



***Hampton Roads Educational
Telecommunications Association, Inc.***

FINANCIAL REPORT

JUNE 30, 2011 AND 2010



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hampton Roads Educational Telecommunications Association, Inc.

We have audited the accompanying statements of financial position of Hampton Roads Educational Telecommunications Association, Inc. (WHRO), as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of WHRO'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 of America. Those standards require that we plan and perform the audit 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 Hampton Roads Educational Telecommunications Association, Inc., as of 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 of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules identified as supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are 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 audit 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Witt Mares, PLC

Norfolk, Virginia
August 26, 2011

FINANCIAL STATEMENTS



HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

Statements of Financial Position June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,262,165	\$ 3,285,736
Accounts receivable	569,539	429,914
Pledges receivable, net	243,782	272,190
Underwriting receivables	195,292	221,272
Inventory	61,713	95,235
Tower rights	47,081	47,081
Prepaid expenses	<u>229,990</u>	<u>271,566</u>
Total current assets	<u>3,609,562</u>	<u>4,622,994</u>
NONCURRENT ASSETS		
Pledges receivable, net	11,289	26,289
Property, plant and equipment, net	8,841,024	8,289,313
Tower rights	1,082,863	1,129,944
Investments	<u>3,911,783</u>	<u>2,386,599</u>
Total noncurrent assets	<u>13,846,959</u>	<u>11,832,145</u>
Total assets	<u>\$ 17,456,521</u>	<u>\$ 16,455,139</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 2,297,123	\$ -
Notes payable, current portion	-	14,825
Accounts payable	551,122	701,301
Accrued liabilities	462,539	393,890
Deferred revenue, current portion	<u>370,331</u>	<u>821,848</u>
Total current liabilities	3,681,115	1,931,864
NONCURRENT LIABILITIES		
Deferred revenue, long-term portion	<u>24,875</u>	<u>92,623</u>
Total liabilities	<u>3,705,990</u>	<u>2,024,487</u>
NET ASSETS		
Unrestricted:		
Undesignated	8,148,311	9,537,483
Board designated	<u>5,446,108</u>	<u>4,737,057</u>
Total unrestricted	13,594,419	14,274,540
Temporarily restricted	-	-
Permanently restricted	<u>156,112</u>	<u>156,112</u>
Total net assets	<u>13,750,531</u>	<u>14,430,652</u>
Total liabilities and net assets	<u>\$ 17,456,521</u>	<u>\$ 16,455,139</u>

See accompanying notes.



HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

Statements of Activities

Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT, AND OTHER INCOME								
Membership	\$ 2,246,954	\$ -	\$ -	\$ 2,246,954	\$ 2,150,345	\$ -	\$ -	\$ 2,150,345
Grants and contributions	1,592,352	134,612	-	1,726,964	1,425,898	22,211	-	1,448,109
School assessments	532,572	-	-	532,572	534,472	-	-	534,472
Government grants	2,891,153	-	-	2,891,153	2,354,754	-	-	2,354,754
Special events	226,442	-	-	226,442	142,436	-	-	142,436
Program underwriting	1,371,978	-	-	1,371,978	1,223,162	-	-	1,223,162
Education service fees	2,822,855	-	-	2,822,855	2,313,024	-	-	2,313,024
Production fees	345,093	-	-	345,093	786,818	-	-	786,818
Production funding	16,300	-	-	16,300	26,417	-	-	26,417
Internet service provider and website design fees	293,715	-	-	293,715	234,291	-	-	234,291
Tower rental fees	614,136	-	-	614,136	668,865	-	-	668,865
Broadcast channel fees	125,300	-	-	125,300	151,771	-	-	151,771
Royalties and advertising	527,625	-	-	527,625	544,702	-	-	544,702
Spectrum lease income	906,280	-	-	906,280	888,486	-	-	888,486
Investment income	148,444	-	-	148,444	332,799	-	-	332,799
Miscellaneous income	23,158	-	-	23,158	92,982	-	-	92,982
Donated assets	-	-	-	-	4,000	-	-	4,000
Unrealized loss on investments	(11,341)	-	-	(11,341)	(12,886)	-	-	(12,886)
Net assets released from restrictions:								
Satisfaction of program restrictions	134,612	(134,612)	-	-	22,876	(22,876)	-	-
Total revenues, support and other income	<u>14,807,628</u>	<u>-</u>	<u>-</u>	<u>14,807,628</u>	<u>13,885,212</u>	<u>(665)</u>	<u>-</u>	<u>13,884,547</u>
EXPENSES								
Program services	<u>12,668,214</u>	<u>-</u>	<u>-</u>	<u>12,668,214</u>	<u>11,231,516</u>	<u>-</u>	<u>-</u>	<u>11,231,516</u>
Supporting:								
Management and general	1,141,447	-	-	1,141,447	1,482,972	-	-	1,482,972
Fundraising and development	1,678,088	-	-	1,678,088	1,744,997	-	-	1,744,997
Total supporting expenses	<u>2,819,535</u>	<u>-</u>	<u>-</u>	<u>2,819,535</u>	<u>3,227,969</u>	<u>-</u>	<u>-</u>	<u>3,227,969</u>
Total expenses	<u>15,487,749</u>	<u>-</u>	<u>-</u>	<u>15,487,749</u>	<u>14,459,485</u>	<u>-</u>	<u>-</u>	<u>14,459,485</u>
CHANGE IN NET ASSETS	(680,121)	-	-	(680,121)	(574,273)	(665)	-	(574,938)
NET ASSETS, beginning of year	<u>14,274,540</u>	<u>-</u>	<u>156,112</u>	<u>14,430,652</u>	<u>14,848,813</u>	<u>665</u>	<u>156,112</u>	<u>15,005,590</u>
NET ASSETS, end of year	<u>\$ 13,594,419</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 13,750,531</u>	<u>\$ 14,274,540</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 14,430,652</u>

See accompanying notes.



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from contributions	\$ 3,867,326	\$ 3,655,783
Cash receipts from grants	2,973,855	2,299,123
Cash receipts from education activities	3,269,508	2,773,252
Cash receipts from enterprise activities	2,856,215	3,069,544
Cash receipts from underwriting	1,138,042	1,279,856
Cash receipts from all other sources	160,261	429,781
Cash paid for operating expenses	(7,290,091)	(5,844,117)
Cash paid for wages and fringe benefits	(6,946,270)	(6,706,135)
Cash paid for interest and taxes	<u>(10,994)</u>	<u>(14,672)</u>
Net cash provided by operating activities	<u>17,852</u>	<u>942,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,907,588)	(4,800,586)
Proceeds from sale of investments	3,371,063	5,478,809
Proceeds from sale of property, plant, and equipment	240	-
Purchases of property, plant and equipment	<u>(1,787,436)</u>	<u>(781,273)</u>
Net cash used in investing activities	<u>(3,323,721)</u>	<u>(103,050)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	2,297,123	-
Principal payments on notes payable	<u>(14,825)</u>	<u>(44,304)</u>
Net cash provided by (used in) financing activities	<u>2,282,298</u>	<u>(44,304)</u>
Net increase (decrease) in cash and cash equivalents	(1,023,571)	795,061
CASH AND CASH EQUIVALENTS		
Beginning	<u>3,285,736</u>	<u>2,490,675</u>
Ending	<u>\$ 2,262,165</u>	<u>\$ 3,285,736</u>

See accompanying notes.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

(Concluded)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (680,121)	\$ (574,938)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,235,725	1,437,782
Amortization of tower rights, net	47,081	47,081
Unrealized loss on investments, net	11,341	12,886
Gain on disposal of property, plant and equipment	(240)	-
Changes in assets and liabilities:		
Accounts receivable	(139,625)	(113,464)
Pledges and underwriting receivables	69,388	145,630
Inventory	33,522	(5,974)
Prepaid expenses	41,576	59,807
Accounts payable	(150,179)	539,699
Accrued liabilities	68,649	(136,753)
Deferred revenue	(519,265)	(469,341)
Net cash provided by operating activities	\$ 17,852	\$ 942,415
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 14,309	\$ 9,203
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Donated services	\$ -	\$ 74,000
Donated marketable securities, supplies, and equipment	\$ -	\$ 54,550
Disposal of fully depreciated property, plant and equipment	\$ 1,280,180	\$ -

See accompanying notes.



