

Commonwealth Public Broadcasting

Financial Statements

June 30, 2017 and 2016



4401 Dominion Boulevard
Glen Allen, Virginia 23060
Tel: 804.747.0000
www.keitercpa.com

COMMONWEALTH PUBLIC BROADCASTING

Table of Contents

	<u>Page</u>
Report of Independent Accountants	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to Financial Statements	11

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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2018
Glen Allen, Virginia

COMMONWEALTH PUBLIC BROADCASTING

Statements of Financial Position June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 506,934	\$ 1,180,491
Spectrum auction proceeds receivable (see Note 16)	181,956,420	-
Accounts receivable, net	226,210	200,314
Contributions receivable - current	341,729	405,198
Prepaid expenses	<u>134,652</u>	<u>126,243</u>
Total current assets	183,165,945	1,912,246
Contributions receivable	95,363	244,561
Property and equipment, net	4,152,890	4,474,674
Investments	<u>7,905,185</u>	<u>7,578,063</u>
Total assets	<u>\$ 195,319,383</u>	<u>\$ 14,209,544</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 190,279	\$ 222,084
Spectrum auction proceeds payable - current (see Note 16)	163,456,420	-
Accrued expenses	445,285	317,344
Accrued pension liability - current	760,000	689,000
Deferred revenue	<u>155,217</u>	<u>147,806</u>
Total current liabilities	165,007,201	1,376,234
Spectrum auction proceeds payable - noncurrent (see Note 16)	8,500,000	-
Accrued pension liability	<u>3,608,649</u>	<u>4,030,876</u>
Total liabilities	<u>177,115,850</u>	<u>5,407,110</u>
Net assets:		
Unrestricted:		
Undesignated	22,063,817	12,755,511
Board designated	328,153	328,153
Minimum pension liability adjustment	<u>(4,809,923)</u>	<u>(5,614,004)</u>
Total unrestricted net assets	17,582,047	7,469,660
Temporarily restricted	234,995	946,283
Permanently restricted	<u>386,491</u>	<u>386,491</u>
Total net assets	<u>18,203,533</u>	<u>8,802,434</u>
Total liabilities and net assets	<u>\$ 195,319,383</u>	<u>\$ 14,209,544</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2017, with Comparative Totals for 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Support and revenue:					
Operating:					
Community support:					
Membership contributions and corporate support	\$ 3,915,899	\$ 280,786	\$ -	\$ 4,196,685	\$ 4,987,385
Underwriting	1,764,624	-	-	1,764,624	1,891,442
Public support - community service grants:					
Corporation for Public Broadcasting	1,170,154	-	-	1,170,154	1,205,326
Broadcast services:					
Data transmission	559,389	-	-	559,389	554,448
Production services	886,430	-	-	886,430	781,680
Gain on disposal of equipment	-	-	-	-	7,000
Miscellaneous	546,839	-	-	546,839	834,281
Total operating revenue	8,843,335	280,786	-	9,124,121	10,261,562
Spectrum auction proceeds, net (see Note 16)	10,000,000	-	-	10,000,000	-
Investment income (loss), net	988,897	-	-	988,897	(207,277)
Rental income	272,823	-	-	272,823	313,154
Total support and revenue	20,105,055	280,786	-	20,385,841	10,367,439
Net assets released from restrictions	992,074	(992,074)	-	-	-

