

# Commonwealth Public Broadcasting Corporation

Financial Statements

June 30, 2018 and 2017



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# COMMONWEALTH PUBLIC BROADCASTING CORPORATION

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors of Commonwealth Public  
Broadcasting Corporation  
Richmond, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Commonwealth Public Broadcasting Corporation, which comprise the statements of financial position as of June 30, 2018 and 2017, 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 Corporation as of June 30, 2018 and 2017, 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.

## **Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

May 17, 2019  
Glen Allen, Virginia

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Statements of Financial Position June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 5,635,131	\$ 506,934
Spectrum auction proceeds receivable (see Note 18)	-	181,956,420
Accounts receivable, net	280,799	226,210
Contributions receivable, net - current	289,727	341,729
Grants receivable	715,298	-
Prepaid expenses	<u>214,335</u>	<u>134,652</u>
Total current assets	7,135,290	183,165,945
Contributions receivable	4,000	95,363
Property and equipment, net	4,752,442	4,152,890
Intangible assets	1,696,253	-
Investments	<u>28,689,913</u>	<u>7,905,185</u>
Total assets	<u>\$ 42,277,898</u>	<u>\$ 195,319,383</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 249,306	\$ 190,279
Spectrum auction proceeds payable - current (see Note 18)	1,000,000	163,456,420
Accrued expenses	602,782	445,285
Accrued pension liability - current	759,000	760,000
Deferred revenue	<u>328,058</u>	<u>155,217</u>
Total current liabilities	2,939,146	165,007,201
Spectrum auction proceeds payable - noncurrent (see Note 18)	7,500,000	8,500,000
Accrued pension liability - noncurrent	<u>3,202,901</u>	<u>3,608,649</u>
Total liabilities	<u>13,642,047</u>	<u>177,115,850</u>
Net assets:		
Unrestricted:		
Undesignated	28,807,033	22,063,817
Board designated	3,328,153	328,153
Minimum pension liability adjustment	<u>(4,120,875)</u>	<u>(4,809,923)</u>
Total unrestricted net assets	28,014,311	17,582,047
Temporarily restricted	235,049	234,995
Permanently restricted	<u>386,491</u>	<u>386,491</u>
Total net assets	<u>28,635,851</u>	<u>18,203,533</u>
Total liabilities and net assets	<u>\$ 42,277,898</u>	<u>\$ 195,319,383</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Activities  
Year Ended June 30, 2018, with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Support and revenue:					
Operating:					
Community support:					
Membership contributions and corporate support	\$ 3,932,253	\$ 142,561	\$ -	\$ 4,074,814	\$ 4,196,685
Underwriting	1,845,036	-	-	1,845,036	1,764,624
Public support - community service grants:					
Corporation for Public Broadcasting	1,355,528	-	-	1,355,528	1,170,154
Amortization of deferred revenue from capital grants	57,516	-	-	57,516	-
Grants from VFPM	435,000	-	-	435,000	-
Broadcast services:					
Data transmission	564,792	-	-	564,792	559,389
Production services	685,138	-	-	685,138	886,430
Miscellaneous	514,079	-	-	514,079	546,839
Total operating revenue	9,389,342	142,561	-	9,531,903	9,124,121
Spectrum auction proceeds, net (see Note 18)	3,356,420	-	-	3,356,420	10,000,000
Investment income, net	862,421	-	-	862,421	988,897
Rental income	406,340	-	-	406,340	272,823
Contribution from SVETC	9,623,505	48,336	-	9,671,841	-
Total support and revenue	23,638,028	190,897	-	23,828,925	20,385,841
Net assets released from restrictions	190,843	(190,843)	-	-	-