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

Hampton Roads Educational Telecommunications Association, Inc. (d/b/a WHRO) (“WHRO”) is a diverse regional public telecommunications center serving more than 1.6 million citizens in southeastern Virginia and northeastern North Carolina. In addition, WHRO reaches beyond the region through its website. WHRO promotes education, culture and citizenship to the citizens of Hampton Roads, Virginia, through a variety of telecommunications services. Viewers and listeners tune in to broadcast programming on WHRO’s public television and radio stations and stream programming from its website. Since its founding 50 years ago to support education, WHRO has employed creativity and technology to serve its mission to enrich audiences through content that educates, entertains and promotes understanding. WHRO delivers educational and new media services to students and educators as well.

WHRO is licensed by the Federal Communications Commission to operate a non-commercial public television station – WHRO 15 Digital (including WHRO HD, WHRO Kids, WHRO World and WHRO Create); two non-commercial public radio stations – WHRO 90.3 FM and its associated digital channels (WHRO Digital, Connoisseur Classics and the 1920s Radio Network) and WHRV 89.5 FM and its associated digital channels (WHRV Digital, SpeakEasy and AltRadio); Educational Broadband Services (EBS) and satellite transmission facilities and the WHRO Radio Reading Service for the Print Handicapped. WHRO added additional transmitters in FY11 to extend and improve its radio broadcast footprint and provide public radio services in underserved areas. Transmitter call signs (repeated signal), frequency and station of license are as follows: WHRG (WHRV), 88.5, Gloucester Point; WHRJ (WHRO), 89.9 Gloucester Courthouse; WHRE (WHRV), 91.9, Eastville; WHRX (WHRV), 90.1, Nassawaddox. Its website features live audio streams for WHRO, WHRV, the Radio Reading Service, Connoisseur Classics, SpeakEasy, AltRadio and the 1920’s Radio Network. Studios, satellite, technical control, teleconference facilities and offices are housed in Norfolk, Virginia, and a radio broadcast facility is located in Newport News, Virginia. WHRO operates a satellite office and studio in Williamsburg, Virginia. Major transmission facilities are located in Suffolk, Virginia, with additional FM radio transmission facilities in Southeastern Virginia and multi-point microwave relay towers are dispersed throughout Virginia.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Format

WHRO follows the accounting standards applicable to not-for-profit organizations. Such standards primarily govern the accounting for contributions; require investments to be presented at fair value, and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into three classes of net assets: permanently restricted, temporarily restricted or unrestricted.

Permanently restricted net assets generally result from contributions whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled by actions of WHRO. Income received from these assets is primarily treated as unrestricted revenue.

Temporarily restricted net assets generally result from contributions and grants from private and public sources whose use is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of WHRO.

Unrestricted net assets generally result from revenues derived from receiving unrestricted contributions and fees from providing programs, less expenses incurred in providing these programs, raising contributions and performing administrative functions.

Cash and Cash Equivalents

WHRO considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. Included in cash and cash equivalents balances are amounts restricted primarily for future program activities. Cash equivalents at June 30, 2011 and 2010 are \$1,690,436 and \$2,506,570, respectively.

Receivables

Accounts receivable, pledges receivable, and underwriting receivables are reported net of allowances for doubtful accounts. At June 30, 2011 and 2010, the allowance for doubtful accounts was \$12,516 and \$6,838, respectively.

