



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

**Financial Statements and Supplementary
Information**

Years Ended June 30, 2017 and 2016

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

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Independent Auditor's Report

The Board of Directors
Hampton Roads Educational Telecommunications Association, Inc.
Norfolk, Virginia

We have audited the accompanying financial statements of Hampton Roads Educational Telecommunications Association, Inc. (WHRO), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year 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 of America; 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 audit. We conducted our audit 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 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 Hampton Roads Educational Telecommunications Association, Inc., as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2016 financial statements of Hampton Roads Educational Telecommunications Association, Inc. were audited by McPhillips, Roberts and Deans, PLC ("MRD"), whose members and professional staff joined BDO USA, LLP as of November 1, 2016, shortly after which MRD ceased operations. MRD's report dated September 12, 2016 expressed an unmodified opinion on those statements.

BDO USA, LLP

October 30, 2017

Financial Statements

Hampton Roads Educational Telecommunications Association, Inc.

Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,280,085	\$ 899,883
Accounts receivable, net	405,065	575,763
Underwriting receivables	193,693	213,605
Pledges receivable, net	2,205,803	1,366,022
Inventory	16,430	20,105
Prepaid expenses	140,983	157,512
Total Current Assets	4,242,059	3,232,890
Property and equipment, net	5,603,917	6,294,605
Pledges receivable, net	1,256,379	747,005
Split interest agreement	1,034,329	1,031,392
Tower rights	847,458	894,539
Investments	10,097,246	9,163,640
Total Assets	\$ 23,081,388	\$ 21,364,071
Liabilities and Net Assets		
Current Liabilities		
Line of credit	\$ 3,418,889	\$ 3,220,768
Note payable	15,000	15,000
Capital leases payable	110,738	40,576
Accounts payable	625,274	489,917
Accrued liabilities	657,694	643,018
Deferred revenue	165,954	262,272
Total Current Liabilities	4,993,549	4,671,551
Note payable	-	15,000
Capital leases payable	171,910	86,974
Total Liabilities	5,165,459	4,773,525
Net Assets		
Unrestricted		
Undesignated	331,918	1,042,870
Net investment in property and equipment	2,473,503	3,560,867
Board designated	9,552,777	9,072,760
Total unrestricted	12,358,198	13,676,497
Temporarily restricted	5,260,847	2,789,049
Permanently restricted	296,884	125,000
Total Net Assets	17,915,929	16,590,546
Total Liabilities and Net Assets	\$ 23,081,388	\$ 21,364,071

See accompanying notes to financial statements.

Hampton Roads Educational Telecommunications Association, Inc.

Statement of Activities

<i>Year Ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue				
Public Support				
Membership	\$ 4,074,030	\$ -	\$ -	\$ 4,074,030
Grants and contributions	229,051	3,145,579	-	3,374,630
Special events	171	-	-	171
CPB support	1,567,703	-	-	1,567,703
Program underwriting	1,326,649	-	-	1,326,649
School assessments	522,894	-	-	522,894
Fees for service	71,505	-	-	71,505
Contract revenue, other	309,845	-	-	309,845
Education service fees	2,196,279	-	-	2,196,279
Production fees	40,975	-	-	40,975
Internet service provider and web design	188,411	-	-	188,411
Broadcast channel fees	127,680	-	-	127,680
Royalties and advertising	50,779	-	-	50,779
Tower rental fees, net	659,162	-	-	659,162
Spectrum lease income	1,020,626	-	-	1,020,626
Miscellaneous income	36,552	-	-	36,552
Transfer of board designated reserves	170,000	-	-	170,000
Net assets released from restrictions for operations	762,904	(762,904)	-	-
Total Operating Revenue	13,355,216	2,382,675	-	15,737,891
Operating Expenses				
Program services				
Content	6,730,121	-	-	6,730,121
Education	2,275,644	-	-	2,275,644
Engineering	2,140,131	-	-	2,140,131
Support services				
Management and general	2,301,515	-	-	2,301,515
Fundraising and development	1,707,112	-	-	1,707,112
Total Operating Expenses	15,154,523	-	-	15,154,523
Change in Net Assets from Operations	(1,799,307)	2,382,675	-	583,368
Other Income (Expense)				
Capital campaign contributions	36,013	-	-	36,013
Change in value of split interest agreement	-	80,217	-	80,217
Investment income, net	786,879	8,906	-	795,785
Reclassification pursuant to donor	(171,884)	-	171,884	-
Transfer of board designated reserves	(170,000)	-	-	(170,000)
Net assets released from restrictions for capital	-	-	-	-
Total Other Income	481,008	89,123	171,884	742,015
Change in Net Assets	(1,318,299)	2,471,798	171,884	1,325,383
Net Assets, beginning of year	13,676,497	2,789,049	125,000	16,590,546
Net Assets, end of year	\$ 12,358,198	\$ 5,260,847	\$ 296,884	\$ 17,915,929

See accompanying notes to financial statements.

