

# COMMONWEALTH PUBLIC BROADCASTING

## Financial Statements

June 30, 2015 and 2014

# 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, 2015 and 2014, 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, 2015 and 2014, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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

January 12, 2016  
Glen Allen, Virginia

**COMMONWEALTH PUBLIC BROADCASTING**

Statements of Financial Position  
June 30, 2015 and 2014

| <u>Assets</u>                        | <u>2015</u>          | <u>2014</u>          |
|--------------------------------------|----------------------|----------------------|
| Current assets:                      |                      |                      |
| Cash                                 | \$ 775,126           | \$ 988,526           |
| Accounts receivable, net             | 218,852              | 210,393              |
| Contributions receivable - current   | 322,246              | 415,907              |
| Income tax receivable                | 79,432               | -                    |
| Prepaid expenses                     | <u>138,210</u>       | <u>83,190</u>        |
| Total current assets                 | 1,533,866            | 1,698,016            |
| Contributions receivable             | 235,062              | 40,000               |
| Property and equipment, net          | 5,615,813            | 5,883,745            |
| Investments                          | <u>7,456,831</u>     | <u>7,332,304</u>     |
| Total assets                         | <u>\$ 14,841,572</u> | <u>\$ 14,954,065</u> |
| <u>Liabilities and Net Assets</u>    |                      |                      |
| Current liabilities:                 |                      |                      |
| Accounts payable                     | \$ 303,353           | \$ 231,504           |
| Accrued expenses                     | 251,330              | 242,676              |
| Accrued pension liability - current  | 672,000              | 665,303              |
| Deferred revenue                     | <u>265,691</u>       | <u>176,003</u>       |
| Total current liabilities            | 1,492,374            | 1,315,486            |
| Accrued pension liability            | <u>2,737,044</u>     | <u>1,974,079</u>     |
| Total liabilities                    | <u>4,229,418</u>     | <u>3,289,565</u>     |
| Net assets:                          |                      |                      |
| Unrestricted:                        |                      |                      |
| Undesignated                         | 13,766,719           | 13,975,345           |
| Board designated                     | 328,153              | 328,153              |
| Minimum pension liability adjustment | <u>(4,451,551)</u>   | <u>(3,762,574)</u>   |
| Total unrestricted net assets        | 9,643,321            | 10,540,924           |
| Temporarily restricted               | 582,342              | 737,085              |
| Permanently restricted               | <u>386,491</u>       | <u>386,491</u>       |
| Total net assets                     | <u>10,612,154</u>    | <u>11,664,500</u>    |
| Total liabilities and net assets     | <u>\$ 14,841,572</u> | <u>\$ 14,954,065</u> |

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities  
Year Ended June 30, 2015, with Comparative Totals for 2014

|  | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | 2015<br>Total | 2014<br>Total |
|--|--------------|---------------------------|---------------------------|---------------|---------------|
| Support and revenue:                           |              |                           |                           |               |               |
| Operating:                                     |              |                           |                           |               |               |
| Community support:                             |              |                           |                           |               |               |
| Membership contributions and corporate support | \$ 3,297,486 | \$ 1,344,101              | \$ -                      | \$ 4,641,587  | \$ 4,211,783  |
| Underwriting                                   | 1,823,733    | -                         | -                         | 1,823,733     | 1,718,032     |
| Public support - community service grants:     |              |                           |                           |               |               |
| Corporation for Public Broadcasting            | 1,185,775    | -                         | -                         | 1,185,775     | 1,264,357     |
| Educational services:                          |              |                           |                           |               |               |
| Participation fees and other                   | -            | -                         | -                         | -             | 25,491        |
| Broadcast services:                            |              |                           |                           |               |               |
| Data transmission                              | 541,448      | -                         | -                         | 541,448       | 2,950,316     |
| Production services                            | 829,561      | -                         | -                         | 829,561       | 1,930,031     |
| Gain on disposal of equipment (Note 5)         | -            | -                         | -                         | -             | 8,986,133     |
| Miscellaneous                                  | 763,722      | -                         | -                         | 763,722       | 319,210       |
| Total operating revenue                        | 8,441,725    | 1,344,101                 | -                         | 9,785,826     | 21,405,353    |
| Investment income, net                         | 125,317      | -                         | -                         | 125,317       | 888,090       |
| Rental income                                  | 317,255      | -                         | -                         | 317,255       | 786,878       |
| Total support and revenue                      | 8,884,297    | 1,344,101                 | -                         | 10,228,398    | 23,080,321    |
| Net assets released from restrictions          | 1,498,844    | (1,498,844)               | -                         | -             | -             |