Inventory

Inventory consists of fundraising gifts of appreciation and is stated at the lower of cost or market using the first-in, first-out method. At June 30, 2011 and 2010, inventory is \$61,713 and \$95,235, respectively.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost on acquisition date or fair value on gift date for donated items. Depreciation, which includes amortization of capital leases, is computed using the straight-line method over the estimated useful lives of the related assets.

Leased office equipment and software held under capital leases at June 30, 2011 and 2010 had a cost of \$42,780 and \$42,780 and the accumulated depreciation and amortization on these leased assets as of June 30, 2011 and 2010 totaled \$32,786 and \$18,527, respectively.

Maintenance and repairs, including replacement of minor items of physical properties, are charged to expense; major additions to physical properties are capitalized. Gains and losses arising from the disposal or retirement of property, plant and equipment are recognized currently in the accompanying statements of activities and the cost and related accumulated depreciation, if applicable, are removed from the accounts.

Contributions

Contributions are recognized as revenue in the period in which a donor makes an unconditional promise to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Unconditional contributions that are expected to be collected in more than one year are reported at fair value initially and at net realizable value thereafter. An allowance for uncollectible pledges receivable is made based on management's judgment considering historical collection experience.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met within the same reporting period. All other contributions with donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction is met, the related net assets are shown as a release from restrictions on the accompanying statements of activities.

WHRO recognizes in-kind contributions as revenue and in the period they are received. Donated marketable securities, supplies and equipment are reflected in the accompanying financial statements at estimated values at the date of receipt. During the fiscal years ended June 30, 2011 and 2010, the value of donated marketable securities, supplies and equipment recorded was \$0 and \$54,550, respectively.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated services are recognized as contributions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by WHRO. During 2011 and 2010, the value of donated services recorded was \$0 and \$74,000, respectively.

In addition, various individuals and groups volunteer their time. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under FASB ASC Topic 958.

Underwriting revenue

WHRO receives sponsorships from entities to underwrite the cost of some of its programs and productions. In such instances, WHRO treats underwriting revenue as an exchange transaction and recognizes the revenue when earned.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

Certain costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated by various statistical bases.

Production of Programs

Program revenues received and costs incurred for the production of programs that are not complete are reported as deferred revenues and prepaid expenses in the statements of financial position.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Tax Status

WHRO is a not-for-profit corporation, which has been determined by the Internal Revenue Service to be exempt from federal taxes on income derived from activities related to exempt purposes under Section 501(c)(3) of the Internal Revenue Code. It is subject to income taxes on profits, if any, generated from activities which are unrelated to its exempt purposes.

FASB ASC Topic 740, Accounting for Uncertainty in Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. WHRO's management has evaluated the impact of the guidance to its financial statements. Management is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax positions as of June 30, 2011. WHRO recognizes interest and penalties incurred, if any, related to income tax positions as other interest expense and penalties expense, respectively. WHRO has a net operating loss carryforward in the amount of \$506,307 and \$111,188 related to its unrelated business income at June 30, 2011 and 2010, respectively, that will begin to expire in 2029.

WHRO's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date they were filed. With few exceptions, WHRO is no longer subject to income tax examinations by federal, state, or local tax authorities for years before 2007.

NOTE 2. PLEDGES RECEIVABLE

WHRO records pledges receivable as revenue in the year an unconditional promise is received. At June 30, 2011 and 2010, net pledges receivable are as follows:

	<u>2011</u>	<u>2010</u>
Temporarily restricted	\$ 11,289	\$ 187,600
Unrestricted	<u>243,782</u>	<u>110,879</u>
	<u>\$ 255,071</u>	<u>\$ 298,479</u>

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 2. PLEDGES RECEIVABLE (Concluded)

The anticipated cash flows from pledges receivable are as follows:

	<u>2011</u>	<u>2010</u>
Amounts due in one year or less	\$ 256,298	\$ 279,028
Amounts due in more than one year, but in five years or less	<u>15,000</u>	<u>30,000</u>
Total pledges receivable	<u>271,298</u>	309,028
Less:		
Discounts to net realizable value	(3,711)	(3,711)
Allowance for doubtful accounts	<u>(12,516)</u>	<u>(6,838)</u>
Net pledges receivable	<u>\$ 255,071</u>	<u>\$ 298,479</u>