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Activities, Continued  
Year Ended June 30, 2018, with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Expenses:					
Program:					
Educational television	\$ 285,878	\$ -	\$ -	\$ 285,878	\$ 346,439
Programming and production	5,683,618	-	-	5,683,618	3,499,554
Broadcast and engineering	2,669,981	-	-	2,669,981	3,302,047
Promotions	495,797	-	-	495,797	388,233
Total program expenses	<u>9,135,274</u>	-	-	9,135,274	7,536,273
General and administrative	2,253,766	-	-	2,253,766	1,401,606
Fundraising	<u>2,696,615</u>	-	-	2,696,615	2,850,944
Total expenses	<u>14,085,655</u>	-	-	14,085,655	11,788,823
Change in net assets before change in minimum pension liability	9,743,216	54	-	9,743,270	8,597,018
Change in minimum pension liability	<u>689,048</u>	-	-	689,048	804,081
Total change in net assets	10,432,264	54	-	10,432,318	9,401,099
Net assets at beginning 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>
Net assets at end of year	<u>\$ 28,014,311</u>	<u>\$ 235,049</u>	<u>\$ 386,491</u>	<u>\$ 28,635,851</u>	<u>\$18,203,533</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Activities  
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Operating:				
Community support:				
Membership contributions	\$ 3,915,899	\$ 280,786	\$ -	\$ 4,196,685
Corporate support/underwriting and foundation grants	1,764,624	-	-	1,764,624
Public support - community service grants:				
Corporation for Public Broadcasting	1,170,154	-	-	1,170,154
Broadcast services:				
Data transmission	559,389	-	-	559,389
Production services	886,430	-	-	886,430
Miscellaneous	<u>546,839</u>	<u>-</u>	<u>-</u>	<u>546,839</u>
Total operating revenue	8,843,335	280,786	-	9,124,121
Spectrum auction proceeds, net	10,000,000	-	-	10,000,000
Investment loss, net	988,897	-	-	988,897
Rental income	<u>272,823</u>	<u>-</u>	<u>-</u>	<u>272,823</u>
Total support and revenue	<u>20,105,055</u>	<u>280,786</u>	<u>-</u>	<u>20,385,841</u>
Net assets released from restrictions	<u>992,074</u>	<u>(992,074)</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.



**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Activities, Continued  
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Program:				
Educational television	\$ 346,439	\$ -	\$ -	\$ 346,439
Programming and production	3,499,554	-	-	3,499,554
Broadcast and engineering	3,302,047	-	-	3,302,047
Promotions	<u>388,233</u>	<u>-</u>	<u>-</u>	<u>388,233</u>
Total program expenses	7,536,273	-	-	7,536,273
General and administrative	1,401,606	-	-	1,401,606
Fundraising	<u>2,850,944</u>	<u>-</u>	<u>-</u>	<u>2,850,944</u>
 Total expenses	 <u>11,788,823</u>	 <u>-</u>	 <u>-</u>	 <u>11,788,823</u>
 Change in net assets before change in minimum pension liability	 9,308,306	 (711,288)	 -	 8,597,018
Change in minimum pension liability	<u>804,081</u>	<u>-</u>	<u>-</u>	<u>804,081</u>
 Total change in net assets	 10,112,387	 (711,288)	 -	 9,401,099
Net assets at beginning of year	<u>7,469,660</u>	<u>946,283</u>	<u>386,491</u>	<u>8,802,434</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>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Functional Expenses  
Year Ended June 30, 2018

