

**COMMONWEALTH PUBLIC BROADCASTING**

Financial Statements

June 30, 2011 and 2010

# COMMONWEALTH PUBLIC BROADCASTING

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of  
Commonwealth Public Broadcasting:

We have audited the statements of financial position of Commonwealth Public Broadcasting (the "Corporation") as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Public Broadcasting at June 30, 2011 and 2010 and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Keiter, Stephens, Hunter, Gary & Shreaves, P.C.*

November 2, 2011  
Glen Allen, Virginia

## COMMONWEALTH PUBLIC BROADCASTING

### Statements of Financial Position June 30, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 142,367	\$ 200,786
Accounts receivable, net	820,989	468,660
Contributions receivable	10,725	13,475
Inventory	47,312	22,952
Prepaid expenses	<u>745,602</u>	<u>615,250</u>
Total current assets	1,766,995	1,321,123
Property and equipment, net	9,586,912	8,941,415
Investments	<u>6,484,319</u>	<u>6,877,398</u>
Total assets	<u>\$ 17,838,226</u>	<u>\$ 17,139,936</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ 1,286,295	\$ -
Accounts payable	310,810	266,425
Accrued expenses	676,970	697,926
Accrued pension liability - current	536,370	599,540
Deferred revenue - current	<u>858,940</u>	<u>1,138,928</u>
Total current liabilities	3,669,385	2,702,819
Accrued pension liability	2,229,539	3,403,172
Deferred revenue	<u>477,606</u>	<u>816,742</u>
Total liabilities	<u>6,376,530</u>	<u>6,922,733</u>
Net assets:		
Unrestricted:		
Undesignated	13,961,364	13,946,968
Board designated	328,153	307,270
Minimum pension liability adjustment	<u>(3,403,952)</u>	<u>(4,481,511)</u>
Total unrestricted net assets	10,885,565	9,772,727
Temporarily restricted	189,640	57,985
Permanently restricted	<u>386,491</u>	<u>386,491</u>
Total net assets	<u>11,461,696</u>	<u>10,217,203</u>
Total liabilities and net assets	<u>\$ 17,838,226</u>	<u>\$ 17,139,936</u>

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

Statement of Activities  
Year Ended June 30, 2011, with Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Support and revenue:					
Operating:					
Community support:					
Membership contributions	\$ 3,478,487	\$ -	\$ -	\$ 3,478,487	\$ 2,815,870
Corporate support/underwriting and foundation grants	1,759,230	147,750	-	1,906,980	2,175,489
Public support - community service grants:					
Virginia Public Broadcasting Board	517,018	-	-	517,018	781,742
Corporation for Public Broadcasting	1,338,948	-	-	1,338,948	1,430,343
Public support - capital project grants	914,079	-	-	914,079	304,412
Educational services:					
Virginia Public Broadcasting Board contract	903,045	-	-	903,045	956,165
U.S. Department of Education grants	-	-	-	-	74,750
Participation fees and other	380,421	-	-	380,421	384,763
Broadcast services:					
Data transmission	3,331,325	-	-	3,331,325	3,568,757
Production services	955,104	-	-	955,104	429,358
Loss on disposal of equipment	(23,718)	-	-	(23,718)	(54,590)
Miscellaneous	163	-	-	163	47,607
Total operating revenue	13,554,102	147,750	-	13,701,852	12,914,666
Investment income, net	1,025,693	46,650	-	1,072,343	617,282
Rental income	1,306,919	-	-	1,306,919	1,283,199
Total support and revenue	15,886,714	194,400	-	16,081,114	14,815,147
Net assets released from restrictions	62,745	(62,745)	-	-	-

