



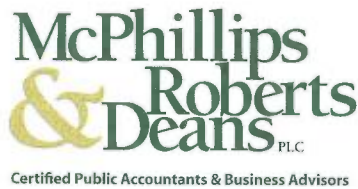
**HAMPTON ROADS EDUCATIONAL
TELECOMMUNICATIONS ASSOCIATION, INC.**

FINANCIAL REPORT

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To 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, 2016, 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, 2016, 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.

Prior Period Financial Statements

The financial statements of Hampton Roads Educational Telecommunications Association, Inc. as of June 30, 2015 were audited by other auditors whose report dated October 23, 2015, expressed an unmodified opinion on those statements.

McPhillips, Roberts & Deans, PLC

September 12, 2016
Norfolk, Virginia

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30, 2016 and 2015

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 899,883	\$ 1,633,346
Accounts receivable	575,763	560,487
Underwriting receivables	213,605	239,906
Pledges receivable, net	1,366,022	1,489,799
Inventory	20,105	12,946
Prepaid expenses	157,512	175,491
Total Current Assets	<u>3,232,890</u>	<u>4,111,975</u>
Property and equipment, net	<u>6,294,605</u>	<u>7,142,070</u>
Other Assets		
Pledges receivable, net	747,005	1,407,895
Split interest agreement	1,031,392	1,136,141
Tower rights	894,539	941,620
Investments	9,163,640	8,819,994
Total Other Assets	<u>11,836,576</u>	<u>12,305,650</u>
TOTAL ASSETS	<u>\$ 21,364,071</u>	<u>\$ 23,559,695</u>

Liabilities and Net Assets	<u>2016</u>	<u>2015</u>
Current Liabilities		
Line of credit	\$ 3,220,768	\$ 3,438,281
Note payable	15,000	-
Capital leases payable	40,576	82,356
Accounts payable	489,917	414,875
Accrued liabilities	643,018	535,468
Deferred revenue	262,272	360,561
Total Current Liabilities	<u>4,671,551</u>	<u>4,831,541</u>
Long-Term Liabilities		
Note payable	15,000	-
Capital leases payable	86,974	14,726
Deferred revenue	-	21,630
Total Long-Term Liabilities	<u>101,974</u>	<u>36,356</u>
Total Liabilities	<u>4,773,525</u>	<u>4,867,897</u>
Net Assets		
Unrestricted		
Undesignated	1,042,870	1,786,588
Net investment in plant	3,560,867	4,408,332
Board designated	9,072,760	8,911,083
Total unrestricted	<u>13,676,497</u>	<u>15,106,003</u>
Temporarily restricted	2,789,049	3,460,795
Permanently restricted	125,000	125,000
Total Net Assets	<u>16,590,546</u>	<u>18,691,798</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,364,071</u>	<u>\$ 23,559,695</u>

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Support and Other Income				
Public Support				
Membership	\$ 3,834,414	\$ -	\$ -	\$ 3,834,414
Grants and contributions	24,783	267,200	-	291,983
Capital campaign contributions	495,895	-	-	495,895
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
Loss on disposal of equipment	(15,069)	-	-	(15,069)
Miscellaneous income	1,787	-	-	1,787
Change in value of split interest agreement	-	(22,509)	-	(22,509)
Investment income (loss)	(177,259)	-	-	(177,259)
Reclassification pursuant to donor	-	-	-	-
Net assets released from restrictions	916,437	(916,437)	-	-
Total Revenues, Support and Other Income	13,606,455	(671,746)	-	12,934,709
Expenses				
Program services	11,472,206	-	-	11,472,206
Supporting				
Management and general	1,667,019	-	-	1,667,019
Fundraising and development	1,896,736	-	-	1,896,736
Total Supporting Expenses	3,563,755	-	-	3,563,755
Total Expenses	15,035,961	-	-	15,035,961
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

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,801,208	\$ -	\$ -	\$ 3,801,208
106,932	-	-	106,932
2,485,057	1,255,907	25,000	3,765,964
88,058	-	-	88,058
1,640,751	-	-	1,640,751
1,468,952	-	-	1,468,952
525,618	-	-	525,618
152,071	-	-	152,071
291,437	-	-	291,437
1,716,108	-	-	1,716,108
42,560	-	-	42,560
261,664	-	-	261,664
129,109	-	-	129,109
68,577	-	-	68,577
695,026	-	-	695,026
989,136	-	-	989,136
(10,780)	-	-	(10,780)
81,136	-	-	81,136
-	410,118	-	410,118
137,609	(7,692)	-	129,917
75,377	-	(75,377)	-
772,343	(772,343)	-	-
15,517,949	885,990	(50,377)	16,353,562
10,349,883	-	-	10,349,883
1,497,638	-	-	1,497,638
2,315,623	-	-	2,315,623
3,813,261	-	-	3,813,261
14,163,144	-	-	14,163,144
1,354,805	885,990	(50,377)	2,190,418
13,751,198	2,574,805	175,377	16,501,380
\$ 15,106,003	\$ 3,460,795	\$ 125,000	\$ 18,691,798