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2017, with Comparative Totals for 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Expenses:					
Programming:					
Educational television	\$ 346,439	\$ -	\$ -	\$ 346,439	\$ 277,849
Public broadcasting	3,499,466	-	-	3,499,466	3,002,321
Support functions	388,233	-	-	388,233	273,367
Broadcasting:					
Engineering	1,874,028	-	-	1,874,028	2,533,379
Production	1,428,107	-	-	1,428,107	1,124,511
General and administrative	1,401,607	-	-	1,401,607	1,133,698
Fundraising	2,850,943	-	-	2,850,943	2,669,581
	<u>11,788,823</u>	<u>-</u>	<u>-</u>	<u>11,788,823</u>	<u>11,014,706</u>
Total expenses					
Change in net assets before change in minimum pension liability	9,308,306	(711,288)	-	8,597,018	(647,267)
Change in minimum pension liability	<u>804,081</u>	<u>-</u>	<u>-</u>	<u>804,081</u>	<u>(1,162,453)</u>
Total change in net assets	10,112,387	(711,288)	-	9,401,099	(1,809,720)
Net assets at beginning 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>
Net assets at end of year	<u>\$ 17,582,047</u>	<u>\$ 234,995</u>	<u>\$ 386,491</u>	<u>\$ 18,203,533</u>	<u>\$ 8,802,434</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Operating:				
Community support:				
Membership contributions	\$ 4,016,190	\$ 971,195	\$ -	\$ 4,987,385
Corporate support/underwriting and foundation grants	1,891,442	-	-	1,891,442
Public support - community service grants:				
Corporation for Public Broadcasting	1,205,326	-	-	1,205,326
Broadcast services:				
Data transmission	554,448	-	-	554,448
Production services	781,680	-	-	781,680
Gain on disposal of equipment	7,000	-	-	7,000
Miscellaneous	<u>834,281</u>	<u>-</u>	<u>-</u>	<u>834,281</u>
Total operating revenue	9,290,367	971,195	-	10,261,562
Investment loss, net	(207,277)	-	-	(207,277)
Rental income	<u>313,154</u>	<u>-</u>	<u>-</u>	<u>313,154</u>
Total support and revenue	<u>9,396,244</u>	<u>971,195</u>	<u>-</u>	<u>10,367,439</u>
Net assets released from restrictions	<u>607,254</u>	<u>(607,254)</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued
Year Ended June 30, 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Expenses:				
Programming:				
Educational television	\$ 277,849	\$ -	\$ -	\$ 277,849
Public broadcasting	3,002,321	-	-	3,002,321
Support functions	273,367	-	-	273,367
Broadcasting:				
Engineering	2,533,379	-	-	2,533,379
Production	1,124,511	-	-	1,124,511
General and administrative	1,133,698	-	-	1,133,698
Fundraising	<u>2,669,581</u>	<u>-</u>	<u>-</u>	<u>2,669,581</u>
 Total expenses	 <u>11,014,706</u>	 <u>-</u>	 <u>-</u>	 <u>11,014,706</u>
 Change in net assets before change in minimum pension liability	 (1,011,208)	363,941	-	(647,267)
Change in minimum pension liability	<u>(1,162,453)</u>	<u>-</u>	<u>-</u>	<u>(1,162,453)</u>
 Total change in net assets	 (2,173,661)	363,941	-	(1,809,720)
 Net assets at beginning of year	 <u>9,643,321</u>	<u>582,342</u>	<u>386,491</u>	<u>10,612,154</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>

See accompanying notes to financial statements.