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statement of Activities, Continued  
Year Ended June 30, 2011, with Comparative Totals for 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Expenses:					
Programming:					
Educational television	\$ 1,360,329	\$ -	\$ -	\$ 1,360,329	\$ 1,353,204
Public broadcasting	3,701,650	-	-	3,701,650	3,440,822
Support functions	722,856	-	-	722,856	1,101,294
Broadcasting:					
Engineering	3,807,556	-	-	3,807,556	4,220,717
Production	2,484,477	-	-	2,484,477	2,020,755
General and administrative	1,229,870	-	-	1,229,870	788,084
Fundraising	<u>2,607,442</u>	<u>-</u>	<u>-</u>	<u>2,607,442</u>	<u>2,440,042</u>
Total expenses	<u>15,914,180</u>	<u>-</u>	<u>-</u>	<u>15,914,180</u>	<u>15,364,918</u>
Change in net assets before change in minimum pension liability	35,279	131,655	-	166,934	(549,771)
Change in minimum pension liability	<u>1,077,559</u>	<u>-</u>	<u>-</u>	<u>1,077,559</u>	<u>(1,260,803)</u>
Total change in net assets	1,112,838	131,655	-	1,244,493	(1,810,574)
Net assets at beginning of year	<u>9,772,727</u>	<u>57,985</u>	<u>386,491</u>	<u>10,217,203</u>	<u>12,027,777</u>
Net assets at end of year	<u>\$ 10,885,565</u>	<u>\$ 189,640</u>	<u>\$ 386,491</u>	<u>\$ 11,461,696</u>	<u>\$10,217,203</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statement of Activities  
Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Operating:				
Community support:				
Membership contributions	\$ 2,651,833	\$ 164,037	\$ -	\$ 2,815,870
Corporate support/underwriting and foundation grants	2,175,489	-	-	2,175,489
Public support - community service grants:				
Virginia Public Broadcasting Board	781,742	-	-	781,742
Corporation for Public Broadcasting	1,430,343	-	-	1,430,343
Public support - capital project grants	304,412	-	-	304,412
Educational services:				
Virginia Public Broadcasting Board contract	956,165	-	-	956,165
U.S. Department of Education grants	74,750	-	-	74,750
Participation fees and other	384,763	-	-	384,763
Broadcast services:				
Data transmission	3,568,757	-	-	3,568,757
Production services	429,358	-	-	429,358
Loss on disposal of equipment	(54,590)			(54,590)
Miscellaneous	47,607	-	-	47,607
	<u>12,750,629</u>	<u>164,037</u>	<u>-</u>	<u>12,914,666</u>
Total operating revenue				
Investment income, net	617,282	-	-	617,282
Rental income	1,283,199	-	-	1,283,199
	<u>14,651,110</u>	<u>164,037</u>	<u>-</u>	<u>14,815,147</u>
Total support and revenue				
Net assets released from restrictions	<u>310,627</u>	<u>(310,627)</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statement of Activities, Continued  
Year Ended June 30, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Expenses:				
Programming:				
Educational television	\$ 1,353,204	\$ -	\$ -	\$ 1,353,204
Public broadcasting	3,440,822	-	-	3,440,822
Support functions	1,101,294	-	-	1,101,294
Broadcasting:				
Engineering	4,220,717	-	-	4,220,717
Production	2,020,755	-	-	2,020,755
General and administrative	788,084	-	-	788,084
Fundraising	<u>2,440,042</u>	<u>-</u>	<u>-</u>	<u>2,440,042</u>
Total expenses	<u>15,364,918</u>	<u>-</u>	<u>-</u>	<u>15,364,918</u>
Change in net assets before change in minimum pension liability	(403,181)	(146,590)	-	(549,771)
Change in minimum pension liability	<u>(1,260,803)</u>	<u>-</u>	<u>-</u>	<u>(1,260,803)</u>
Total change in net assets	(1,663,984)	(146,590)	-	(1,810,574)
Net assets at beginning of year	<u>11,436,711</u>	<u>204,575</u>	<u>386,491</u>	<u>12,027,777</u>
Net assets at end of year	<u>\$ 9,772,727</u>	<u>\$ 57,985</u>	<u>\$ 386,491</u>	<u>\$ 10,217,203</u>