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued  
Year Ended June 30, 2015, with Comparative Totals for 2014

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | 2015<br>Total        | 2014<br>Total       |
|---|---------------------|---------------------------|---------------------------|----------------------|---------------------|
| Expenses:   |                     |                           |                           |                      |                     |
| Programming:  |                     |                           |                           |                      |                     |
| Educational television  | \$ 188,800          | \$ -                      | \$ -                      | \$ 188,800           | \$ 249,073          |
| Public broadcasting   | 2,682,684           | -                         | -                         | 2,682,684            | 2,426,739           |
| Support functions   | 252,742             | -                         | -                         | 252,742              | 418,624             |
| Broadcasting:   |                     |                           |                           |                      |                     |
| Engineering   | 2,568,052           | -                         | -                         | 2,568,052            | 3,289,599           |
| Production  | 891,457             | -                         | -                         | 891,457              | 3,166,239           |
| General and administrative                                      | 1,425,451           | -                         | -                         | 1,425,451            | 909,163             |
| Fundraising   | 2,582,581           | -                         | -                         | 2,582,581            | 2,685,542           |
| Contribution to MHz (Note 2)                                    | -                   | -                         | -                         | -                    | 9,337,561           |
| Total expenses  | <u>10,591,767</u>   | <u>-</u>                  | <u>-</u>                  | <u>10,591,767</u>    | <u>22,482,540</u>   |
| Change in net assets before change in minimum pension liability | (208,626)           | (154,743)                 | -                         | (363,369)            | 597,781             |
| Change in minimum pension liability                             | <u>(688,977)</u>    | <u>-</u>                  | <u>-</u>                  | <u>(688,977)</u>     | <u>101,564</u>      |
| Total change in net assets                                      | (897,603)           | (154,743)                 | -                         | (1,052,346)          | 699,345             |
| Net assets at beginning of year                                 | <u>10,540,924</u>   | <u>737,085</u>            | <u>386,491</u>            | <u>11,664,500</u>    | <u>10,965,155</u>   |
| Net assets at end 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> |

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statements of Activities  
Year Ended June 30, 2014

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Support and revenue:                                 |                     |                                   |                                   |                   |
| Operating:   |                     |                                   |                                   |                   |
| Community support:                                   |                     |                                   |                                   |                   |
| Membership contributions                             | \$ 3,348,948        | \$ 862,835                        | \$ -                              | \$ 4,211,783      |
| Corporate support/underwriting and foundation grants | 1,718,032           | -                                 | -                                 | 1,718,032         |
| Public support - community service grants:           |                     |                                   |                                   |                   |
| Corporation for Public Broadcasting                  | 1,264,357           | -                                 | -                                 | 1,264,357         |
| Educational services:                                |                     |                                   |                                   |                   |
| Participation fees and other                         | 25,491              | -                                 | -                                 | 25,491            |
| Broadcast services:                                  |                     |                                   |                                   |                   |
| Data transmission                                    | 2,950,316           | -                                 | -                                 | 2,950,316         |
| Production services                                  | 1,930,031           | -                                 | -                                 | 1,930,031         |
| Gain on disposal of equipment (Note 5)               | 8,986,133           | -                                 | -                                 | 8,986,133         |
| Miscellaneous  | <u>319,210</u>      | <u>-</u>                          | <u>-</u>                          | <u>319,210</u>    |
| Total operating revenue                              | 20,542,518          | 862,835                           | -                                 | 21,405,353        |
| Investment income, net                               | 888,090             | -                                 | -                                 | 888,090           |
| Rental income  | <u>786,878</u>      | <u>-</u>                          | <u>-</u>                          | <u>786,878</u>    |
| Total support and revenue                            | <u>22,217,486</u>   | <u>862,835</u>                    | <u>-</u>                          | <u>23,080,321</u> |
| Net assets released from restrictions                | <u>345,905</u>      | <u>(345,905)</u>                  | <u>-</u>                          | <u>-</u>          |