Hampton Roads Educational Telecommunications Association, Inc.

Statement of Activities

Year Ended June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue				
Public Support				
Membership	\$ 3,834,414	\$ -	\$ -	\$ 3,834,414
Grants and contributions	24,783	267,200	-	291,983
Special events	95,890	-	-	95,890
CPB support	1,485,124	-	-	1,485,124
Program underwriting	1,546,717	-	-	1,546,717
School assessments	524,000	-	-	524,000
Fees for service	222,486	-	-	222,486
Contract revenue, other	301,633	-	-	301,633
Education service fees	2,179,849	-	-	2,179,849
Production fees	28,075	-	-	28,075
Internet service provider and web design	236,493	-	-	236,493
Broadcast channel fees	127,601	-	-	127,601
Royalties and advertising	65,051	-	-	65,051
Tower rental fees, net	708,912	-	-	708,912
Spectrum lease income	1,003,636	-	-	1,003,636
Miscellaneous income	1,787	-	-	1,787
Transfer of board designated reserves	155,000	-	-	155,000
Net assets released from restrictions for operations	886,762	(886,762)	-	-
Total Operating Revenue	13,428,213	(619,562)	-	12,808,651
Operating Expenses				
Program services				
Content	7,259,197	-	-	7,259,197
Education	1,953,208	-	-	1,953,208
Engineering	2,259,801	-	-	2,259,801
Support services				
Management and general	1,682,088	-	-	1,682,088
Fundraising and development	1,896,736	-	-	1,896,736
Total Operating Expenses	15,051,030	-	-	15,051,030
Change in Net Assets from Operations	(1,622,817)	(619,562)	-	(2,242,379)
Other Income (Expense)				
Capital campaign contributions	495,895	-	-	495,895
Change in value of split interest agreement	-	(22,509)	-	(22,509)
Investment loss, net	(177,259)	-	-	(177,259)
Reclassification pursuant to donor	-	-	-	-
Transfer of board designated reserves	(155,000)	-	-	(155,000)
Net assets released from restrictions for capital	29,675	(29,675)	-	-
Total Other Income (Expense)	193,311	(52,184)	-	141,127
Change in Net Assets	(1,429,506)	(671,746)	-	(2,101,252)
Net Assets, beginning of year	15,106,003	3,460,795	125,000	18,691,798
Net Assets, end of year	\$ 13,676,497	\$ 2,789,049	\$ 125,000	\$ 16,590,546

See accompanying notes to financial statements.

Hampton Roads Educational Telecommunications Association, Inc.

Statements of Cash Flows

<i>Years Ended June 30,</i>	2017	2016
Cash Flows From Operating Activities		
Cash receipts from memberships, grants and contributions	\$ 6,579,509	\$ 6,265,495
Cash receipts from education activities	2,719,173	2,703,849
Cash receipts from enterprise activities	1,995,879	2,076,642
Cash receipts from underwriting	1,346,561	1,573,018
Cash receipts from all other sources	757,827	852,208
Cash paid for operating expenses	(5,843,676)	(6,156,886)
Cash paid for wages and fringe benefits	(7,731,397)	(7,309,078)
Cash paid for interest and taxes	(107,492)	(84,254)
Net Cash Used in Operating Activities	(283,616)	(79,006)
Cash Flows From Investing Activities		
Purchases of investments	(3,632,500)	(2,239,246)
Proceeds from sale of investments	3,676,392	1,146,822
Purchase of property and equipment	(265,765)	(233,206)
Proceeds from disposal of property and equipment	400	-
Net Cash Used in Investing Activities	(221,473)	(1,325,630)
Cash Flows from Financing Activities		
Cash received from split interest agreement	77,280	82,240
Borrowings on line of credit	398,121	-
Repayments on line of credit	(200,000)	(217,513)
Repayments of note payable	(15,000)	(15,000)
Payments received on capital campaign pledges	685,020	878,264
Contributions restricted for property and equipment	40,909	46,512
Repayments on capital leases payable	(101,039)	(103,330)
Net Cash Provided by Financing Activities	885,291	671,173
Net Increase (Decrease) in Cash and Cash Equivalents	380,202	(733,463)
Cash and Cash Equivalents, beginning of year	899,883	1,633,346
Cash and Cash Equivalents, end of year	\$ 1,280,085	\$ 899,883

See accompanying notes to financial statements.

Hampton Roads Educational Telecommunications Association, Inc.