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

### Statement of Functional Expenses Year Ended June 30, 2011

	Program Services					General & Administrative	Fundraising	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production			
Salaries, wages and benefits	\$ 630,136	\$ 1,070,534	\$ 332,922	\$ 1,479,149	\$ 1,438,998	\$ 979,756	\$ 1,325,007	\$ 7,256,502
Business supplies and equipment	3,889	8,951	1,906	90,140	10,936	5,591	16,042	137,456
Technical supplies and equipment	5,274	13,929	149	60,521	4,170	149	149	84,341
Occupancy	40,646	135,758	14,520	397,135	114,989	16,353	84,617	804,018
Communications	8,951	16,615	5,977	491,683	16,908	6,405	29,381	575,920
Postage and shipping	3,030	21,247	2,132	9,127	6,136	3,173	356,187	401,032
Printing and duplication	32,919	6,324	36,235	3,450	1,552	244	13,949	94,673
Vehicles	21,703	1,613	-	11,977	1,142	-	-	36,435
Travel and entertainment	15,465	14,370	9,334	2,181	49,468	3,136	27,996	121,950
Professional services	38,086	135,922	15,459	39,270	38,325	114,742	141,567	523,371
Dues, professional affiliations	2,741	167,220	3,797	4,451	17,785	5,467	6,500	207,961
Advertising and public relations	975	793	65,917	129	79,446	54	133,235	280,549
Computer services	381,991	34,241	81,540	35,025	280,837	5,128	94,350	913,112
Program acquisitions	28,986	1,611,753	110	5,992	204,218	20	814	1,851,893
Conferences and meetings	32,212	1,126	2,356	545	4,532	6,424	16,930	64,125
Production	-	79,696	-	20,700	26,913	-	-	127,309
Premiums	-	-	-	-	-	-	188,942	188,942
Special events	8,951	30,158	61,347	217	134	-	15,296	116,103
Bad debts	60,891	242,899	60,758	60,835	60,746	60,835	60,728	607,692
Miscellaneous	237	209	15	198	72	196	65	992
	<u>1,317,083</u>	<u>3,593,358</u>	<u>694,474</u>	<u>2,712,725</u>	<u>2,357,307</u>	<u>1,207,673</u>	<u>2,511,755</u>	<u>14,394,376</u>
Depreciation	41,206	99,929	26,342	1,092,587	124,926	17,047	93,647	1,495,684
Interest	2,040	8,363	2,040	2,244	2,244	5,151	2,040	24,120
	<u>\$ 1,360,329</u>	<u>\$ 3,701,650</u>	<u>\$ 722,856</u>	<u>\$ 3,807,556</u>	<u>\$ 2,484,477</u>	<u>\$ 1,229,870</u>	<u>\$ 2,607,442</u>	<u>\$ 15,914,180</u>

See accompanying notes to financial statements.

**COMMONWEALTH PUBLIC BROADCASTING**

Statement of Functional Expenses  
Year Ended June 30, 2010

	Program Services					General & Administrative	Fundraising	Total
	Educational Television	Public Broadcasting	Support Functions	Engineering	Production			
Salaries, wages and benefits	\$ 703,723	\$ 1,085,004	\$ 352,626	\$ 1,803,034	\$ 1,567,083	\$ 614,872	\$ 1,350,599	\$ 7,476,941
Business supplies and equipment	4,479	7,283	4,464	6,580	6,048	4,664	10,210	43,728
Technical supplies and equipment	2,097	78,545	-	190,218	8,339	-	4,288	283,487
Occupancy	43,072	147,187	17,011	382,149	105,040	12,386	84,068	790,913
Communications	8,884	18,697	8,295	516,378	13,891	5,116	21,976	593,237
Postage and shipping	1,667	10,343	4,037	1,046	1,134	5,832	264,020	288,079
Printing and duplication	38,971	6,206	56,326	903	1,105	826	24,941	129,278
Vehicles	23,010	867	61	12,413	3,157	627	180	40,315
Travel and entertainment	13,358	23,492	7,579	11,360	19,494	4,786	34,423	114,492
Professional services	31,551	123,099	66,301	26,821	20,012	86,397	86,167	440,348
Dues, professional affiliations	7,908	168,727	3,646	3,898	5,996	4,115	7,931	202,221
Advertising and public relations	808	429	193,646	48	654	23	22,922	218,530
Computer services	304,143	50,342	283,566	31,784	34,751	3,440	84,425	792,451
Program acquisitions	77,630	1,509,498	49,077	-	2,280	-	7	1,638,492
Conferences and meetings	30,431	2,456	3,767	1,321	236	2,286	16,648	57,145
Production	-	63,404	-	14	12,648	-	427	76,493
Premiums	-	-	-	-	-	-	194,320	194,320
Special events	19	6	8,231	173	6	6	98,715	107,156
Miscellaneous	9,636	35,472	10,242	14,854	13,010	35,202	52,433	170,849
	<u>1,301,387</u>	<u>3,331,057</u>	<u>1,068,875</u>	<u>3,002,994</u>	<u>1,814,884</u>	<u>780,578</u>	<u>2,358,700</u>	<u>13,658,475</u>
Depreciation	51,817	109,765	32,419	1,217,723	205,871	7,506	80,956	1,706,057
Interest	-	-	-	-	-	-	386	386
	<u>\$ 1,353,204</u>	<u>\$ 3,440,822</u>	<u>\$ 1,101,294</u>	<u>\$ 4,220,717</u>	<u>\$ 2,020,755</u>	<u>\$ 788,084</u>	<u>\$ 2,440,042</u>	<u>\$ 15,364,918</u>

See accompanying notes to financial statements.