COMMONWEALTH PUBLIC BROADCASTING

Statements of Functional Expenses Year Ended June 30, 2017

	Educational Television	Public Broadcasting	Support Functions	Engineering	Production	General & Administrative	Fundraising	Total
Salaries, wages and benefits	\$ 179,348	\$ 1,465,179	\$ 265,700	\$ 650,479	\$ 701,665	\$ 923,970	\$ 1,458,614	\$ 5,644,955
Business supplies and equipment	5,778	22,185	2,123	130,925	11,987	14,900	15,130	203,028
Technical supplies and equipment	1,672	6,894	1,640	53,650	18,146	1,700	2,668	86,370
Occupancy	44,641	243,873	26,535	160,072	112,195	36,119	85,102	708,537
Communications	4,858	19,036	2,611	29,402	17,273	7,418	39,472	120,070
Postage and shipping	1,710	985	169	1,992	380	2,030	406,515	413,781
Printing and duplication	23,694	411	6,133	188	12	90	18,741	49,269
Vehicles	1,158	336	91	3,444	6,763	74	474	12,340
Travel and entertainment	10,444	23,264	13,770	3,684	25,268	2,453	67,330	146,213
Professional services	14,945	45,992	10,283	12,405	14,399	275,196	108,189	481,409
Dues, professional affiliations	479	27,678	260	3,053	5,383	13,577	4,927	55,357
Advertising and public relations	993	1,714	826	643	486	89	22,540	27,291
Computer services	7,414	30,404	1,156	73,715	17,840	24	79,782	210,335
Program acquisitions	-	1,245,342	-	-	-	-	275,525	1,520,867
Conferences and meetings	30	727	478	-	235	1,282	3,883	6,635
Production	3,155	96,478	-	260	366,768	70,260	2,263	539,184
Premiums	-	-	-	-	-	-	179,349	179,349
Special events	21,302	539	41,059	465	626	432	20,036	84,459
Miscellaneous	146	500	3,834	900	880	1,201	215	7,676
	<u>321,767</u>	<u>3,231,537</u>	<u>376,668</u>	<u>1,125,277</u>	<u>1,300,306</u>	<u>1,350,815</u>	<u>2,790,755</u>	<u>10,497,125</u>
Depreciation	<u>24,672</u>	<u>267,929</u>	<u>11,565</u>	<u>748,751</u>	<u>127,801</u>	<u>50,792</u>	<u>60,188</u>	<u>1,291,698</u>
	<u>\$ 346,439</u>	<u>\$ 3,499,466</u>	<u>\$ 388,233</u>	<u>\$ 1,874,028</u>	<u>\$ 1,428,107</u>	<u>\$ 1,401,607</u>	<u>\$ 2,850,943</u>	<u>\$ 11,788,823</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	10,304	21,227
Computer services	4,626	51,961	801	88,693	13,720	-	106,867	266,668
Program acquisitions	-	1,260,495	-	-	-	-	342,406	1,602,901
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 Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 9,401,099	\$ (1,809,720)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,291,698	1,482,710
Reinvested net investment (income) loss	(988,897)	207,277
Gain on disposal of equipment	-	(7,000)
Changes in assets and liabilities:		
Accounts receivable, net	(25,896)	18,538
Contributions receivable	212,667	(92,451)
Spectrum auction proceeds receivable	(181,956,420)	-
Income tax receivable	-	79,432
Prepaid expenses	(8,409)	11,967
Accounts payable	(31,805)	(64,133)
Spectrum auction proceeds payable	171,956,420	-
Accrued expenses	127,941	66,014
Accrued pension liability	(351,227)	1,310,832
Deferred revenue	7,411	(117,885)
Net cash (used in) provided by operating activities	(365,418)	1,085,581
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	685,354	10,026
Proceeds from sale of property and equipment	-	7,000
Purchases of investments	(23,579)	(338,535)
Purchases of property and equipment	(969,914)	(358,707)
Net cash used in investing activities	(308,139)	(680,216)
Net change in cash	(673,557)	405,365
Cash at the beginning of the year	1,180,491	775,126
Cash at the end of the year	\$ 506,934	\$ 1,180,491
Supplemental disclosure of cash flow information:		
Cash refunds received for taxes	\$ -	\$ 79,432

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.

The Corporation is the wholly-owned subsidiary of The Virginia Foundation for Public Media (the "Foundation"), an organization with control over the Corporation through common board members that was created with the proceeds received from the spectrum auction (see Note 16). These financial statements do not report the consolidation financial position or operations of the Foundation.

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.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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.

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, 2017 and 2016 are from underwriting. The Corporation had one and three contributors account for 14% and 34% of contributions receivable at June 30, 2017 and 2016, 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 at June 30, 2017 and 2016.

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 \$27,291 for 2017 and \$21,227 for 2016.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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, 2017 or 2016. 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, 2017 and 2016 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.

Reclassifications: Certain prior year balances have been reclassified to conform to current year presentation.