Statements of Cash Flows

Continued

Years Ended June 30,	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 1,325,383	\$ (2,101,252)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,212,530	1,199,400
Amortization of tower rights	47,081	47,081
Donated investments	(469,288)	75,702
Contributions restricted for property and equipment	(40,909)	(46,512)
Expenses financed with note payable	-	45,000
Pledge receivable write-off	1,304	29,800
Uncollectible accounts	42,450	850
Realized and unrealized (gain) loss on investments	(508,210)	673,076
Change in split interest agreement	(80,217)	22,509
(Gain) loss on disposal of property and equipment	(340)	15,069
Changes in operating assets and liabilities		
Accounts receivable	128,248	(16,126)
Pledges receivables	(2,035,479)	(123,397)
Underwriting receivables	19,912	26,301
Inventory	3,675	(7,159)
Prepaid expenses	16,529	17,979
Accounts payable	135,357	75,042
Accrued liabilities	14,676	107,550
Deferred revenue	(96,318)	(119,919)
Net Cash Used in Operating Activities	\$ (283,616)	\$ (79,006)
Supplemental Cash Flow Information		
Cash paid for interest	\$ 98,365	\$ 71,562
Supplemental Disclosures of Noncash Activities		
Donated investments	\$ 469,288	\$ 75,702
Property and equipment acquired through capital lease	\$ 256,137	\$ 133,798
Issuance of note payable for expense	\$ -	\$ 45,000

See accompanying notes to financial statements.

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

1. Nature Of Organization

The Hampton Roads Educational Telecommunications Association, Inc. (WHRO) is a diverse regional public media non-profit organization serving more than 2.2 million citizens in southeastern Virginia and northeastern North Carolina. WHRO promotes education, culture and citizenship through a variety of media services. WHRO provides inspiring and educational television programs through its public television stations, and it provides music, news and public affairs programming through its radio stations, live streams on the WHRO website, and through the WHRO media app. Founded more than 50 years ago to support classroom education, WHRO employs creativity and technology to serve its mission of enriching audiences with content that educates, entertains and engages. WHRO also delivers educational content in the form of digital learning objects to students and educators throughout Virginia through its online learning distribution platform eMediaVA. WHRO also offers professional development resources for teachers through online courses and hands-on workshops.

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 and the 1920's Radio Network) and WHRV 89.5 FM and its associated digital channels (WHRV Digital and AltRadio); Educational Broadband Services (EBS) and satellite transmission facilities and the WHRO Radio Reading Service, "The Voice," for the visually impaired. WHRO added additional transmitters in 2011 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: 88.1 WHRL (WHRV) Emporia, WHRG (WHRV), 88.5, Gloucester Point; WHRJ (WHRO), 89.9, Gloucester Courthouse; WHRE (WHRV), 91.9, Eastville; WHRX (WHRV), 90.1 Nassawaddox, 98.3 WHRF (WHRO) Belle Haven. The WHRO website features live audio streams for WHRO, WHRV, The Voice, AltRadio, and the 1920's Radio Network. Studios, satellite, technical control, teleconference facilities, and offices are housed in Norfolk, 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.

2. Summary Of Significant Accounting Policies

Basis of Presentation

WHRO is required to report information regarding its financial position and related activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Support that is restricted by the donor is, however, reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as either "Net assets released from restrictions for operations" or "Net assets released from restrictions for capital".

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents are defined as all highly liquid debt instruments purchased with an original maturity of three months or less, other than those maintained as a part of investment portfolios.

Accounts and Underwriting Receivables

Management considers the need for an allowance for uncollectible accounts based on its review of receivables and historical collection experience. WHRO writes off receivables as a charge to the allowance, when in their estimation, it is probable the receivable is worthless. Accounts and underwriting receivables are considered past due if payments are not received by the due date stated on the billing statement. Past due accounts are not charged a monthly finance charge. WHRO has recorded an allowance for uncollectible accounts receivable of \$42,450 at June 30, 2017. Management considered all underwriting receivables to be collectible at June 30, 2017 and, accordingly, had not provided an allowance for uncollectible accounts at that date. Management considered all accounts to be collectible at June 30, 2016 and, accordingly, had not provided an allowance for uncollectible accounts at that date.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are recorded at net realizable value. Promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible pledges receivable is provided based upon management's judgment. WHRO writes off receivables as a charge to the allowance when in their estimation it is probable the receivable is worthless. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment, including those acquired using capital leases, are recorded at cost. Asset purchases of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed. Depreciation is calculated using the straight-line method based on the following useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Buildings and improvements	5-35 years
Furnishings and equipment	3-40 years

Depreciation expense, which includes amortization of capital leases, for the years ended June 30, 2017 and 2016 is \$1,212,530 and \$1,199,400, respectively.