	Program Services				General & Administrative	Fundraising	Total
	Educational Television	Programming and Production	Broadcast and Engineering	Promotions			
Salaries, Wages, & Benefits	195,662	3,042,961	779,956	383,423	826,597	1,494,893	\$ 6,723,492
Business Supplies & Equipment	1,848	20,894	4,241	5,563	15,468	18,257	66,271
Technical Supplies & Equipment	-	39,909	146,792	-	4,665	49	191,415
Repairs & Maintenance	-	8,196	179,485	-	2,771	-	190,452
Occupancy	8,488	169,349	177,254	8,850	522,139	20,815	906,895
Communications	4,336	21,305	73,973	1,966	5,841	49,996	157,417
Postage and shipping	2,989	7,871	1,845	355	1,633	401,302	415,995
Printing and Publications	14,261	6,735	4,975	6,623	10,875	17,769	61,238
Vehicle Expense	938	12,339	2,949	-	4,278	41	20,545
Travel	11,257	79,193	47,074	11,819	19,676	22,182	191,201
Professional Services	6,795	178,826	193,234	17,933	519,003	73,611	989,402
Dues, Professional Affiliations	150	45,510	19,298	-	11,723	7,837	84,518
Advertising and Public Relations	1,196	2,786	10,457	4,278	5,708	46,018	70,443
Information Technology	3,136	77,043	103,614	1,179	142,343	13,783	341,098
Programming	-	1,204,348	-	-	-	294,795	1,499,143
Conferences and meetings	100	4,428	-	561	7,222	1,940	14,251
Production	12,000	469,207	1,731	-	-	1,500	484,438
Premiums	410	2,560	-	-	4,886	189,462	197,318
Special events	17,528	-	-	50,625	961	41,785	110,899
Miscellaneous	-	7,438	6,121	2,455	1,924	68	18,006
Bad Debt Expense	-	21,121	2,000	-	20,000	-	43,121
	<u>281,094</u>	<u>5,422,019</u>	<u>1,754,999</u>	<u>495,630</u>	<u>2,127,713</u>	<u>2,696,103</u>	<u>12,777,558</u>
Depreciation	<u>4,784</u>	<u>261,599</u>	<u>914,982</u>	<u>167</u>	<u>126,053</u>	<u>512</u>	<u>1,308,097</u>
Totals	<u>\$ 285,878</u>	<u>\$ 5,683,618</u>	<u>\$ 2,669,981</u>	<u>\$ 495,797</u>	<u>\$ 2,253,766</u>	<u>\$ 2,696,615</u>	<u>\$ 14,085,655</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Functional Expenses  
Year Ended June 30, 2017

	Program Services				General & Administrative	Fundraising	Total
	Educational Television	Programming and Production	Broadcast and Engineering	Promotions			
Salaries, Wages, & Benefits	\$ 179,348	\$ 1,465,179	\$ 1,352,145	\$ 265,700	\$ 923,970	\$ 1,458,614	\$ 5,644,956
Business Supplies & Equipment	5,778	22,185	142,912	2,123	14,900	15,130	203,028
Technical Supplies & Equipment	1,672	6,894	71,796	1,640	1,700	2,668	86,370
Occupancy	44,641	243,873	272,267	26,535	36,119	85,102	708,538
Communications	4,858	19,036	46,676	2,611	7,418	39,472	120,071
Postage and shipping	1,710	985	2,372	169	2,030	406,515	413,780
Printing and Publications	23,694	411	199	6,133	90	18,741	49,268
Vehicle Expense	1,158	336	10,207	91	74	474	12,339
Travel	10,444	23,264	28,952	13,770	2,453	67,330	146,213
Professional Services	14,945	45,992	26,804	10,283	275,196	108,189	481,409
Dues, Professional Affiliations	479	27,678	8,437	260	13,577	4,927	55,358
Advertising and Public Relations	993	1,714	1,128	826	89	22,540	27,290
Information Technology	7,414	30,404	91,554	1,156	24	79,782	210,335
Programming	-	1,245,342	-	-	-	275,525	1,520,867
Conferences and meetings	30	727	234	478	1,282	3,883	6,635
Production	3,155	96,478	367,028	-	70,260	2,263	539,184
Premiums	-	-	-	-	-	179,349	179,349
Special events	21,302	626	1,005	41,059	432	20,036	84,459
Miscellaneous	146	500	1,780	3,834	1,201	215	7,676
	<u>321,767</u>	<u>3,231,625</u>	<u>2,425,495</u>	<u>376,668</u>	<u>1,350,814</u>	<u>2,790,756</u>	<u>10,497,125</u>
Depreciation	<u>24,672</u>	<u>267,929</u>	<u>876,552</u>	<u>11,565</u>	<u>50,792</u>	<u>60,188</u>	<u>1,291,698</u>
Totals	<u>\$ 346,439</u>	<u>\$ 3,499,554</u>	<u>\$ 3,302,047</u>	<u>\$ 388,233</u>	<u>\$ 1,401,606</u>	<u>\$ 2,850,944</u>	<u>\$ 11,788,823</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Statements of Cash Flows  
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 10,432,318	\$ 9,401,099
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,308,097	1,291,698
Reinvested net investment income	(862,421)	(988,897)
Non-cash contribution from SVETC	(8,846,990)	-
Changes in assets and liabilities:		
Accounts receivable, net	(22,439)	(25,896)
Contributions receivable	143,365	212,667
Grants receivable	(715,298)	-
Spectrum auction proceeds receivable	181,956,420	(181,956,420)
Prepaid expenses	(32,683)	(8,409)
Accounts payable	(55,827)	(31,805)
Spectrum auction proceeds payable	(163,456,420)	171,956,420
Accrued expenses	72,968	127,941
Accrued pension liability	(406,748)	(351,227)
Deferred revenue	(144,823)	7,411
	<u>19,369,519</u>	<u>(365,418)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	164,631,084	685,354
Purchases of investments	(175,930,009)	(23,579)
Purchases of property and equipment	(992,397)	(969,914)
Purchase of assets of Alpha Media, LLC	(1,950,000)	-
	<u>(14,241,322)</u>	<u>(308,139)</u>
Net cash used in investing activities		
Net change in cash	5,128,197	(673,557)
Cash and cash equivalents at the beginning of the year	<u>506,934</u>	<u>1,180,491</u>
Cash and cash equivalents at the end of the year	<u>\$ 5,635,131</u>	<u>\$ 506,934</u>