## COMMONWEALTH PUBLIC BROADCASTING

### Statements of Cash Flows Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,244,493	\$ (1,810,574)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,495,684	1,706,057
Net (gain) loss on investments	(1,072,343)	(418,465)
Loss on disposal of equipment	23,718	54,590
Changes in assets and liabilities:		
Accounts receivable	(352,329)	(87,963)
Contributions receivable	2,750	12,258
Inventory	(24,360)	(19,107)
Prepaid expenses	(130,352)	(184,317)
Accounts payable	44,385	(37,671)
Accrued expenses	(20,956)	(38,400)
Accrued pension liability	(1,236,803)	934,353
Deferred revenue	(619,124)	(681,124)
Net cash used in operating activities	<u>(645,237)</u>	<u>(570,363)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,668,922	3,598,038
Purchases of investments	(2,203,500)	(2,495,603)
Purchases of property and equipment	(2,164,899)	(342,151)
Net cash provided by (used in) investing activities	<u>(699,477)</u>	<u>760,284</u>
Cash flows from financing activities:		
Proceeds from line of credit, net	1,286,295	-
Principal payment on long-term debt	-	(317,857)
Net cash provided by (used in) financing activities	<u>1,286,295</u>	<u>(317,857)</u>
Net change in cash	(58,419)	(127,936)
Cash at the beginning of the year	<u>200,786</u>	<u>328,722</u>
Cash at the end of the year	<u>\$ 142,367</u>	<u>\$ 200,786</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest	<u>\$ 24,120</u>	<u>\$ 386</u>

See accompanying notes to financial statements.

# COMMONWEALTH PUBLIC BROADCASTING

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies:

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

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

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

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

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

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

**Inventory:** Inventory consists of purchased DVDs that are valued at the lower of cost or market, with cost being determined by the first-in, first-out method.

**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 recorded at their fair values (see Note 13).

**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, 2011 and 2010 are from underwriting and tower rents. The Corporation had two customers that accounted for 61% of the total receivables at June 30, 2011. The Corporation had no customers that accounted for more than 10% of the total receivables at June 30, 2010.

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 for financial reporting purposes. The balance of the Corporation's allowance for doubtful accounts was \$631,112 in 2011 and \$65,299 in 2010. During 2011, two customers accounted for \$578,978 of the allowance balance at June 30, 2011. One of the Corporation's customers declared bankruptcy in October 2011 and the other customer's balance was significantly past due.

**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, 2011. The Corporation's income tax returns for years since 2007 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.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

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

**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 the Corporation to recognize the funded status of the Corporation's benefit plan in its statement of financial position as of June 30, 2011 and 2010 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 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 the current year presentation.

**Subsequent Events:** Management has evaluated subsequent events for potential recognition and/or disclosure through November 2, 2011, the date the financial statements were available to be issued. Management has determined there are no subsequent events to be reported in the accompanying financial statements.

#### 2. Investments:

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

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 2. Investments, Continued:

Costs and fair values as of June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Government agency obligations	\$ -	\$ -	\$ 99,550	\$ 101,094
Corporate obligations	1,744,236	1,940,811	1,957,202	2,096,054
Equities:				
US	1,820,908	2,240,842	2,374,035	2,387,160
International	752,366	883,375	895,719	865,475
Mortgage and asset-backed securities	661,811	723,203	862,655	926,707
Temporary cash investments	696,088	696,088	500,908	500,908
	<u>\$ 5,675,409</u>	<u>\$ 6,484,319</u>	<u>\$ 6,690,069</u>	<u>\$ 6,877,398</u>

Investment transactions are reported as follows for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and dividends	\$ 191,005	\$ 226,327
Net realized gain (loss)	301,069	(215,925)
Net unrealized gain	608,006	634,390
Investment gain	1,100,080	644,792
Investment transaction costs and management fees	(27,737)	(27,510)
Investment income, net	<u>\$ 1,072,343</u>	<u>\$ 617,282</u>

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 3. Property and Equipment:

As of June 30, 2011 and 2010, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 278,661	\$ 278,661
Buildings and leasehold improvements	6,252,288	6,216,359
Equipment	<u>24,982,374</u>	<u>23,314,634</u>
	31,513,323	29,809,654
Less accumulated depreciation	<u>21,926,411</u>	<u>20,868,239</u>
	<u>\$ 9,586,912</u>	<u>\$ 8,941,415</u>

#### 4. Line of Credit:

The Corporation has available a line of credit with a bank providing for maximum borrowings of \$1,400,000 through November 30, 2011. The line of credit carries interest at the LIBOR Market Index Rate plus 2%, with a minimum rate of 3%. As of June 30, 2011 and 2010, the outstanding balance on the line of credit was \$1,286,295 and \$0, respectively. Any borrowings under the line of credit are secured by the fair market value of the investments of the Corporation.

#### 5. Accrued Expenses:

Accrued expenses as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Accrued payroll	\$ 112,546	\$ 319,482
Accrued vacation	231,232	238,261
Accrued capital cost	159,381	-
Other accrued expenses	<u>173,811</u>	<u>140,183</u>
	<u>\$ 676,970</u>	<u>\$ 697,926</u>

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. 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, 2011 and 2010.

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>2011</u>	<u>2010</u>
Accumulated benefit obligation at the end of the year	<u>\$ 11,150,963</u>	<u>\$ 10,892,180</u>
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of the year	\$ 10,892,180	\$ 9,203,080
Interest cost	574,436	593,109
Actuarial (gain) or loss	129,837	1,460,978
Benefits paid	<u>(445,490)</u>	<u>(364,987)</u>
Projected benefit obligation at the end of the year	<u>11,150,963</u>	<u>10,892,180</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	6,889,468	6,134,721
Actual return on plan assets	1,413,695	751,144
Employer contributions	527,381	368,590
Benefits paid	<u>(445,490)</u>	<u>(364,987)</u>
Fair value of plan assets at the end of the year	<u>8,385,054</u>	<u>6,889,468</u>
Accrued cost recognized in accrued liabilities	<u>\$ (2,765,909)</u>	<u>\$ (4,002,712)</u>

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. Retirement Plans, Continued:

The following table sets forth the weighted average assumptions as of June 30, 2011 and 2010:

	2011	2010
Discount rate	5.70%	5.50%
Expected rate of return on plan assets	7.50%	7.50%
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, 2011 and 2010:

	2011	2010
Components of new periodic pension cost:		
Interest costs	\$ 574,436	\$ 593,109
Expected return on plan assets	(516,718)	(454,671)
Recognized losses	310,419	217,882
 Net periodic cost	 \$ 368,137	 \$ 356,320
 Benefits paid	 \$ 445,490	 \$ 364,987
 Employer contribution	 \$ 527,381	 \$ 368,590

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:

	2011	2010
Plan assets:		
Equity securities	67 %	61 %
Debt securities	33	39
Total	100 %	100 %

Based on the July 1, 2011 plan valuation, a contribution of \$545,701 is required for fiscal year 2012. Future benefit payments are expected to be \$536,370 in fiscal year 2012, \$535,744 in fiscal year 2013, \$561,159 in fiscal year 2014, \$568,848 in fiscal year 2015, \$570,372 in fiscal year 2016, and \$3,362,750 in the fiscal years thereafter.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 6. Retirement Plans, Continued:

The Corporation also maintains a contributory defined contribution plan under IRC Section 403(b), which allows eligible employees to defer a portion of their compensation. The Corporation provides a 25% match on employee contributions up to 4% of salary. The Board of Directors added an enhancement to the Defined Contribution Plan which provided for employees, who were employed as of the end of the Corporation's fiscal year, to receive a 3.5% base contribution to their 403(b). The enhancement was suspended by the Board of Directors in December 2009. The total expense for the 403(b) plan was \$30,294 for 2011 and \$33,824 for 2010.

#### 7. 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:

	2011	2010
WCVE-TV	\$ 153,821	\$ 159,554
WCVE-FM	90,820	86,688
MHz	64,924	25,000
	\$ 309,565	\$ 271,242

This support represented donations of:

	2011	2010
Advertising and public relations	\$ 201,246	\$ 169,885
Special events	105,687	95,826
Professional services and other	2,632	5,531
	\$ 309,565	\$ 271,242

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 8. 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.

#### 9. Operating Leases:

The Corporation leased space for television and radio transmitter equipment, office equipment and space, and vehicles at an expense of approximately \$88,651 in 2011 and \$92,774 in 2010.