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Inventory

Inventory consists of fundraising gifts of appreciation and is valued at the lower of cost or market using the first-in, first-out method.

Investments

WHRO's investments are carried at their fair values in the statements of financial position. Changes in fair value are included in the change in net assets in the accompanying statements of activities.

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.

Deferred Revenue

Deferred revenue results from amounts received in advance for fees or production of programs that will not occur until the following fiscal year. Accordingly, this revenue is deferred and then recognized in the subsequent year when it is actually earned.

Advertising

Advertising costs are charged to operations when incurred and totaled \$92,614 and \$65,798 for the years ended June 30, 2017 and 2016, respectively.

Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, management and general, and fundraising and development.

Income Taxes

WHRO is an organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Exempt organizations are subject to tax on income from regularly conducted trade or business activities that are not substantially related to the organization's exempt purpose. WHRO has net operating loss carryforwards of approximately \$2,045,000 and \$1,575,000 related to its unrelated business income at June 30, 2017 and 2016, respectively, that will begin to expire in 2029. Deferred tax assets were \$776,407 and \$596,934 at June 30, 2017 and 2016, respectively. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Management has recorded a valuation allowance of \$776,407 and \$596,934 at June 30, 2017 and 2016, respectively. The increase in the valuation allowance was \$179,473 and \$141,414 for the years ended June 30, 2017 and 2016, respectively. Returns are generally subject to examinations for three years from the date filed. This period of limitations has expired for returns filed for tax years 2013 and earlier. Management continually evaluates tax positions reflected in WHRO's tax filings and does not believe that any material uncertain tax positions exist.

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Volunteers

A substantial number of unpaid volunteers have made significant contributions of their time and talent to further the mission of WHRO. The value of these contributed services is not reported in these financial statements since it is not susceptible to objective measurement or valuation, and because the criteria for recognition of such volunteer efforts have not been satisfied.

Subsequent Events

Management has evaluated subsequent events through October 30, 2017, the date which the financial statements were available to be issued.

3. Related Party Transactions

WHRO owns 50% of The 1920s Radio Network, LLC (1920s), a Virginia limited liability company, whose purpose is to operate the 1920s Radio Network. There was no carrying value of WHRO's investment, accounted for using the equity method, at June 30, 2017 and 2016, respectively. In addition, WHRO has a non-interest bearing unsecured term note with 1920s totaling \$15,000 and \$30,000 at June 30, 2017 and 2016, respectively, with installments of \$15,000 annually. This notes matures in June 2018.

4. Pledges Receivable

Pledges receivable consist of the following:

<i>June 30,</i>	2017	2016
Amounts due within one year	\$ 2,231,297	\$ 1,394,646
Amounts due in more than one year but less than five years	1,289,154	781,174
Amounts due in more than five years	6,900	8,500
Total pledges receivable	3,527,351	2,184,320
Less allowance for uncollectible pledges receivable	(40,014)	(44,277)
Less discounts to present value (0.95% - 2.27%)	(25,155)	(27,016)
Total Pledges Receivable, net	\$ 3,462,182	\$ 2,113,027

These amounts are reflected in the statements of financial position as follows:

<i>June 30,</i>	2017	2016
Pledges receivable, net, current	\$ 2,205,803	\$ 1,366,022
Pledges receivable, net, other	1,256,379	747,005
Total Pledges Receivable, net	\$ 3,462,182	\$ 2,113,027

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Pledges receivable are principally from donors in the Hampton Roads area. The concentration of credit risk is mitigated by the large number of donors. WHRO does not request collateral in relation to these pledges receivable.

5. Charitable Lead Trust Split-Interest Agreement

WHRO is the income beneficiary of a charitable lead annuity trust which is held with an unrelated third party. Under the terms of the split-interest agreement, WHRO is to receive 4% of the fair market value of the trust annually for its general scientific and educational use until the donor's death. At the time of the donor's death, the trust is to terminate, and the remaining trust assets are to be distributed to others. The receivable for the split-interest agreement is carried at fair value, which WHRO has estimated based on the present value of its expected future cash inflows. The fair value at June 30, 2017 and 2016 is \$1,034,329 and \$1,031,392, respectively. WHRO received \$77,280 and \$82,240 from the trust in 2017 and 2016, respectively, which was recorded as a reduction in the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. On an annual basis, WHRO revalues the split-interest agreement receivable based on applicable mortality tables and current market conditions. WHRO recorded an increase (decrease) in the value of the split-interest agreement of \$80,217 and (\$22,509) for the years ended June 30, 2017 and 2016, respectively.

6. Tower Rights

Intangible assets with finite lives are amortized over their estimated useful lives. During the year ended June 30, 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.