See accompanying notes to financial statements.



## COMMONWEALTH PUBLIC BROADCASTING

Statements of Activities, Continued  
Year Ended June 30, 2014

|   | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|---|---------------|---------------------------|---------------------------|---------------|
| Expenses:   |               |                           |                           |               |
| Programming:  |               |                           |                           |               |
| Educational television  | \$ 249,073    | \$ -                      | \$ -                      | \$ 249,073    |
| Public broadcasting   | 2,426,739     | -                         | -                         | 2,426,739     |
| Support functions   | 418,624       | -                         | -                         | 418,624       |
| Broadcasting:   |               |                           |                           |               |
| Engineering   | 3,289,599     | -                         | -                         | 3,289,599     |
| Production  | 3,166,239     | -                         | -                         | 3,166,239     |
| General and administrative                                      | 909,163       | -                         | -                         | 909,163       |
| Fundraising   | 2,685,542     | -                         | -                         | 2,685,542     |
| Contribution to MHz (Note 2)                                    | 9,337,561     | -                         | -                         | 9,337,561     |
| Total expenses  | 22,482,540    | -                         | -                         | 22,482,540    |
| Change in net assets before change in minimum pension liability | 80,851        | 516,930                   | -                         | 597,781       |
| Change in minimum pension liability                             | 101,564       | -                         | -                         | 101,564       |
| Total change in net assets                                      | 182,415       | 516,930                   | -                         | 699,345       |
| Net assets at beginning of year                                 | 10,358,509    | 220,155                   | 386,491                   | 10,965,155    |
| Net assets at end of year                                       | \$ 10,540,924 | \$ 737,085                | \$ 386,491                | \$ 11,664,500 |

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

### Statements of Functional Expenses Year Ended June 30, 2015

|                                  | Program Services          |                        |                      |                     |                   | General &<br>Administrative | Fundraising         | Total                |
|----------------------------------|---------------------------|------------------------|----------------------|---------------------|-------------------|-----------------------------|---------------------|----------------------|
|                                  | Educational<br>Television | Public<br>Broadcasting | Support<br>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              | 1,444,834            |
| 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 Functional Expenses Year Ended June 30, 2014

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

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statements of Cash Flows  
Years Ended June 30, 2015 and 2014