At June 30, 2011 and 2010, the discount rates used for long term pledges was 4.43%.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 377,677	\$ 377,677
Buildings and improvements	5,202,039	5,033,969
Furnishings and equipment	21,116,157	20,961,808
Construction in progress	<u>716,792</u>	<u>531,954</u>
	<u>27,412,665</u>	26,905,408
Less accumulated depreciation	<u>(18,571,641)</u>	<u>(18,616,095)</u>
Property, plant and equipment, net	<u>\$ 8,841,024</u>	<u>\$ 8,289,313</u>



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 4. INVESTMENTS

Investments consist of the following at June 30:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed income:				
Asset backed securities	\$2,533,884	\$2,570,346	\$1,752,611	\$1,770,440
Closed end funds & exchange traded products	161,690	163,170	-	-
Treasury Bonds	-	-	85,214	105,956
Total fixed income investments	<u>2,695,574</u>	<u>2,733,516</u>	<u>1,837,825</u>	<u>1,876,396</u>
Equities:				
Closed end funds & exchange traded products	614,275	604,572	48,525	56,985
Other Investments:				
Mutual Funds	203,642	201,635	450,730	453,218
Other alternative strategies	<u>120,000</u>	<u>372,060</u>	-	-
Total other investments	<u>323,642</u>	<u>573,695</u>	<u>450,730</u>	<u>453,218</u>
Total investments	<u>\$3,633,491</u>	<u>\$3,911,783</u>	<u>\$2,337,080</u>	<u>\$2,386,599</u>

For the years ended June 30, 2011 and 2010 investment income was \$148,444 and \$332,799 respectively, and unrealized losses were \$(11,341) and \$(12,886), respectively.

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of these instruments.

The carrying value of investments has been adjusted to market value.

WHRO reports investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures". FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). FASB ASC Topic 820 classifies the inputs used to measure fair value into the following hierarchy:

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs used in the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

WHRO endeavors to utilize the best available information in measuring fair value. The carrying value of investments has been adjusted to market quoted prices in active markets for identical assets. All fixed income investments are obtained from independent quotation bureaus that use computerized valuation formulas to calculate current values.

The following table summarizes, by level within the fair value hierarchy, the assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010.

<u>Description</u>	<u>6/30/2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 3,911,783</u>	<u>\$ 969,377</u>	<u>\$ 2,570,346</u>	<u>\$ 372,061</u>
<u>Description</u>	<u>6/30/2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 2,386,599</u>	<u>\$ 1,876,396</u>	<u>\$ 510,203</u>	<u>\$ -</u>

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Concluded)

The following table summarizes the changes during the year to Level 3 instruments:

Fair value, beginning of the year	\$	-
Net additions, subtractions, purchases, issuances and settlements		120,000
Net realized and unrealized gains and losses included on the Statement of Activities		<u>252,061</u>
Fair value, end of the year	\$	<u>372,061</u>

Long-term pledges receivable are initially recorded by the Organization at fair value using level 3 inputs. The present value technique is the primary input for this valuation and other inputs include an analysis of the donor's payment history, relationship with the donor, the donor's creditworthiness and other factors. There were no changes in valuation techniques used in valuing long-term pledges during the years ended June 30, 2011 and 2010. An average discount rate of 4.43% was used in calculating the present value of long-term pledges for the years ended June 30, 2011 and 2010.