Tower rights are as follows:

<i>June 30,</i>	2017		2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tower rights	\$ 2,252,587	\$ 1,405,129	\$ 2,252,587	\$ 1,358,048

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Amortization expense for each of the years ended June 30, 2017 and 2016 was \$47,081. Future estimated amortization expense is as follows:

<i>Year ending June 30,</i>	Amount
2018	\$ 47,081
2019	47,081
2020	47,081
2021	47,081
2022	47,081
Thereafter	612,053
Total	\$ 847,458

7. Investments

Investments consist of the following:

<i>June 30,</i>	2017	2016
Money market funds	\$ 75,950	\$ 36,033
Fixed income	4,693,602	5,031,818
Equities	5,327,694	4,095,789
Total Investments	\$ 10,097,246	\$ 9,163,640

Net investment income (loss) consists of the following:

<i>Years ended June 30,</i>	2017	2016
Dividends and interest	\$ 347,178	\$ 553,378
Broker fees	(59,603)	(57,561)
Realized gain (loss) on investments	(292,999)	23,596
Unrealized gain (loss) on investments	801,209	(696,672)
Total Net Investment Income (Loss)	\$ 795,785	\$ (177,259)

Net investment income (loss) is recorded in the following net asset categories in the statements of activities:

<i>Years ended June 30,</i>	2017	2016
Unrestricted net assets	\$ 786,879	\$ (177,259)
Temporarily restricted net assets	8,906	-
Total Net Investment Income (Loss)	\$ 795,785	\$ (177,259)

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

8. Fair Value Of Financial Instruments

WHRO has certain assets that are valued using a fair value hierarchy. The three levels of fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- Level 1 - quoted prices in active markets for identical assets.
- Level 2 - observable inputs that include quoted market prices for similar assets; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following tables present WHRO's assets that are measured at fair value on a recurring basis for each hierarchy level at:

<i>June 30, 2017</i>	Level 1	Level 2	Level 3	Total
Money market funds	\$ 75,950	\$ -	\$ -	\$ 75,950
Fixed income bonds				
US	-	4,693,189	-	4,693,189
Global	-	413	-	413
Total fixed income bonds	-	4,693,602	-	4,693,602
Equity funds				
US	3,118,887	-	-	3,118,887
Global	151,481	-	-	151,481
International	2,057,326	-	-	2,057,326
Total equity funds	5,327,694	-	-	5,327,694
Total investments	\$ 5,403,644	\$ 4,693,602	\$ -	\$ 10,097,246
Split interest agreement	\$ -	\$ -	\$ 1,034,329	\$ 1,034,329

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

<i>June 30, 2016</i>	Level 1	Level 2	Level 3	Total
Money market funds	\$ 36,033	\$ -	\$ -	\$ 36,033
Fixed income bonds				
US	-	4,731,665	-	4,731,665
Global	-	300,153	-	300,153
Total fixed income bonds	-	5,031,818	-	5,031,818
Equity funds				
US	2,894,601	-	-	2,894,601
Global	128,595	-	-	128,595
International	1,072,593	-	-	1,072,593
Total equity funds	4,095,789	-	-	4,095,789
Total investments	\$ 4,131,822	\$ 5,031,818	\$ -	\$ 9,163,640
Split interest agreement	\$ -	\$ -	\$ 1,031,392	\$ 1,031,392

The following tables present a reconciliation of assets in which significant unobservable inputs (Level 3) were used to determine fair value:

<i>Years ended June 30,</i>	2017	2016
Fair value, beginning of year	\$ 1,031,392	\$ 1,136,141
Cash received from split interest agreement	(77,280)	(82,240)
Change in value of split interest agreement	80,217	(22,509)
Fair value, end of year	\$ 1,034,329	\$ 1,031,392

9. Property and Equipment

Property and equipment consist of the following:

<i>June 30,</i>	2017	2016
Land	\$ 377,677	\$ 377,677
Buildings and improvements	5,347,951	5,358,507
Furnishings and equipment	21,297,047	21,243,775
	27,022,675	26,979,959
Less accumulated depreciation	(21,418,758)	(20,685,354)
Property and Equipment, net	\$ 5,603,917	\$ 6,294,605

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

10. Line of Credit

WHRO has a \$5,500,000 line of credit with UBS Bank USA and had a balance of \$3,418,889 and \$3,220,768 outstanding on the line at June 30, 2017 and 2016, respectively. Advances on the credit line are payable on demand, with interest at a variable rate equal to the 30 day London Inter-Bank Offered Rate (LIBOR), plus 1.75%, which was 2.97% and 2.22% at June 30, 2017 and 2016, respectively. The credit line is collateralized by all WHRO investment accounts held by UBS and can be terminated at any time.