See accompanying notes to financial statements.

# COMMONWEALTH PUBLIC BROADCASTING CORPORATION

## 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, the Shenandoah Valley, Northern Virginia, and parts of the District of Columbia over its stations WCVB, WVPT, WCVW and WCVB-FM in Richmond, WHTJ in Charlottesville, WCNV-FM in Heathsville, WMVE-FM in Chase City, WWLB-FM in Ettrick, and WBBT-FM in Powhatan. During 2018, the Corporation acquired certain assets of Alpha Media, LLC (see Note 3) and was the recipient of contributed assets and liabilities of Shenandoah Valley Educational Television Corporation (see Note 2).

The Corporation is controlled by The Virginia Foundation for Public Media (the "Foundation"), an organization with common board members that was created with the proceeds received from the spectrum auction (see Note 18). These financial statements do not report the consolidation financial position or operations or cash flows 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.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

**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.

**Investments:** All investments are measured at fair value with gains and losses included in operations (see Notes 4 and 8). 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.

**Intangible Assets:** Intangible assets consist of rights to duplicate artwork of \$121,584 acquired as part of the acquisition of SVETC (see Note 2) and broadcast licenses of \$1,574,669 acquired as part of the acquisition of Alpha Media, LLC (see Note 3). The cost of rights to duplicate artwork for resale are charged to expense as the prints are sold. The broadcast licenses are considered to be indefinite-lived intangible assets and thus are not amortized. The Corporation is required to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired on an annual basis in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-30-35. As of June 30, 2018, management determined that no qualitative factors exist that would require the Corporation to perform the quantitative test, and thus no impairment was recorded.

**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 5-30 years for buildings and leasehold improvements.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

**Allowance for Doubtful Accounts:** The Corporation uses the reserve method of accounting for bad debts on accounts and contributions receivable for financial reporting purposes. The balance of the Corporation's allowance for doubtful accounts receivable was \$13,443 at June 30, 2018 and 2017. The balance of the Corporation's allowance for doubtful contributions receivable was \$34,557 at June 30, 2018 and \$0 at June 30, 2017.

**Concentrations of Credit Risk:** Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and accounts, pledge, and contributions receivables. The majority of accounts receivable at June 30, 2018 and 2017 are from underwriting. The Corporation had one contributor account for 19% and 14% of accounts receivable at June 30, 2018 and 2017, respectively. At June 30, 2018, grants receivable consists of grants made by two grantors.

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.

**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 \$70,443 for 2018 and \$27,290 for 2017.

**Functional Allocation of Expenses:** Program, fundraising, and administrative costs have been summarized on a functional basis in the statements of activities. Certain direct costs have been charged to programs and supporting services on the basis of the activity benefited.