|   | 2015           | 2014         |
|---|----------------|--------------|
| Cash flows from operating activities:   |                |              |
| Change in net assets  | \$ (1,052,346) | \$ 699,345   |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                |              |
| Depreciation  | 1,444,834      | 1,448,494    |
| Reinvested net investment income  | (125,317)      | (888,090)    |
| Gain on disposal of equipment   | -              | (8,986,133)  |
| Changes in assets and liabilities:  |                |              |
| Accounts receivable, net  | (8,459)        | 527,848      |
| Contributions receivable  | (101,401)      | (363,079)    |
| Income tax receivable   | (79,432)       | -            |
| Inventory   | -              | 122,513      |
| Prepaid expenses  | (55,020)       | 1,675,658    |
| Accounts payable  | 71,849         | (46)         |
| Accrued expenses  | 8,654          | (287,447)    |
| Accrued pension liability   | 769,662        | (215,525)    |
| Deferred revenue  | 89,688         | (577,920)    |
|   | 962,712        | (6,844,382)  |
| Net cash provided by (used in) operating activities                                     |                |              |
| Cash flows from investing activities:   |                |              |
| Proceeds from sales and maturities of investments                                       | 571,180        | 465,174      |
| Purchases of investments  | (570,390)      | (865,466)    |
| Purchases of property and equipment   | (1,176,902)    | (409,870)    |
| Proceeds from sale of equipment   | -              | 9,105,075    |
|   | (1,176,112)    | 8,294,913    |
| Net cash (used in) provided by investing activities                                     |                |              |
| Cash flows from financing activities:   |                |              |
| Payments on line of credit, net   | -              | (1,267,116)  |
| Net change in cash  | (213,400)      | 183,415      |
| Cash at the beginning of the year   | 988,526        | 805,111      |
| Cash at the end of the year   | \$ 775,126     | \$ 988,526   |
| Supplemental disclosure of cash flow information:                                       |                |              |
| Cash payments for taxes   | \$ 249,330     | \$ -         |
| Cash payments for interest  | \$ 167         | \$ 16,440    |
| Non-cash transactions:  |                |              |
| Contribution of working capital to MHz (see Note 2)                                     | \$ -           | \$ 2,360,535 |

See accompanying notes to financial statements.

# COMMONWEALTH PUBLIC BROADCASTING

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies:

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

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

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

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

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

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

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**Investments:** All investments are measured at fair value with gains and losses included in operations (see Notes 3 and 6). Unrealized gains and losses are included in the accompanying 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, 2015 and 2014 are from underwriting. The Corporation had three and two contributors account for 37% and 55% of contributions receivable at June 30, 2015 and 2014, 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 \$14,000 at June 30, 2015 and 2014.

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

**Tax Status:** The Internal Revenue Service has determined that the Corporation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Under the provisions of Section 501, the Corporation is exempt from income taxes on income other than unrelated business income. The Corporation incurred excise taxes during 2015 of \$170,000 on unrelated business income resulting from the sale of transmission towers (see Note 5).

## 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, 2015 or 2014. The Corporation's income tax returns for years since 2012 remain open for examination by tax authorities. The Company 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 statement of financial position as of June 30, 2015 and 2014 and to recognize the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. These amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost. The impact of changes to assumptions, including the discount rate, used to determine the minimum pension liability is shown on the accompanying statements of activities as the change in minimum pension liability (see Note 9). The Corporation's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Corporation may determine to be appropriate from time to time.

**Subsequent Events:** Management has evaluated subsequent events for potential recognition and/or disclosure through January 12, 2016, 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. Separation Agreement:

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

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

#### 3. Investments:

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

Costs and fair values as of June 30, 2015 and 2014 are summarized as follows:

|                                      | 2015                       |                            | 2014                       |                            |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                                      | Cost                       | Fair Value                 | Cost                       | Fair Value                 |
| Corporate obligations                | \$ 1,533,932               | \$ 1,552,106               | \$ 1,856,525               | \$ 2,029,532               |
| Equities                             | 4,843,970                  | 5,621,091                  | 3,803,817                  | 4,941,987                  |
| Mortgage and asset-backed securities | 200,126                    | 214,304                    | 290,386                    | 323,377                    |
| Temporary cash investments           | <u>69,330</u>              | <u>69,330</u>              | <u>37,408</u>              | <u>37,408</u>              |
|                                      | <u><u>\$ 6,647,358</u></u> | <u><u>\$ 7,456,831</u></u> | <u><u>\$ 5,988,136</u></u> | <u><u>\$ 7,332,304</u></u> |



## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 3. Investments, Continued:

Investment transactions are reported as follows for the years ended June 30, 2015 and 2014:

|  | 2015       | 2014       |
|--|------------|------------|
| Interest and dividends                           | \$ 189,408 | \$ 248,003 |
| Net realized gain                                | 499,832    | 263,015    |
| Net unrealized gain (loss)                       | (534,695)  | 400,903    |
| Investment gain                                  | 154,545    | 911,921    |
| Investment transaction costs and management fees | (29,228)   | (23,831)   |
| Investment income, net                           | \$ 125,317 | \$ 888,090 |

#### 4. Contributions Receivable:

As of June 30, 2015 and 2014, contributors to the Corporation made unconditional written promises to give related to the following purposes:

|                                | 2015       | 2014       |
|--------------------------------|------------|------------|
| Unrestricted                   | \$ 69,273  | \$ 73,643  |
| Temporarily restricted:        |            |            |
| Capital campaign               | 409,464    | 278,264    |
| TV                             | 78,571     | 74,000     |
| FM                             | -          | 30,000     |
| Total temporarily restricted   | 488,035    | 382,264    |
| Total contributions receivable | \$ 557,308 | \$ 455,907 |

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 4. Contributions Receivable, Continued:

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

|                        | <u>2015</u>       | <u>2014</u>       |
|------------------------|-------------------|-------------------|
| Less than one year     | \$ 322,246        | \$ 415,907        |
| One year to five years | <u>235,062</u>    | <u>40,000</u>     |
|                        | <u>\$ 557,308</u> | <u>\$ 455,907</u> |

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.

#### 5. Property and Equipment:

As of June 30, 2015 and 2014, property and equipment consisted of the following:

|                                      | <u>2015</u>         | <u>2014</u>         |
|--------------------------------------|---------------------|---------------------|
| Land                                 | \$ 278,661          | \$ 278,661          |
| Buildings and leasehold improvements | 6,443,496           | 6,269,135           |
| Equipment                            | <u>25,083,446</u>   | <u>24,080,905</u>   |
|                                      | 31,805,603          | 30,628,701          |
| Less accumulated depreciation        | <u>26,189,790</u>   | <u>24,744,956</u>   |
|                                      | <u>\$ 5,615,813</u> | <u>\$ 5,883,745</u> |

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. Fair Value Measurements:

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

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

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

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

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

**Corporate obligations:** Valued at original cost adjusted for any premium or coupon. At June 30, 2015 and 2014, 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, 2014 (see Note 9).

**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 9).

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. 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 9).

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. Fair Value Measurements, Continued:

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

|   | Fair Value Using    |                     |                        | Asset/Liabilities<br>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

**6. Fair Value Measurements, Continued:**

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

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

**COMMONWEALTH PUBLIC BROADCASTING**

Notes to Financial Statements, Continued

**6. Fair Value Measurements, Continued:**

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

|                                     |                        |
|-------------------------------------|------------------------|
| Balance, July 1, 2013               | \$ (12,386,248)        |
| Interest cost                       | (618,663)              |
| Actuarial losses                    | (1,139,978)            |
| Benefits paid                       | <u>526,898</u>         |
| <br>                                |                        |
| Balance, June 30, 2014 (see Note 9) | (13,617,991)           |
| Interest cost                       | (584,402)              |
| Actuarial losses                    | (1,008,045)            |
| Benefits paid                       | <u>1,830,583</u>       |
| <br>                                |                        |
| Balance, June 30, 2015 (see Note 9) | <u>\$ (13,379,855)</u> |

**7. 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 (3.25% at June 30, 2015). 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% (2.54% at June 30, 2015). Both credit facilities were extended and will expire on June 16, 2016. The Corporation had no borrowings on either credit facility at June 30, 2015 and 2014.