11. Capital Leases Payable

WHRO has acquired \$553,548 and \$297,411 at June 30, 2017 and 2016, respectively, of computer and copier equipment using capital leases with terms from three to five years and an imputed interest rate from 2.90% to 5.71%.

Future minimum lease payments are as follows:

<i>Year ending June 30,</i>	<i>Amount</i>
2018	\$ 121,599
2019	121,599
2020	51,654
2021	4,796
	<u>299,648</u>
Less amount representing interest	(17,000)
Total capital leases payable	282,648
Less current portion	(110,738)
	<u>Total Long-Term Capital Leases payable, net</u>
	\$ 171,910

12. Board Designated Net Assets

Board designated net assets include quasi-endowment funds which consists of unrestricted income which the board has designated for program and supporting services use. These quasi-endowment funds follow the spending policy of WHRO endowments as discussed in Note 14. Since all board designated net assets result from an internal designation, they are not considered temporarily restricted, but are classified and reported as unrestricted net assets.

Board designated net assets are available for the following purposes:

<i>June 30,</i>	<i>2017</i>	<i>2016</i>
Undesignated	\$ 7,847,936	\$ 7,534,663
Arts	1,041,808	1,005,515
Education	663,033	532,582
	<u>Total board designated net assets</u>	<u>\$ 9,072,760</u>

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

13. Restricted Net Assets

Restricted net assets are available for the following purposes:

<i>June 30,</i>	2017	2016
Temporarily restricted		
Education	\$ 4,175,134	\$ 1,691,207
Programming	1,038,941	1,087,518
Supporting services	5,156	-
Vehicles and related expenses	41,616	10,324
Total temporarily restricted net assets	\$ 5,260,847	\$ 2,789,049
Permanently restricted		
Education	\$ 100,000	\$ 100,000
Programming	25,000	25,000
Supporting services	171,884	-
Total permanently restricted net assets	\$ 296,884	\$ 125,000

Net assets were released from donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenses satisfying the purposes or time restrictions specified by donors as follows:

<i>Years ended June 30,</i>	2017	2016
Education	\$ 543,573	\$ 737,416
Programming	215,622	149,345
Vehicles and related expenses	3,709	29,676
Total net assets released from restrictions	\$ 762,904	\$ 916,437

14. Endowments

WHRO's endowment consists 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. WHRO's policy is to designate all unrestricted bequests to their board endowment.

Governing Board's Interpretation of Law

The Board of Directors has interpreted the 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. 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

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

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

- (1) The duration and preservation of the fund;
- (2) The purpose 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 appreciation of investments;
- (6) Other resources of WHRO;
- (7) The investment policies of WHRO.

Investment Return Objectives and Risk Parameters

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 the 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-specified period as well as board-designated funds. 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. 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. WHRO expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Spending Policy

WHRO's policy on their donor-restricted endowment funds and two board endowment funds is to appropriate for distribution 3% of a trailing twelve-quarter moving average of the fair value of the endowment pool for the period ending on the previous December 31. WHRO's policy on their board endowment funds is to appropriate for expenditure \$155,000 annually. In establishing these policies, 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 specified term as well as to provide additional real growth through new gifts and investment return.

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

Endowment net asset composition by type of fund is as follows:

<i>June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 1,009,137	\$ 296,884	\$ 1,306,021
Board designated funds	9,552,777	-	-	9,552,777
Balance, June 30, 2017	\$ 9,552,777	\$ 1,009,137	\$ 296,884	\$ 10,858,798

<i>June 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 1,001,154	\$ 125,000	\$ 1,126,154
Board designated funds	9,072,760	-	-	9,072,760
Balance, June 30, 2016	\$ 9,072,760	\$ 1,001,154	\$ 125,000	\$ 10,198,914

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 8,911,083	\$ 1,001,154	\$ 125,000	\$ 10,037,237
Board designations	495,895	-	-	495,895
Investment loss	(179,218)	-	-	(179,218)
Expenditures	(155,000)	-	-	(155,000)
Balance, June 30, 2016	9,072,760	1,001,154	125,000	10,198,914
Board designations	36,013	-	-	36,013
Reclassifications pursuant to donor	(171,884)	-	171,884	-
Investment income	785,888	8,906	-	794,794
Expenditures	(170,000)	(923)	-	(170,923)
Balance, June 30, 2017	\$ 9,552,777	\$ 1,009,137	\$ 296,884	\$ 10,858,798

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

15. Rental Income

WHRO has entered into multiple agreements with various third party vendors of telecommunications services in Eastern Virginia with lease terms expiring at various dates through 2056, some of which provide for an escalation clause at various times throughout the agreement. WHRO allows the use of existing towers that are part of the Instructional Television Fixed Services (ITFS) system. When towers are on property owned and controlled by school divisions, WHRO shares in the rents received. During the years ended June 30, 2017 and 2016, WHRO recognized \$659,162 and \$708,912, respectively, of rental income related to these agreements. These amounts are shown net of the shared rents of \$67,976 and \$70,151 for the years ended June 30, 2017 and 2016, respectively.