**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, 2018 or 2017. The Corporation is not currently under audit by any tax jurisdiction.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

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

**Pension Benefits:** The Corporation has a noncontributory defined benefit pension plan (the "Plan") that covered substantially all full-time employees. The Plan was frozen by the Board of Directors as of June 30, 2006. The Plan provides benefits that are based on compensation during the last five years before retirement and total years of service. The Corporation accounts for its pension plans in accordance with FASB guidance relating to employer's accounting for defined benefit pension and other postretirement plans. The guidance requires recognition of the funded status of the Corporation's benefit plan in its statements of financial position as of June 30, 2018 and 2017 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 10). 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 with current year presentation.

**Subsequent Events:** Management has evaluated subsequent events for potential recognition and/or disclosure through May 17, 2019, the date the financial statements were available to be issued.



## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 2. Contribution From Shenandoah Valley Educational Television Corporation:

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 contributed certain of its assets and liabilities to the Corporation. The transaction closed on January 29, 2018, at which time the Corporation recorded the following assets and liabilities in its financial statements:

Cash and cash equivalents	\$	824,851
Accounts receivable		32,150
Investments		8,623,383
Prepaid expenses		47,000
Broadcast and duplication rights		121,584
Property and equipment, net		539,921
Accounts payable		(114,854)
Accrued expenses		(84,529)
Deferred revenue		<u>(317,665)</u>
Contribution from SVETC	\$	<u>9,671,841</u>

#### 3. Acquisition:

On December 12, 2017, the Corporation entered into an asset purchase agreement to acquire certain assets of Alpha Media, LLC. Under the terms of the agreement, the Corporation paid \$1,950,000 to acquire certain property and equipment, licenses, and broadcast rights for two radio stations in the Central Virginia market. The Corporation allocated the purchase price as follows:

Property and equipment	\$	375,331
Licenses and broadcast rights		<u>1,574,669</u>
Cash paid for assets	\$	<u>1,950,000</u>

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 4. 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.

Fair values by investment category are disclosed in Note 8.

Investment transactions are reported as follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 589,715	\$ 194,589
Net realized gain	233,394	241,693
Net unrealized gain	<u>98,994</u>	<u>582,939</u>
Investment gain	922,103	1,019,221
Investment transaction costs and management fees	<u>(59,682)</u>	<u>(30,324)</u>
Investment income, net	<u>\$ 862,421</u>	<u>\$ 988,897</u>

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 5. Contributions Receivable:

As of June 30, 2018 and 2017, contributors to the Corporation made unconditional written promises to give related to the following purposes:

	2018	2017
Unrestricted, net	\$ 146,829	\$ 202,097
Temporarily restricted:		
Capital campaign, net	96,898	234,995
TV	50,000	-
Total temporarily restricted	146,898	234,995
Total contributions receivable, net	\$ 293,727	\$ 437,092

The Corporation recorded an allowance for uncollectible contributions receivable of \$34,557 at June 30, 2018 and \$0 at June 30, 2017.

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

	2018	2017
Less than one year	\$ 289,727	\$ 341,729
One year to five years	4,000	95,363
	\$ 293,727	\$ 437,092

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.

#### 6. Grants Receivable:

As of June 30, 2018, the Corporation has outstanding grants receivable from the Corporation for Public Broadcasting and the Foundation of \$715,298. These grants are expected to be received in fiscal year 2019.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 7. Property and Equipment:

As of June 30, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Land	\$ 278,661	\$ 278,661
Buildings and leasehold improvements	6,834,137	6,566,284
Equipment	27,911,439	26,272,143
	35,024,237	33,117,088
Less accumulated depreciation	30,271,795	28,964,198
	\$ 4,752,442	\$ 4,152,890

#### 8. 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, 2018 and 2017, 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.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

**Pension plan liabilities:** Valued by the actuarial valuation as of July 1, 2018 (see Note 10).

**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 10).

**Mutual funds:** Valued at the net asset value (“NAV”) of shares held by the Plan at year end (see Note 10).

**Cash equivalents:** Considered highly liquid securities that were purchased with a maturity of three months or less. Valued at face value (see Note 10).