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, 2011:

<u>Year Ended June 30:</u>	<u>Amount</u>
2012	\$ 74,722
2013	62,800
2014	52,439
2015	51,714
2016	36,926
Thereafter	<u>36,082</u>
	<u>\$ 314,683</u>

#### 10. 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, 2011:

<u>Year Ended June 30:</u>	<u>Amount</u>
2012	\$ 1,360,284
2013	1,352,830
2014	1,218,329
2015	864,387
2016 and thereafter	<u>817,326</u>
	<u>\$ 5,613,156</u>

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 10. 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 November 2005, the Corporation entered into agreements involving rental of tower space at the Northern Virginia locations. As a result of these agreements, the Corporation received a large rental prepayment for the period from November 1, 2006 through November 30, 2014, most of which was booked as deferred revenue and is reflected on the balance sheet in the deferred revenue section.

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 and the Independent Hill, Virginia areas. 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.

#### 11. Restricted Net Assets:

Net assets of \$62,745 and \$310,627 were released from donor-imposed restrictions during the years ended June 30, 2011 and 2010, respectively, by incurring expenses or making capital acquisitions that satisfy the restricted purposes specified by the donor.

Temporarily restricted net assets as of June 30, 2011 and 2010 of \$189,640 and \$57,985 respectively, consist of contributions/grants received for Ready to Learn projects and future programming.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 12. 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

### Notes to Financial Statements, Continued

#### 12. 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.

#### 13. 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:

**Money market funds and certificates of deposit:** Valued at the realizable cash value equivalent to the specific sum of money held by the Corporation at year end.

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

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

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

**U.S. government and corporate bonds:** Valued at original cost adjusted for any premium or coupon.

**Mutual funds:** Valued at the net asset value ("NAV") of shares held by the Corporation at year end.

**Pension plan assets and liabilities:** Valued by the actuarial valuation as of July 1, 2011 (see Note 6).

Assets and liabilities measured at fair value on a recurring basis at June 30, 2011, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Corporate obligations	\$ -	\$ 1,940,811	\$ -	\$ 1,940,811
Equities:				
US	2,240,842	-	-	2,240,842
International	883,375	-	-	883,375
Mortgage and asset-backed securities	-	723,203	-	723,203
Temporary cash investments	696,088	-	-	696,088
Total assets	\$ 3,820,305	\$ 2,664,014	\$ -	\$ 6,484,319
Liabilities:				
Pension plan assets	\$ 8,385,054	\$ -	\$ -	\$ 8,385,054
Pension plan liabilities	-	-	(11,150,963)	(11,150,963)
Net pension plan assets (liabilities) at fair value	\$ 8,385,054	\$ -	\$ (11,150,963)	\$ (2,765,909)

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

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

Assets and liabilities measured at fair value on a recurring basis at June 30, 2010, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Government agency obligations	\$ -	\$ 101,094	\$ -	\$ 101,094
Corporate obligations	-	2,096,054	-	2,096,054
Equities:				
US	2,387,160	-	-	2,387,160
International	865,475	-	-	865,475
Mortgage and asset-backed securities	-	926,707	-	926,707
Temporary cash investments	500,908	-	-	500,908
Total assets	<u>\$ 3,753,543</u>	<u>\$ 3,123,855</u>	<u>\$ -</u>	<u>\$ 6,877,398</u>
Liabilities:				
Pension plan assets	\$ 6,889,468	\$ -	\$ -	\$ 6,889,468
Pension plan liabilities	-	-	(10,892,180)	(10,892,180)
Net pension plan assets (liabilities) at fair value	<u>\$ 6,889,468</u>	<u>\$ -</u>	<u>\$ (10,892,180)</u>	<u>\$ (4,002,712)</u>

## COMMONWEALTH PUBLIC BROADCASTING

### Notes to Financial Statements, Continued

#### 13. 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):

	<u>Level 3</u>
Balance, July 1, 2009	\$ (9,203,080)
Interest cost	(593,109)
Actuarial losses	(1,460,978)
Benefits paid	<u>364,987</u>
Balance, June 30, 2010	(10,892,180)
Interest cost	(574,436)
Actuarial losses	(129,837)
Benefits paid	<u>445,490</u>
Balance, June 30, 2011	<u>\$ (11,150,963)</u>

#### 14. 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 unlimited; however, the Corporation's insurance policies serve to 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.