WHRO has a channels lease agreement with an initial term of ten years which expired in August 2016. The lease agreement provides for four automatic renewals of five years each for a total thirty year term as defined in the agreement. The current renewal term expires August 2021. During the years ended June 30, 2017 and 2016, WHRO recognized \$1,020,626 and \$1,003,636 of lease income related to this agreement, respectively.

Minimum future annual rentals to be received under current arrangements, exclusive of any renewal options or escalation clauses, and for the next five years and thereafter are summarized as follows:

Year ending June 30,

2018	\$ 1,661,629
2019	1,601,710
2020	1,607,372
2021	1,624,084
2022	672,444
Thereafter	6,073,439

\$ 13,240,678

16. Operating Leases

WHRO leases office space and office equipment using noncancellable operating leases with terms greater than one year, and expiring at various dates through May 2020. Expense includes \$53,576 for both years ended June 30, 2017 and 2016, attributable to these operating leases. Minimum future annual rent commitments under these agreements are as follows:

Year ending June 30,

2018	\$ 53,576
2019	53,576
2020	48,813

\$ 155,965

Hampton Roads Educational Telecommunications Association, Inc.

Notes To Financial Statements

17. Employee Benefit Plans

WHRO maintains a §403(b) retirement plan (the Plan) covering non-leased employees, not covered by a collective bargaining agreement, and temporary part time employees who have accumulated 1,000 hours in a Plan year. 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, 2017 and 2016 totaled \$163,395 and \$106,285, respectively.

18. Concentrations of Credit Risk

At various times during the years presented, WHRO may have had on deposit with a single financial institution more than \$250,000, which is the basic limit currently insured by the Federal Deposit Insurance Corporation (FDIC).

WHRO receives a substantial amount of its support from the Corporation for Public Broadcasting which serves as the steward of the federal government's investment in public broadcasting. A significant reduction in the level of this support, if this were to occur, may have a significant effect on WHRO's programs and activities.

19. Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the current year financial statement presentation. These reclassifications had no effect on financial position or operating results as previously reported.

Supplementary Information



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Independent Auditor's Report On Supplementary Information

The Board of Directors
Hampton Roads Educational Telecommunications Association, Inc.
Norfolk, Virginia

Our audit of the 2017 financial statements included in the preceding section of this report was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section 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 2017 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 2017 information is fairly stated in all material respects in relation to the financial statements as a whole.

The 2016 supplementary information was subjected to the auditing procedures applied in the 2016 audit of the basic financial statements by McPhillips, Roberts & Deans, PLC, whose report dated September 12, 2016 stated that it was fairly stated in all material respects in relation to the 2016 financial statements as a whole.

BDO USA, LLP

October 30, 2017

Hampton Roads Educational Telecommunications Association, Inc.

Supplementary Schedule of Functional Expenses

Year Ended June 30, 2017	Program Services			Management and General	Fundraising and Development	Total
	Content	Education	Engineering			
Salaries and wages	\$ 2,767,548	\$ 1,088,265	\$ 943,119	\$ 822,810	\$ 818,584	\$ 6,440,326
Payroll taxes	202,263	97,257	75,739	52,011	51,024	478,294
Retirement	71,616	33,225	25,874	14,745	17,935	163,395
Employee benefits	274,859	135,031	105,155	79,364	69,649	664,058
Total Personnel	3,316,286	1,353,778	1,149,887	968,930	957,192	7,746,073
Computer maintenance contracts	10,614	5,749	233,132	252,896	-	502,391
Conferences, seminars and training	4,150	28,535	1,372	38,738	1,514	74,309
Consultant fees	17,938	12,000	15,538	119,896	5,905	171,277
Credit card and bank fees	1,525	4,699	-	8,599	103,057	117,880
Dues and licenses	139,325	-	11,584	63,570	13,600	228,079
Education software and licenses	6,146	371,549	-	-	-	377,695
Fundraising premiums	69	-	-	4,446	134,567	139,082
Hospitality and travel	22,628	32,719	4,913	24,091	31,721	116,072
Independent contractors	127,651	120,280	-	27,027	4,950	279,908
Insurance	78,429	14,380	21,250	28,460	17,256	159,775
Interest and taxes	-	-	2,264	105,228	-	107,492
Listing services and audience research	3,468	-	-	-	-	3,468
Marketing and advertising	64,837	20,223	-	1,979	5,575	92,614
Miscellaneous	834	-	39,359	-	35	40,228
NPR fees	478,417	-	-	-	-	478,417
Office lease	-	-	180	66,604	7,507	74,291
Paper, printing and stationery	85,621	1,458	-	10,294	9,614	106,987
Postage and shipping	50,556	1,002	1,399	21,495	198,633	273,085
Production costs	40,283	1,892	467	1,878	8,380	52,900
Professional fees	-	-	4,039	92,735	-	96,774
Program fees	341,881	113,385	-	-	-	455,266
Public Broadcasting Service fees	1,024,413	-	-	-	-	1,024,413
Repairs and maintenance	897	2,830	175,986	117,000	-	296,713
Streaming fees	4,200	-	201	-	-	4,401
Supplies and subscriptions	37,120	24,764	24,169	9,742	5,073	100,868
Telephone and bandwidth	79,563	15,444	239,256	2,951	27,655	364,869
Temporary services and graphic design	2,283	5,376	-	1,685	182	9,526
Uncollectible accounts	-	-	-	42,450	-	42,450
Utilities	198,060	36,453	53,869	72,905	43,743	405,030
Total expenses before depreciation	6,137,194	2,166,516	1,978,865	2,083,599	1,576,159	13,942,333
Gain on sale of equipment	-	-	-	(340)	-	(340)
Depreciation	592,927	109,128	161,266	218,256	130,953	1,212,530
Total	\$ 6,730,121	\$ 2,275,644	\$ 2,140,131	\$ 2,301,515	\$ 1,707,112	\$ 15,154,523