**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 10).

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Notes to Financial Statements, Continued

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

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Investments:				
Corporate obligations	\$ -	\$ 14,034,254	\$ -	\$ 14,034,254
Stocks	1,757,380	-	-	1,757,380
Mutual funds:				
Value	1,690,764	-	-	1,690,764
Growth	3,594,742	-	-	3,594,742
Blend	2,214,028	-	-	2,214,028
International	2,290,307	-	-	2,290,307
Allocation	559,949	-	-	559,949
Technology	346,100	-	-	346,100
Health	334,194	-	-	334,194
Financial	435,223	-	-	435,223
Energy	341,730	-	-	341,730
Other	948,206	-	-	948,206
Mortgage and asset-backed securities	-	143,036	-	143,036
<b>Total assets</b>	<b>\$ 14,512,623</b>	<b>\$ 14,177,290</b>	<b>\$ -</b>	<b>\$ 28,689,913</b>
<b>Liabilities:</b>				
Pension plan assets	\$ 3,275,178	\$ -	\$ -	\$ 3,275,178
Pension plan liabilities	-	-	(13,352,679)	(13,352,679)
Investments measured at NAV <sup>(a)</sup>				6,115,600
<b>Net pension plan assets (liabilities) at fair value</b>	<b>\$ 3,275,178</b>	<b>\$ -</b>	<b>\$ (13,352,679)</b>	<b>\$ (3,961,901)</b>

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

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
Mutual funds:				
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	\$ 2,954,884	\$ -	\$ -	\$ 2,954,884
Pension plan liabilities	-	-	(14,110,827)	(14,110,827)
Investments measured at NAV <sup>(a)</sup>				<u>6,787,294</u>
Net pension plan assets (liabilities) at fair value	<u>\$ 2,954,884</u>	<u>\$ -</u>	<u>\$ (14,110,827)</u>	<u>\$ (11,155,943)</u>

<sup>(a)</sup> 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 Note 10

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

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

In August 2018, FASB issued Accounting Standards Updated 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement – Removes, modifies and adds certain disclosure requirements*", which simplifies the disclosure requirements for fair value measurements, including the requirement to provide a rollforward of Level 3 assets and liabilities. For all entities, the update is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Corporation early adopted and applied ASU 2018-13 for the year ended June 30, 2018.

#### 9. Accrued Expenses:

Accrued expenses at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Accrued payroll	\$ 230,506	\$ 178,714
Accrued vacation	306,948	178,518
Due to other organizations	36,477	35,501
Other accrued expenses	<u>28,851</u>	<u>52,552</u>
	<u>\$ 602,782</u>	<u>\$ 445,285</u>



## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 10. 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, 2018 and 2017.

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>2018</u>	<u>2017</u>
Accumulated benefit obligation at the end of the year	<u>\$ 13,352,679</u>	<u>\$ 14,110,827</u>
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 14,110,827	\$ 14,593,482
Interest cost	539,768	544,438
Actuarial (gain) loss	(612,079)	(405,542)
Benefits paid	<u>(685,837)</u>	<u>(621,551)</u>
Projected benefit obligation at the end of the year	<u>13,352,679</u>	<u>14,110,827</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	9,742,178	9,873,606
Actual return on plan assets	127,487	359,323
Employer contributions	206,950	130,800
Benefits paid	<u>(685,837)</u>	<u>(621,551)</u>
Fair value of plan assets at the end of the year	<u>9,390,778</u>	<u>9,742,178</u>
Accrued cost recognized in accrued liabilities	<u>\$ (3,961,901)</u>	<u>\$ (4,368,649)</u>

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Notes to Financial Statements, Continued

**10. Retirement Plans, Continued:**

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

	<u>2018</u>	<u>2017</u>
Net periodic cost	\$ 489,250	\$ 583,654
Change in minimum pension liability	<u>(689,048)</u>	<u>(804,081)</u>
	(199,798)	(220,427)
Employer contributions	<u>(206,950)</u>	<u>(130,800)</u>
 Change in accrued pension liability	 <u>\$ (406,748)</u>	 <u>\$ (351,227)</u>

