities	-	214,304	-	214,304
Temporary cash investments	69,330	-	-	69,330
Total assets	<u>\$ 5,690,421</u>	<u>\$ 1,766,410</u>	<u>\$ -</u>	<u>\$ 7,456,831</u>
Liabilities:				
Pension plan assets	\$ -	\$ 9,970,811	\$ -	\$ 9,970,811
Pension plan liabilities	-	-	(13,379,855)	(13,379,855)
Net pension plan assets (liabilities) at fair value	<u>\$ -</u>	<u>\$ 9,970,811</u>	<u>\$ (13,379,855)</u>	<u>\$ (3,409,044)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

5. 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, 2014	\$ (13,617,991)
Interest cost	(584,402)
Actuarial losses	(1,008,045)
Benefits paid	<u>1,830,583</u>
Balance, June 30, 2015 (see Note 8)	(13,379,855)
Interest cost	(594,981)
Actuarial losses	(1,173,203)
Benefits paid	<u>554,557</u>
Balance, June 30, 2016 (see Note 8)	<u>\$ (14,593,482)</u>

6. Line of Credit:

The Corporation has available a line of credit with a bank providing for maximum borrowings of \$500,000 that will accrue interest at the bank's Prime Rate (3.5% at June 30, 2016). The Corporation also has 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% (2.82% at June 30, 2016). Both credit facilities were extended and will expire on June 18, 2017. The Corporation had no borrowings on either credit facility at June 30, 2016 and 2015.

7. Accrued Expenses:

Accrued expenses at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Accrued payroll	\$ 154,963	\$ 99,988
Accrued vacation	125,631	142,809
Due to other organizations	35,501	-
Other accrued expenses	<u>1,249</u>	<u>8,533</u>
	<u>\$ 317,344</u>	<u>\$ 251,330</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

8. 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 statements 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, 2016 and 2015.

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>2016</u>	<u>2015</u>
Accumulated benefit obligation at the end of the year	<u>\$ 14,593,482</u>	<u>\$ 13,379,855</u>
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 13,379,855	\$ 13,617,991
Interest cost	594,981	584,402
Actuarial loss	1,173,203	1,008,045
Benefits paid	<u>(554,557)</u>	<u>(1,830,583)</u>
Projected benefit obligation at the end of the year	<u>14,593,482</u>	<u>13,379,855</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	9,970,811	10,978,609
Actual return on plan assets	234,352	223,785
Employer contributions	223,000	599,000
Benefits paid	<u>(554,557)</u>	<u>(1,830,583)</u>
Fair value of plan assets at the end of the year	<u>9,873,606</u>	<u>9,970,811</u>
Accrued cost recognized in accrued liabilities	<u>\$ (4,719,876)</u>	<u>\$ (3,409,044)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

8. Retirement Plans, Continued:

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

	2016	2015
Net periodic cost	\$ 371,379	\$ 239,355
Settlement/curtailment expense	-	440,330
Change in minimum pension liability	1,162,453	688,977
	1,533,832	1,368,662
Employer contributions	(223,000)	(599,000)
Change in accrued pension liability	\$ 1,310,832	\$ 769,662

Net periodic cost and settlement/curtailment expense are 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, 2016 and 2015:

	2016	2015
Discount rate	3.82%	4.56%
Expected rate of return on plan assets	5.20%	6.25%
Rate of compensation increases	N/A	N/A

The following table sets forth the other significant plan information for the plan years ended June 30, 2016 and 2015:

	2016	2015
Components of net periodic pension cost:		
Interest costs	\$ 594,981	\$ 584,402
Expected return on plan assets	(611,344)	(717,417)
Recognized losses	387,742	372,370
Net periodic cost	\$ 371,379	\$ 239,355
Settlement/curtailment expense	\$ -	\$ 440,330
Benefits paid	\$ 554,557	\$ 1,830,583
Employer contribution	\$ 223,000	\$ 599,000

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

8. 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:

	2016	2015
Plan assets:		
Equity securities	23 %	60 %
Debt securities	74	39
Money market	1	1
Real estate	2	-
Total	100 %	100 %