See independent auditor's report on supplementary information.

Hampton Roads Educational Telecommunications Association, Inc.

Supplementary Schedule of Functional Expenses

Year Ended June 30, 2016	Program Services			Management and General	Fundraising and Development	Total
	Content	Education	Engineering			
Salaries and wages	\$ 3,024,207	\$ 922,301	\$ 706,377	\$ 563,641	\$ 924,624	\$ 6,141,150
Payroll taxes	229,800	81,229	57,085	45,054	60,496	473,664
Retirement	54,781	18,227	12,809	6,250	14,218	106,285
Employee benefits	341,818	119,276	83,824	60,902	89,709	695,529
Total Personnel	3,650,606	1,141,033	860,095	675,847	1,089,047	7,416,628
Computer maintenance contracts	-	5,398	268,158	35,441	-	308,997
Conferences, seminars and training	7,180	47,208	1,728	50,309	5,719	112,144
Consultant fees	83,451	-	9,938	131,186	34,526	259,101
Credit card and bank fees	272	3,409	231	14,933	121,372	140,217
Dues and licenses	140,536	-	1,395	44,564	11,213	197,708
Education software and licenses	2,983	402,932	-	-	-	405,915
Fundraising premiums	-	-	-	-	170,464	170,464
Hospitality and travel	22,138	49,923	5,724	30,076	50,598	158,459
Independent contractors	199,913	101,107	-	-	8,300	309,320
Insurance	109,672	6,127	6,740	21,669	11,693	155,901
Interest and taxes	-	35	8,403	69,423	-	77,861
Listing services and audience research	4,084	-	-	-	-	4,084
Marketing and advertising	48,307	7,885	-	4,794	4,812	65,798
Miscellaneous	1,586	-	47,796	2,328	1,466	53,176
NPR fees	494,782	-	-	-	-	494,782
Office lease	-	-	180	71,486	11,856	83,522
Paper, printing and stationery	97,559	1,584	4,387	2,813	40,829	147,172
Postage and shipping	43,166	2,103	5,125	30,226	147,014	227,634
Production costs	38,920	3,404	1,497	-	12,906	56,727
Professional fees	4,552	513	677	119,307	-	125,049
Program fees	289,786	55,870	-	-	-	345,656
Public Broadcasting Service fees	1,177,205	-	-	-	-	1,177,205
Repairs and maintenance	41,933	274	176,252	113,254	138	331,851
Streaming fees	49,200	-	-	-	-	49,200
Supplies and subscriptions	24,553	24,774	27,159	13,613	6,836	96,935
Telephone and bandwidth	82,540	30,980	251,446	2,423	46,643	414,032
Temporary services and graphic design	25,826	358	450	9,892	-	36,526
Uncollectible accounts	-	-	-	-	850	850
Utilities	101,562	8,316	216,448	56,718	30,603	413,647
Total expenses before depreciation	6,742,312	1,893,233	1,893,829	1,500,302	1,806,885	13,836,561
Loss on disposal of assets	-	-	-	15,069	-	15,069
Depreciation	516,885	59,975	365,972	166,717	89,851	1,199,400
Total	\$ 7,259,197	\$ 1,953,208	\$ 2,259,801	\$ 1,682,088	\$ 1,896,736	\$ 15,051,030

See independent auditor's report on supplementary information.