The table below presents information about the changes in pledges to give for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 309,028	\$ 454,239
New promises received	1,905,798	1,788,447
Collections	(1,927,626)	(1,917,664)
Pledges written-off	<u>(15,902)</u>	<u>(15,994)</u>
Ending balance	<u>\$ 271,298</u>	<u>\$ 309,028</u>



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
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Notes to Financial Statements
June 30, 2011 and 2010

NOTE 6. LINE OF CREDIT

WHRO has a line of credit with UBS which provides for borrowings up to a maximum of \$2,500,000 and is collateralized by all WHRO investment accounts held by UBS. During August 2011 the line of credit with UBS was amended to provide for borrowings up to a maximum of \$3,925,000. The line of credit can be terminated at any time. The interest rate is LIBOR, which was 1.939% at June 30, 2011. At June 30, 2011 and 2010, WHRO had a balance of \$2,297,123 and \$0, respectively.

Previously, WHRO had a line of credit with Wachovia Bank which expired February 28, 2010 and allowed for borrowings up to \$800,000. At June 30, 2010, WHRO had no outstanding balance on this line of credit.

NOTE 7. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt obligations are summarized as follows:

	2011	2010
Capitalized office equipment leases payable through February 2011, including interest at rates ranging from 9.59% to 17.94%; includes a \$1 purchase option at end of lease term.	<u>\$ -</u>	<u>\$ 14,825</u>
	-	14,825
Less current maturities	<u>-</u>	<u>14,825</u>
	<u>\$ -</u>	<u>\$ -</u>

WHRO leased certain equipment under financing-type lease agreements, which were classified as capital leases for financial reporting purposes. The imputed interest rate on the existing leases ranged between 9.59% and 17.94%. Interest expense on the above indebtedness amounted to \$1,054 and \$2,688 for the years ended June 30, 2011 and 2010, respectively.

NOTE 8. EMPLOYEE BENEFIT PLANS

WHRO maintains a §403(b) retirement plan (the Plan) covering all employees that work 1,040 hours or more. Employees may contribute to the Plan subject to the limitations imposed by the Internal Revenue Service. WHRO makes a discretionary contribution for each eligible employee's compensation to the Plan. Employer contributions for the years ended June 30, 2011 and 2010 totaled \$77,216 and \$106,642, respectively.



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Notes to Financial Statements
June 30, 2011 and 2010

NOTE 9. COMMITMENTS AND CONTINGENCIES

Tower Rights and Commitments

During fiscal year 2000 WHRO entered into an agreement to sell one of its existing broadcasting towers and the related right to construct a new digital tower and to lease the land related to the towers under a thirty-five year ground lease. In consideration for the sale and the first ten years of the ground lease, WHRO received \$1,750,000 in cash, the right to use the existing tower for analog broadcasting (until the analog signal is phased out) and the right to broadcast its signal from the new tower for thirty-five years.

In fiscal year 2011, WHRO began to derive rents from the ground lease based on the gross tower receipts. The tower rights and ground lease can be extended at the end of the initial thirty-five year term for two additional terms of ten years each. The noncash components of the transaction were recorded initially at their estimated fair values and are included in the accompanying statements of financial position as tower rights (\$1,129,944 and \$1,177,025 at June 30, 2011 and 2010, respectively) and deferred revenue (\$21,461 and \$27,038 at June 30, 2011 and 2010, respectively).

Operating Leases

WHRO has an operating lease for warehouse space in Norfolk, VA with an original monthly payment of \$1,000 escalating 3.0% each year with no specified lease maturity date. The current monthly payment is \$1,093. WHRO has a three-year operating lease for office space in Williamsburg, VA which expires on May 31, 2012 with monthly payments of \$1,667 for the period June 1, 2009 until May 31, 2010 escalating to \$3,422 and \$4,919 in subsequent periods. WHRO leases various equipment under agreements expiring by August 2012. Rental expense was \$100,361 and \$69,103 for the years ended June 30, 2011 and 2010, respectively. Minimum rental commitments subsequent to 2011 under non-cancellable operating leases are:

2012	\$ 121,209
2013	39,055
2014	36,505
2015	36,505
2016	<u>8,834</u>
	<u>\$ 242,108</u>

Equipment Grants

WHRO has received certain grants in various years from the U.S. government and from the Commonwealth of Virginia to be used specifically for the purchase of equipment. The grants provide that should such equipment be disposed of during a ten-year period following the year of acquisition, a portion of the proceeds would be refunded to the granting authorities.