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Discount rate	4.30%	3.93%
Expected rate of return on plan assets	4.84%	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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Components of net periodic pension cost:		
Interest costs	\$ 539,768	\$ 544,438
Expected return on plan assets	(492,500)	(498,952)
Recognized losses	<u>441,982</u>	<u>538,168</u>
 Net periodic cost	 <u>\$ 489,250</u>	 <u>\$ 583,654</u>
 Benefits paid	 <u>\$ 685,837</u>	 <u>\$ 621,551</u>
 Employer contribution	 <u>\$ 206,950</u>	 <u>\$ 130,800</u>

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 10. 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:

	2018	2017
Plan assets:		
Equity securities	24 %	24 %
Debt securities	72	72
Money market	2	2
Real estate	2	2
Total	100 %	100 %

The fair value of the Corporation's pension plan assets at June 30, 2018 by asset category are as follows:

	Fair Value Using Level 1	Asset/Liabilities at Fair Value
Mutual funds - equities	\$ 840,164	\$ 840,164
Mutual funds - bonds	2,222,698	2,222,698
Cash equivalents	212,316	212,316
Total assets in the fair value hierarchy	\$ 3,275,178	3,275,178
Investments measured at NAV <sup>(a)</sup>		6,115,600
Total assets at fair value		\$ 9,390,778

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Notes to Financial Statements, Continued

**10. Retirement Plans, Continued:**

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

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

*(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 total plan assets.*

Based on the July 1, 2018 plan valuation, a contribution of \$343,100 is required for fiscal year 2019. Future benefit payments are expected to be \$759,000 in fiscal year 2019, \$792,000 in fiscal year 2020, \$791,000 in fiscal year 2021, \$797,000 in fiscal year 2022, \$820,000 in fiscal year 2023 and \$4,224,000 in the fiscal years through 2028.

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 \$71,896 for 2018 and \$61,008 for 2017.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 11. 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>2018</u>	<u>2017</u>
WCVE-TV	\$ 75,241	\$ 106,500
WCVE-FM	<u>219,554</u>	<u>169,025</u>
	<u>\$ 294,795</u>	<u>\$ 275,525</u>

This support is included in fundraising programming expense on the accompanying statements of functional expenses.

#### 12. Commitments and Contingencies:

The Corporation received equipment grants from federal agencies which covered the cost of specific items of equipment. The federal agencies have a lien on this equipment for a period of ten years from the date of acquisition. If during the ten-year period certain conditions are not met, or the equipment is disposed of, the Corporation could be required to refund a portion of the grant proceeds to the granting agency.

All tower lease agreements require the Corporation to return the leased land to a pristine condition in the event the leases are terminated. Management is unable to estimate the remedial costs that would be incurred to return land to a pristine condition. Management intends to renew all tower lease agreements indefinitely; therefore, management cannot reasonably estimate a timeframe in which those costs would be incurred. The accompanying financial statements do not include any adjustments if and when these agreements are terminated.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 13. Operating Leases:

The Corporation leased space for television and radio transmitter equipment, office equipment and space, and vehicles at an expense of approximately \$180,880 in 2018 and \$45,403 in 2017.

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, 2018:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 337,492
2020	338,923
2021	316,192
2022	105,941
2023 and thereafter	<u>219,587</u>
	<u>\$ 1,318,135</u>

#### 14. 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, 2018:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 1,095,247
2020	1,109,148
2021	1,117,384
2022	1,157,550
2023	<u>1,190,513</u>
	<u>\$ 5,669,842</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 CORPORATION

### Notes to Financial Statements, Continued

#### 14. **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.

#### 15. **Restricted Net Assets:**

Net assets of \$190,843 and \$992,074 were released from donor-imposed restrictions during the years ended June 30, 2018 and 2017, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets of \$235,049 as of June 30, 2018 and \$234,995 as of June 30, 2017 consist of contributions/grants received for Ready to Learn projects, future programming, and a capital campaign for planned giving to fund technology improvements.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 16. 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.

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.



## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 16. Endowment Funds, Continued:

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.