The fair value of the Corporation's pension plan assets at June 30, 2016 by asset category are as follows:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Mutual funds - equities	\$ 826,450	\$ -	\$ -	\$ 826,450
Mutual funds - bonds	1,975,662	-	-	1,975,662
Cash equivalents	143,361	-	-	143,361
Total assets in the fair value hierarchy	\$ 2,945,473	\$ -	\$ -	2,945,473
Investments measured at NAV				6,928,133
Total assets at fair value				\$ 9,873,606

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

8. Retirement Plans, Continued:

The fair value of the Corporation's pension plan assets at June 30, 2015 by asset category are as follows:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Common collective trusts:				
Senior loan	\$ -	\$ 244,999		\$ 244,999
Large cap value	-	2,204,770	-	2,204,770
Large cap growth	-	2,210,140	-	2,210,140
Mid cap value	-	496,978	-	496,978
Mid cap growth	-	497,030	-	497,030
Core plus trust	-	1,746,578	-	1,746,578
Small cap equity	-	608,915	-	608,915
Total common collective trusts	-	8,009,410	-	8,009,410
Pooled separate account Insurance company general account	-	93,102	-	93,102
	-	1,868,299	-	1,868,299
Total assets at fair value	<u>\$ -</u>	<u>\$ 9,970,811</u>	<u>\$ -</u>	<u>\$ 9,970,811</u>

Based on the July 1, 2016 plan valuation, a contribution of \$130,750 is required for fiscal year 2017. Future benefit payments are expected to be \$689,000 in fiscal year 2017, \$755,000 in fiscal year 2018, \$738,000 in fiscal year 2019, \$773,000 in fiscal year 2020, \$774,000 in fiscal year 2021, and \$4,089,000 in the fiscal years through 2026.

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. Effective July 1, 2014 the Board of Directors increased the employer matching contribution to 35% on employee contributions up to 6% of salary. Prior to the amendment, the Corporation provided a 25% match on employee contributions up to 4% of salary. The total expense for the 403(b) plan was \$53,874 for 2016 and \$36,812 for 2015.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

9. 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:

	2016	2015
WCVE-TV	\$ 90,046	\$ 172,487
WCVE-FM	252,359	155,382
	\$ 342,405	\$ 327,869

This support represented donations of:

	2016	2015
Advertising and public relations	\$ 138,136	\$ 160,175
Special events	204,269	167,694
	\$ 342,405	\$ 327,869

10. 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

11. Operating Leases:

The Corporation leased space for television and radio transmitter equipment, office equipment and space, and vehicles at an expense of approximately \$63,885 in 2016 and \$51,808 in 2015.

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, 2016:

<u>Year Ended June 30:</u>	<u>Amount</u>
2017	\$ 32,141
2018	32,316
2019	15,668
2020	14,681
2021 and thereafter	<u>14,647</u>
	<u>\$ 109,453</u>

12. 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, 2016:

<u>Year Ended June 30:</u>	<u>Amount</u>
2017	\$ 262,412
2018	268,882
2019	272,058
2020	273,243
2021	<u>275,149</u>
	<u>\$ 1,351,744</u>

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.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

12. Rental Income, Continued:

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 agreement automatically renewed in September 2016. The Corporation has been issued an irrevocable standby letter of credit that automatically terminates upon termination of the Agreement.

13. Restricted Net Assets:

Net assets of \$607,254 and \$1,498,844 were released from donor-imposed restrictions during the years ended June 30, 2016 and 2015, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets of \$946,283 as of June 30, 2016 and \$582,342 as of June 30, 2015 consist of contributions/grants received for Ready to Learn projects, future programming, and a capital campaign for planned giving and to fund technology improvements.

14. 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.

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.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

14. Endowment Funds, Continued:

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.

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.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

15. 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.

16. New Accounting Guidance:

In August 2016, FASB issued ASU No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities", which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds.
- Requires all not-for-profits to provide expenses by nature and function
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Corporation has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.