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
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Notes to Financial Statements
June 30, 2011 and 2010

NOTE 10. ENDOWMENT

WHRO has implemented ASC 958-205-55 which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The Commonwealth of Virginia has adopted UPMIFA.

WHRO's endowment consist primarily of funds designated by its Board of Directors as well as donor restricted endowment funds and are classified and reported based on the existence or absence of donor imposed restrictions. As of June 30, 2011 and 2010, donor restricted and board designated endowment funds are included in the accompanying statements of financial position as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,690,436	\$ 2,506,570
Investments	<u>3,911,783</u>	<u>2,386,599</u>
	<u>\$ 5,602,219</u>	<u>\$ 4,893,169</u>

WHRO has interpreted the UPMIFA as requiring the preservation of the historic 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, WHRO 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
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Notes to Financial Statements

June 30, 2011 and 2010

NOTE 10. ENDOWMENT (Continued)

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

- (1) The duration and preservation of the fund
- (2) The purposes of WHRO and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of WHRO
- (7) The investment policies of WHRO

WHRO 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 purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that WHRO must hold in perpetuity or for a donor specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, WHRO 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). WHRO targets a diversified asset allocation that places a greater emphasis on fixed income and equity investments to achieve its long-term objective within prudent risk constraints.

WHRO has a policy of appropriating investment income for distribution each year up to \$155,000. In establishing this policy, WHRO considered the long-term expected return on its endowment. Accordingly, over the long term, WHRO expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with WHRO's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
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Notes to Financial Statements
June 30, 2011 and 2010

NOTE 10. ENDOWMENT (Continued)

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 WHRO to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2011 or 2010.

At June 30, 2011, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ -	\$ 156,112	\$ 156,112
Board designated funds	<u>5,446,108</u>	<u>-</u>	<u>-</u>	<u>5,446,108</u>
Total funds	<u>\$ 5,446,108</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 5,602,220</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 4,737,057</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 4,893,169</u>
Investment return:				
Investment income	168,048	-	-	168,048
Net depreciation (realized and unrealized)	<u>(30,945)</u>	<u>-</u>	<u>-</u>	<u>(30,945)</u>
Total investment return	137,103	-	-	137,103
Appropriation of endowment assets for expenditure	(178,700)	-	-	(178,700)
Other changes:				
Board designations	<u>750,648</u>	<u>-</u>	<u>-</u>	<u>750,648</u>
Endowment net assets, end of year	<u>\$ 5,446,108</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 5,602,220</u>

(Continued)



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 10. ENDOWMENT (Concluded)

At June 30, 2010, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ -	\$ 156,112	\$ 156,112
Board designated funds	<u>4,737,057</u>	<u>-</u>	<u>-</u>	<u>4,737,057</u>
Total funds	<u>\$ 4,737,057</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 4,893,169</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 4,091,528</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 4,247,640</u>
Investment return:				
Investment income	155,062	-	-	155,062
Net appreciation (realized and unrealized)	<u>164,116</u>	<u>-</u>	<u>-</u>	<u>164,116</u>
Total investment return	319,178	-	-	319,178
Appropriation of endowment assets for expenditure	(401,000)	-	-	(401,000)
Other changes:				
Board designations	<u>727,351</u>	<u>-</u>	<u>-</u>	<u>727,351</u>
Endowment net assets, end of year	<u>\$ 4,737,057</u>	<u>\$ -</u>	<u>\$ 156,112</u>	<u>\$ 4,893,169</u>



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 11. CONCENTRATION OF CREDIT RISK

WHRO maintains cash deposits with financial and investment institutions in excess of the limit of federal deposit insurance of \$250,000 at various times during the year. In addition, WHRO maintains investments in excess of the \$500,000 that is insured by Securities Investor Protection Corporation.