**8. Accrued Expenses:**

Accrued expenses at June 30, 2015 and 2014 consisted of the following:

|                        | <u>2015</u>       | <u>2014</u>       |
|------------------------|-------------------|-------------------|
| Accrued payroll        | \$ 99,988         | \$ 85,740         |
| Accrued vacation       | 142,809           | 149,483           |
| Other accrued expenses | <u>8,533</u>      | <u>7,453</u>      |
|                        | <u>\$ 251,330</u> | <u>\$ 242,676</u> |

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 9. Retirement Plans:

The Corporation has a noncontributory defined benefit pension plan that covered all employees meeting certain service requirements. The Plan was frozen by the Board of Directors as of June, 30, 2006. The Corporation recognizes the funded status (the difference between the benefit obligation and the fair value of plan assets) in its statement of financial position and recognizes previously unrecognized gains or losses and prior service costs or credits. The latest actuarial valuations were as of July 1, 2015 and 2014.

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>2015</u>           | <u>2014</u>           |
|---|-----------------------|-----------------------|
| Accumulated benefit obligation at the end of the year     | <u>\$ 13,379,855</u>  | <u>\$ 13,617,991</u>  |
| Change in projected benefit obligation:                   |                       |                       |
| Projected benefit obligation at the beginning of the year | \$ 13,617,991         | \$ 12,386,248         |
| Interest cost   | 584,402               | 618,663               |
| Actuarial loss  | 1,008,045             | 1,139,978             |
| Benefits paid   | <u>(1,830,583)</u>    | <u>(526,898)</u>      |
| Projected benefit obligation at the end of the year       | <u>13,379,855</u>     | <u>13,617,991</u>     |
| Change in plan assets:                                    |                       |                       |
| Fair value of plan assets at the beginning of the year    | 10,978,609            | 9,531,341             |
| Actual return on plan assets                              | 223,785               | 1,607,166             |
| Employer contributions                                    | 599,000               | 367,000               |
| Benefits paid   | <u>(1,830,583)</u>    | <u>(526,898)</u>      |
| Fair value of plan assets at the end of the year          | <u>9,970,811</u>      | <u>10,978,609</u>     |
| Accrued cost recognized in accrued liabilities            | <u>\$ (3,409,044)</u> | <u>\$ (2,639,382)</u> |



## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 9. Retirement Plans, Continued:

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

|                                     | 2015       | 2014         |
|-------------------------------------|------------|--------------|
| Net periodic cost                   | \$ 239,355 | \$ 253,039   |
| Settlement/curtailment expense      | 440,330    | -            |
| Change in minimum pension liability | 688,977    | (101,564)    |
|                                     | 1,368,662  | 151,475      |
| Employer contributions              | (599,000)  | (367,000)    |
| <br>                                |            |              |
| Change in accrued pension liability | \$ 769,662 | \$ (215,525) |

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, 2015 and 2014:

|  | 2015  | 2014  |
|--|-------|-------|
| Discount rate                          | 4.56% | 4.47% |
| Expected rate of return on plan assets | 6.25% | 7.00% |
| Rate of compensation increase          | N/A   | N/A   |

The following table sets forth the other significant plan information for the plan years ended June 30, 2015 and 2014:

|  | 2015         | 2014       |
|--|--------------|------------|
| Components of net periodic pension cost: |              |            |
| Interest costs                           | \$ 584,402   | \$ 618,663 |
| Expected return on plan assets           | (717,417)    | (659,634)  |
| Recognized losses                        | 372,370      | 294,010    |
| <br>                                     |              |            |
| Net periodic cost                        | \$ 239,355   | \$ 253,039 |
| <br>                                     |              |            |
| Settlement/curtailment expense           | \$ 440,330   | \$ -       |
| <br>                                     |              |            |
| Benefits paid                            | \$ 1,830,583 | \$ 526,898 |
| <br>                                     |              |            |
| Employer contribution                    | \$ 599,000   | \$ 367,000 |

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 9. Retirement Plans, Continued:

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

|                   | 2015  | 2014  |
|-------------------|-------|-------|
| Plan assets:      |       |       |
| Equity securities | 60 %  | 73 %  |
| Debt securities   | 39    | 26    |
| Money market      | 1     | 1     |
| Total             | 100 % | 100 % |