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, 2017 and 2016 are summarized as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Corporate obligations	\$ 1,794,117	\$ 1,809,075	\$ 1,770,326	\$ 1,777,060
Equities	4,847,286	5,961,486	4,969,881	5,505,572
Mortgage and asset-backed securities	56,274	61,858	80,901	90,279
Temporary cash investments	<u>72,766</u>	<u>72,766</u>	<u>205,152</u>	<u>205,152</u>
	<u>\$ 6,770,443</u>	<u>\$ 7,905,185</u>	<u>\$ 7,026,260</u>	<u>\$ 7,578,063</u>

Investment transactions are reported as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 194,589	\$ 196,819
Net realized gain (loss)	241,693	(115,972)
Net unrealized gain (loss)	<u>582,939</u>	<u>(257,670)</u>
Investment gain (loss)	1,019,221	(176,823)
Investment transaction costs and management fees	<u>(30,324)</u>	<u>(30,454)</u>
Investment income (loss), net	<u>\$ 988,897</u>	<u>\$ (207,277)</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

3. Contributions Receivable:

As of June 30, 2017 and 2016, contributors to the Corporation made unconditional written promises to give related to the following purposes:

	2017	2016
Unrestricted	\$ 202,097	\$ 174,385
Temporarily restricted:		
Capital campaign	234,995	424,874
TV	-	20,500
FM	-	30,000
Total temporarily restricted	234,995	475,374
Total contributions receivable	\$ 437,092	\$ 649,759

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

	2017	2016
Less than one year	\$ 341,729	\$ 405,198
One year to five years	95,363	244,561
	\$ 437,092	\$ 649,759

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, 2017 and 2016, property and equipment consisted of the following:

	2017	2016
Land	\$ 278,661	\$ 278,661
Buildings and leasehold improvements	6,566,284	6,482,062
Equipment	26,272,143	25,386,451
	33,117,088	32,147,174
Less accumulated depreciation	28,964,198	27,672,500
	\$ 4,152,890	\$ 4,474,674

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, 2017 and 2016, 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, 2017 (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:

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).

Assets and liabilities measured at fair value on a recurring basis at June 30, 2017, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 1,809,075	\$ -	\$ 1,809,075
Equities:				
Value	547,270	-	-	547,270
Growth	1,203,260	-	-	1,203,260
Blend	1,027,191	-	-	1,027,191
International	1,652,603	-	-	1,652,603
Allocation	561,158	-	-	561,158
Technology	272,615	-	-	272,615
Health	309,477	-	-	309,477
Financial	193,152	-	-	193,152
Energy	194,760	-	-	194,760
Mortgage and asset-backed securities	-	61,858	-	61,858
Temporary cash investments	72,766	-	-	72,766
Total assets	<u>\$ 6,034,252</u>	<u>\$ 1,870,933</u>	<u>\$ -</u>	<u>\$ 7,905,185</u>
Liabilities:				
Pension plan assets	\$ -	\$ 9,742,178	\$ -	\$ 9,742,178
Pension plan liabilities	-	-	(14,110,827)	(14,110,827)
Net pension plan assets (liabilities) at fair value	<u>\$ -</u>	<u>\$ 9,742,178</u>	<u>\$ (14,110,827)</u>	<u>\$ (4,368,649)</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, 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	<u>-</u>	<u>-</u>	<u>(14,593,482)</u>	<u>(14,593,482)</u>
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:

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, 2015	\$ (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)	(14,593,482)
Interest cost	(544,438)
Actuarial gain	405,542
Benefits paid	<u>621,551</u>
Balance, June 30, 2017 (see Note 8)	<u>\$ (14,110,827)</u>

6. Line of Credit:

The Corporation had available a line of credit with a bank providing for maximum borrowings of \$500,000 that accrued interest at the bank's Prime Rate. The Corporation also had a revolving credit agreement with the same bank providing for maximum borrowings of \$1,000,000 to fund capital improvements that accrued interest at the 30-Day LIBOR Rate plus 2.35%. Both credit facilities expired on June 5, 2017. The Corporation had no borrowings on either credit facility at June 30, 2016.