NOTE 12. SUBSEQUENT EVENTS

WHRO has evaluated all events subsequent to June 30, 2011 through August 26, 2011, which is the date these financial statements were available to be issued. WHRO has determined that, except as disclosed Note 6, there are no subsequent events that require disclosure pursuant to the FASB Accounting Standards Codification.



SUPPLEMENTARY INFORMATION



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
ASSOCIATION, INC.**

Schedule of Functional Expenses - Schedule I
Year Ended June 30, 2011

	Program	Management and General	Fundraising and Development	Total
Salaries and wages	\$ 4,546,945	\$ 576,932	\$ 757,466	\$ 5,881,343
Depreciation	1,216,772	10,205	8,748	1,235,725
Fringe benefits	868,177	66,043	130,707	1,064,927
Public Broadcasting Service fees	1,061,330	-	-	1,061,330
Independent contractors and talent	955,490	-	12,519	968,009
Education software and licenses	816,478	-	-	816,478
Telephone and bandwidth	528,734	3,706	29,251	561,691
Repairs and maintenance	440,291	75,305	13,429	529,025
National Public Radio fees	354,569	-	-	354,569
Program fees - other	343,639	-	172	343,811
Utilities	248,308	78,663	13,875	340,846
Postage and shipping	59,657	4,100	177,500	241,257
Consultant fees	199,075	26,488	1,245	226,808
Streaming fees	222,252	-	-	222,252
Fundraising premiums	614	-	211,051	211,665
Professional fees	114,390	86,199	-	200,589
Hospitality and travel	49,292	4,590	92,524	146,406
Production costs - other	108,016	15,034	15,354	138,404
Listing services and audience research	117,333	-	20,000	137,333
Paper, printing and stationery	57,387	27,140	44,126	128,653
Insurance	62,040	52,442	9,250	123,732
Credit card and bank fees	1,735	20,116	84,255	106,106
Dues and licenses	61,881	31,435	12,723	106,039
Miscellaneous	56,952	22,602	2,730	82,284
Marketing and advertising	58,750	7,856	2,810	69,416
Supplies and subscriptions	49,808	5,333	4,118	59,259
Conferences, seminars and training	42,966	4,313	1,187	48,466
Temporary services and graphic design	22,770	4,467	15,852	43,089
Interest and taxes	4,832	17,427	76	22,335
Bad debts	(2,269)	1,051	17,120	15,902
	<u>\$ 12,668,214</u>	<u>\$ 1,141,447</u>	<u>\$ 1,678,088</u>	<u>\$ 15,487,749</u>



**HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS
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**Changes in Property and Equipment - Schedule II
Year Ended June 30, 2011**

	Balance July 1, 2010	Additions	Transfers and Disposals	Balance June 30, 2011
Land	\$ 377,677	\$ -	\$ -	\$ 377,677
Buildings and Improvements	5,033,969	168,070	-	5,202,039
Furnishings and equipment:				
Cameras and video tape recorders	802,139	-	132,654	669,485
Transmitters	2,380,149	199,948	15,691	2,564,406
Antennas and towers	1,973,051	543,828	-	2,516,879
Production	1,084,039	23,552	168,191	939,400
Microwave and ITFS	1,331,342	-	428,404	902,938
Capital lease	42,444	-	-	42,444
Radio	1,497,974	591,327	303,491	1,785,810
Other equipment	11,850,670	85,498	241,373	11,694,795
	<u>20,961,808</u>	<u>1,444,153</u>	<u>1,289,804</u>	<u>21,116,157</u>
Construction in progress	<u>531,954</u>	<u>385,365</u>	<u>200,527</u>	<u>716,792</u>
	26,905,408	1,997,588	1,490,331	27,412,665
Less:				
Allowances for depreciation	<u>18,616,095</u>	<u>1,235,725</u>	<u>1,280,179</u>	<u>18,571,641</u>
	<u>\$ 8,289,313</u>	<u>\$ 761,863</u>	<u>\$ 2,770,510</u>	<u>\$ 8,841,024</u>