#### 17. 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.

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 18. 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 WNVG, 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 was 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 recorded the auction proceeds net of the amounts required to be disbursed to the third party and the Foundation in the 2017 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>

During 2018, the Corporation and the Foundation determined that the amount to be used to start the Foundation was \$158,600,000. The remaining \$3,356,420 will remain the property of the Corporation and was recorded as revenue in 2018. Of this amount, the Board has determined that \$3,000,000 will be used to fund future required pension contributions, and thus has been classified as board designated net assets on the 2018 statement of financial position (see Note 1).

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 18. Spectrum Auction Proceeds, Continued:

In accordance with the agreement, the Corporation remitted \$1,500,000 to the third party during 2018 and shall remit the following amounts to the third party for the years ended June 30:

2019	\$ 1,000,000
2020	1,000,000
2021	1,000,000
2022	1,000,000
2023	<u>4,500,000</u>
	<u>\$ 8,500,000</u>

#### 19. Related Party Transactions:

During 2018, the Corporation received grant revenue from the Foundation of \$435,000. Of this amount, \$274,100 is included in grants receivable on the accompanying statement of financial position at June 30, 2018.

#### 20. 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

## COMMONWEALTH PUBLIC BROADCASTING CORPORATION

### Notes to Financial Statements, Continued

#### 20. New Accounting Guidance, Continued:

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.

**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.

**SUPPLEMENTAL INFORMATION**

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Schedule of Revenue and Expenses for Annual Financial Report  
Year Ended June 30, 2018

	<u>Radio</u>	<u>TV</u>	<u>WVPT</u>	<u>Total</u>
Support and revenue:				
Operating:				
Community support:				
Membership contributions and corporate support	\$ 1,524,832	\$ 2,485,931	\$ 64,051	\$ 4,074,814
Underwriting	1,327,223	429,681	88,132	1,845,036
Public support - community service grants:				
Corporation for Public Broadcasting	228,109	1,124,196	3,223	1,355,528
Amortization of deferred revenue from capital grants	-	-	57,516	57,516
Grants from Parent	152,250	282,750	-	435,000
Broadcast services:				
Data transmission	-	564,792	-	564,792
Production services	5,280	668,305	11,553	685,138
Miscellaneous	56,903	429,376	27,800	514,079
	<u>3,294,597</u>	<u>5,985,031</u>	<u>252,275</u>	<u>9,531,903</u>
Spectrum auction proceeds, net (see Note 16)	-	3,356,420	-	3,356,420
Investment income, net	277,284	514,956	70,181	862,421
Rental income	13,818	273,757	118,765	406,340
Contribution from SVETC	-	-	9,671,841	9,671,841
	<u>-</u>	<u>-</u>	<u>9,671,841</u>	<u>9,671,841</u>
Total support and revenue per Annual Financial Report (AFR)	<u>\$ 3,585,699</u>	<u>\$10,130,164</u>	<u>\$ 10,113,062</u>	<u>\$ 23,828,925</u>

See report of independent accountants.

**COMMONWEALTH PUBLIC BROADCASTING CORPORATION**

Schedule of Revenue and Expenses for Annual Financial Report, Continued  
Year Ended June 30, 2018

	<u>Radio</u>	<u>TV</u>	<u>WVPT</u>	<u>Total</u>
Expenses:				
Program:				
Educational television	\$ -	\$ 285,293	\$ 585	\$ 285,878
Programming and production	1,781,626	3,576,551	325,441	5,683,618
Broadcast and engineering	512,000	2,020,106	137,875	2,669,981
Promotions	179,397	266,553	49,847	495,797
Total program expenses	<u>2,473,023</u>	<u>6,148,503</u>	<u>513,748</u>	<u>9,135,274</u>
General and administrative	221,389	1,525,245	507,132	2,253,766
Fundraising	<u>1,131,389</u>	<u>1,368,482</u>	<u>196,744</u>	<u>2,696,615</u>
 Total expenses per AFR	 <u>3,825,801</u>	 <u>9,042,230</u>	 <u>1,217,624</u>	 <u>14,085,655</u>
 Total change in net assets per AFR	 <u>\$ (240,102)</u>	 <u>\$ 1,087,934</u>	 <u>\$ 8,895,438</u>	 <u>\$ 9,743,270</u>

See report of independent accountants.