7. Accrued Expenses:

Accrued expenses at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Accrued payroll	\$ 178,714	\$ 154,963
Accrued vacation	178,518	125,631
Due to other organizations	66,625	35,501
Other accrued expenses	<u>21,428</u>	<u>1,249</u>
	<u>\$ 445,285</u>	<u>\$ 317,344</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, 2017 and 2016.

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>2017</u>	<u>2016</u>
Accumulated benefit obligation at the end of the year	<u>\$ 14,110,827</u>	<u>\$ 14,593,482</u>
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 14,593,482	\$ 13,379,855
Interest cost	544,438	594,981
Actuarial (gain) loss	(405,542)	1,173,203
Benefits paid	<u>(621,551)</u>	<u>(554,557)</u>
Projected benefit obligation at the end of the year	<u>14,110,827</u>	<u>14,593,482</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	9,873,606	9,970,811
Actual return on plan assets	359,323	234,352
Employer contributions	130,800	223,000
Benefits paid	<u>(621,551)</u>	<u>(554,557)</u>
Fair value of plan assets at the end of the year	<u>9,742,178</u>	<u>9,873,606</u>
Accrued cost recognized in accrued liabilities	<u>\$ (4,368,649)</u>	<u>\$ (4,719,876)</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:

	2017	2016
Net periodic cost	\$ 583,654	\$ 371,379
Change in minimum pension liability	(804,081)	1,162,453
	(220,427)	1,533,832
Employer contributions	(130,800)	(223,000)
Change in accrued pension liability	\$ (351,227)	\$ 1,310,832

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, 2017 and 2016:

	2017	2016
Discount rate	3.93%	3.82%
Expected rate of return on plan assets	5.20%	5.20%
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, 2017 and 2016:

	2017	2016
Components of net periodic pension cost:		
Interest costs	\$ 544,438	\$ 594,981
Expected return on plan assets	(498,952)	(611,344)
Recognized losses	538,168	387,742
Net periodic cost	\$ 583,654	\$ 371,379
Benefits paid	\$ 621,551	\$ 554,557
Employer contribution	\$ 130,800	\$ 223,000

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:

	2017	2016	
Plan assets:			
Equity securities	24 %	23 %	
Debt securities	72	74	
Money market	2	1	
Real estate	2	2	
Total	100 %	100 %	

The fair value of the Corporation's pension plan assets at June 30, 2017 by asset category are as follows:

	Fair Value Using Level 1	Asset/Liabilities at Fair Value
Mutual funds - equities	\$ 801,250	\$ 801,250
Mutual funds - bonds	1,975,749	1,975,749
Cash equivalents	177,885	177,885
Total assets in the fair value hierarchy	\$ 2,954,884	2,954,884
Investments measured at NAV ^(a)		6,787,294
Total assets at fair value		\$ 9,742,178

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, 2016 by asset category are as follows:

	Fair Value Using Level 1	Asset/Liabilities at Fair Value
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 ^(a)		6,928,133
Total assets at fair value		\$ 9,873,606

(a) In accordance with subtopic 820-10, these Plan assets are measured at the net asset value per share (or its equivalent) as a practical expedient and have not been included in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Net Assets Available for Benefits.

Based on the July 1, 2017 plan valuation, a contribution of \$206,950 is required for fiscal year 2018. Future benefit payments are expected to be \$760,000 in fiscal year 2018, \$743,000 in fiscal year 2019, \$777,000 in fiscal year 2020, \$776,000 in fiscal year 2021, \$784,000 in fiscal year 2022, and \$4,149,000 in the fiscal years through 2027.

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 \$61,008 for 2017 and \$53,874 for 2016.

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:

	<u>2017</u>	<u>2016</u>
WCVE-TV	\$ 106,500	\$ 90,046
WCVE-FM	<u>169,025</u>	<u>252,359</u>
	<u>\$ 275,525</u>	<u>\$ 342,405</u>

This support is included in fundraising program acquisitions expense on the accompany statements of functional expenses.