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<br>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           | -                | 93,102       | -       | 93,102                             |
| Insurance company general account | -                | 1,868,299    | -       | 1,868,299                          |
| Total assets at fair value        | \$ -             | \$ 9,970,811 | \$ -    | \$ 9,970,811                       |

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 9. Retirement Plans, Continued:

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

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

Based on the July 1, 2015 plan valuation, a contribution of \$443,000 is required for fiscal year 2016. Future benefit payments are expected to be \$672,000 in fiscal year 2016, \$665,000 in fiscal year 2017, \$732,000 in fiscal year 2018, \$717,000 in fiscal year 2019, \$753,000 in fiscal year 2020, and \$3,956,000 in the fiscal years thereafter.

The Corporation also maintains a contributory defined contribution plan under IRC Section 403(b), which allows eligible employees to defer a portion of their compensation. 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 Board of Directors added an enhancement to the Defined Contribution Plan which provided for employees, who were employed as of the end of the Corporation's fiscal year, to receive a 3.5% base contribution to their 403(b) account. The enhancement was suspended by the Board of Directors in December 2009. The total expense for the 403(b) plan was \$36,812 for 2015 and \$24,718 for 2014.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 10. Support Received in Exchange Transactions:

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

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

|         | <u>2015</u>       | <u>2014</u>       |
|---------|-------------------|-------------------|
| WCVE-TV | \$ 172,487        | \$ 157,583        |
| WCVE-FM | <u>155,382</u>    | <u>131,780</u>    |
|         | <u>\$ 327,869</u> | <u>\$ 289,363</u> |

This support represented donations of:

|                                  | <u>2015</u>       | <u>2014</u>       |
|----------------------------------|-------------------|-------------------|
| Advertising and public relations | \$ 160,175        | \$ 226,330        |
| Special events                   | 167,694           | 61,278            |
| Professional services and other  | <u>-</u>          | <u>1,755</u>      |
|                                  | <u>\$ 327,869</u> | <u>\$ 289,363</u> |

#### 11. Commitments and Contingencies:

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 12. Operating Leases:

The Corporation leased space for television and radio transmitter equipment, office equipment and space, and vehicles at an expense of approximately \$51,808 in 2015 and \$78,025 in 2014.

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, 2015:

| <u>Year Ended June 30:</u> | <u>Amount</u>    |
|----------------------------|------------------|
| 2016                       | \$ 40,594        |
| 2017                       | 18,604           |
| 2018                       | 18,235           |
| 2019                       | 1,587            |
| 2020 and thereafter        | <u>750</u>       |
|                            | <u>\$ 79,770</u> |

#### 13. Rental Income:

The Corporation leases space to government agencies and telecommunications companies for the placement of antennas and other communications equipment on the Corporation's broadcast towers. The following is a schedule, by year, of minimum future rentals on noncancelable operating leases as of June 30, 2015:

| <u>Year Ended June 30:</u> | <u>Amount</u>       |
|----------------------------|---------------------|
| 2016                       | \$ 298,921          |
| 2017                       | 301,498             |
| 2018                       | 303,857             |
| 2019                       | 306,301             |
| 2020 and thereafter        | <u>320,205</u>      |
|                            | <u>\$ 1,530,782</u> |

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 13. Rental Income, Continued:

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

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

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

#### 14. Restricted Net Assets:

Net assets of \$1,498,844 and \$345,905 were released from donor-imposed restrictions during the years ended June 30, 2015 and 2014, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets of \$583,342 as of June 30, 2015 and \$737,085 as of June 30, 2014 consist of contributions/grants received for Ready to Learn projects, future programming, and a capital campaign for planned giving and to fund technology improvements.

#### 15. Endowment Funds:

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 15. Endowment Funds, Continued:

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

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

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

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

To satisfy its long-term rate of return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Historically, the Corporation has targeted a diversified asset allocation that placed a greater value on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 15. Endowment Funds, Continued:

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

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

#### 16. Guarantees:

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

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