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 \$45,403 in 2017 and \$63,885 in 2016.

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, 2017:

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 95,400
2019	78,752
2020	77,765
2021	76,223
2022 and thereafter	<u>50,566</u>
	<u>\$ 378,706</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, 2017:

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 285,953
2019	292,851
2020	294,794
2021	299,483
2022	<u>304,313</u>
	<u>\$ 1,477,394</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 was for 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 \$992,074 and \$607,254 were released from donor-imposed restrictions during the years ended June 30, 2017 and 2016, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets of \$234,995 as of June 30, 2017 and \$946,283 as of June 30, 2016 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. Spectrum Auction Proceeds:

During 2017, the Federal Communications Commission ("FCC") held a voluntary auction to purchase the right to use broadcast spectrum from commercial and public broadcasters across the country with the goal to re-sell that spectrum to wireless providers for the benefit of creating more bandwidth for mobile broadband and other wireless services. The Corporation participated in this auction by offering two channels the Corporation controlled in the DC area, WNVT, Goldvein, Va and WNVC, Fairfax, Va. On April 13, 2017, the FCC announced the results of the bidding process, and the Corporation was awarded a one-time amount of \$181,956,420 in exchange for its spectrum channels. The proceeds were received on July 21, 2017, and are included on the accompanying statements of financial position as a receivable.

In accordance with an agreement with a third party, the Corporation is required to split the first \$20 million of proceeds equally with the third party, and use the remaining proceeds to create a Foundation whose purpose is to foster public media in the Commonwealth of Virginia. As such, the Corporation has recorded the auction proceeds net of the amounts required to be disbursed to the third party and the Foundation in the statements of activities as follows:

Gross spectrum auction proceeds	\$ 181,956,420
Due to third party	(10,000,000)
Due to Parent	<u>(161,956,420)</u>
Spectrum auction proceeds payable	<u>(171,956,420)</u>
Spectrum auction proceeds, net	<u>\$ 10,000,000</u>

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

16. Spectrum Auction Proceeds, Continued:

In accordance with the agreement, the Corporation shall remit the following amounts to the third party for the years ended June 30:

2018	\$ 1,500,000
2019	1,000,000
2020	1,000,000
2021	1,000,000
2022 and thereafter	<u>5,500,000</u>
	<u>\$ 10,000,000</u>

17. Subsequent Events:

Management has evaluated subsequent events for potential recognition and/or disclosure through January 26, 2018, the date the financial statements were available to be issued.

On November 15, 2017, the Corporation entered into a memo of understanding (“MOU”) with Shenandoah Valley Educational Television Corporation (“SVETC”), which operates WVPT, a broadcast company based in Harrisonburg, VA. Under the MOU, SVETC shall contribute certain of its assets and liabilities to the Corporation. The deal received Federal Communication Commission (“FCC”) approval, and is expected to close on January 29, 2018. Management cannot reasonably estimate the financial statement impact of the deal as of the date of financial statement issuance.

On December 20, 2017, the Corporation announced plans to acquire two FM radio stations in the Richmond, Virginia market. The deal is pending the approval of the FCC, and is expected to close in the first quarter of 2018. Management cannot reasonably estimate the financial statement impact of the deal as of the date of financial statement issuance.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

18. 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.

Revenue Recognition: In May 2014, the FASB issued new guidance over revenue recognition which eliminates all transaction and industry-specific accounting principles and replaces them with a unified, five step approach. The new standard will be effective for periods beginning after December 15, 2018, and will permit the use of either the retrospective reporting for previous periods or the cumulative effect transition method. The Corporation is currently evaluating the reporting and economic implications of the new standard.

COMMONWEALTH PUBLIC BROADCASTING

Notes to Financial Statements, Continued

18. New Accounting Guidance, Continued:

Leases: In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance, or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of operations. On the statement of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of operations. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented. The Corporation is currently evaluating the reporting and economic implications of the new standard.