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Cash receipts from memberships and contributions	\$ 4,276,390	\$ 3,325,591
Cash receipts from grants	1,989,105	1,846,369
Cash receipts from education activities	2,703,849	2,502,666
Cash receipts from enterprise activities	2,076,642	2,486,490
Cash receipts from underwriting	1,573,018	1,442,559
Cash receipts from all other sources	852,208	698,711
Cash paid for operating expenses	(6,156,886)	(6,266,242)
Cash paid for wages and fringe benefits	(7,309,078)	(6,969,674)
Cash paid for interest and taxes	(84,254)	(93,031)
Net Cash Used in Operating Activities	(79,006)	(1,026,561)
Cash Flows From Investing Activities		
Purchases of investments	(2,239,246)	(4,654,674)
Proceeds from sale of investments	1,146,822	2,300,197
Payments received on capital campaign pledges	878,264	3,295,320
Purchase of property and equipment	(233,206)	(524,074)
Net Cash Provided by (Used in) Investing Activities	(447,366)	416,769
Cash Flows from Financing Activities		
Cash received from split interest agreement	82,240	82,400
Net repayments on line of credit	(217,513)	(209,899)
Repayments of note payable	(15,000)	-
Contributions restricted for property and equipment	46,512	184,013
Repayments on capital leases payable	(103,330)	(129,085)
Net Cash Used in Financing Activities	(207,091)	(72,571)
Net Decrease in Cash and Cash Equivalents	(733,463)	(682,363)
Cash and Cash Equivalents, Beginning of Year	1,633,346	2,315,709
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 899,883	\$ 1,633,346

Continued

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

Continued

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (2,101,252)	\$ 2,190,418
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,199,400	1,191,425
Amortization of tower rights	47,081	47,081
Donated investments	75,702	53,832
Contributions restricted for property and equipment	(46,512)	(142,407)
Expenses financed with note payable	45,000	-
Pledge receivable write-off	29,800	-
Bad debt	850	5,346
Realized and unrealized loss on investments	673,076	410,380
Change in split interest agreement	22,509	(410,118)
Loss on disposal of property and equipment	15,069	7,051
Changes in operating assets and liabilities		
Accounts receivable	(16,126)	374,116
Pledges receivables	(123,397)	(4,262,284)
Underwriting receivables	26,301	(26,393)
Inventory	(7,159)	24,274
Prepaid expenses	17,979	(49,481)
Accounts payable	75,042	(330,276)
Accrued liabilities	107,550	(11,796)
Deferred revenue	(119,919)	(97,729)
Net Cash Used in Operating Activities	\$ (79,006)	\$ (1,026,561)
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 71,562</u>	<u>\$ 81,590</u>
Supplemental Disclosures of Noncash Activities		
Donated investments	<u>\$ 75,702</u>	<u>\$ 53,832</u>
Property and equipment acquired through capital lease	<u>\$ 133,798</u>	<u>\$ -</u>
Purchases of property and equipment in accounts payable	<u>\$ -</u>	<u>\$ 25,142</u>
Issuance of note payable for expense	<u>\$ 45,000</u>	<u>\$ -</u>

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION

The Hampton Roads Educational Telecommunications Association, Inc. (t/a WHRO) (“WHRO”) is a diverse regional public telecommunications 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 telecommunications services. Viewers tune in to broadcast programming on WHRO’s public television stations, listen to its radio stations and stream programming from the WHRO website and media application. 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 and supports teacher training.

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 for the Print Handicapped. 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 Radio Reading Service, 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.

NOTE 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 consolidated statement of activities as “Net assets released from restrictions.”

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. Management considers all accounts to be collectible and, accordingly, has not provided an allowance for uncollectible accounts.

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.

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.

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, 2016 and 2015 is \$1,199,400 and \$1,191,425, respectively.

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.

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$65,798 and \$24,416 for the years ended June 30, 2016 and 2015, 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.

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.

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 \$1,575,000 and \$1,200,000 related to its unrelated business income at June 30, 2016 and 2015, respectively, that will begin to expire in 2029. 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 \$596,934 and \$455,520 at June 30, 2016 and 2015, respectively. The increase in the valuation allowance was \$141,414 and \$121,181 for the years ended June 30, 2016 and 2015, 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 2012 and earlier. Management continually evaluates tax positions reflected in WHRO's tax filings and does not believe that any material uncertain tax positions exist.

Subsequent Events Management has evaluated subsequent events through September 12, 2016, the date which the financial statements were available to be issued.

NOTE 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, 2016 and 2015, respectively. This approximates WHRO's underlying equity in the net assets of The 1920s Radio Network, LLC at those dates. In addition, WHRO has a non-interest bearing unsecured term note with 1920s totaling \$30,000 at June 30, 2016, with installments of principal only of \$15,000 annually. This notes matures in June 2018.

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016 and 2015 consist of the following:

	2016	2015
Amounts due within one year	\$ 1,394,646	\$ 1,520,269
Amounts due in more than one year but less than five years	781,174	1,473,061
Amounts due in more than five years	8,500	23,500
	<hr/>	<hr/>
Total pledges receivable	2,184,320	3,016,830
Less allowance for uncollectible pledges receivable	(44,277)	(63,694)
Less discounts to present value (2.0%)	(27,016)	(55,442)
	<hr/>	<hr/>
Total pledges receivable, net	<u>\$ 2,113,027</u>	<u>\$ 2,897,694</u>

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

	2016	2015
Pledges receivable, net, current asset	\$ 1,366,022	\$ 1,489,799
Pledges receivable, net, other asset	747,005	1,407,895
	<hr/>	<hr/>
Total pledges receivable, net	<u>\$ 2,113,027</u>	<u>\$ 2,897,694</u>

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.

NOTE 5 - CHARITABLE LEAD TRUST SPLIT-INTEREST AGREEMENT

During 2012, a donor established a trust naming WHRO as 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 Organization received \$82,240 from the trust in 2016, 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. The Organization recorded an increase (decrease) in the value of the split-interest agreement of (\$22,509) and \$410,118 for the years ended June 30, 2016 and 2015, respectively.

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 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 at June 30, 2016 and 2015 are as follows:

	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tower rights	<u>\$ 2,252,587</u>	<u>\$ 1,358,048</u>	<u>\$ 2,252,587</u>	<u>\$ 1,310,967</u>

Amortization expense for each of the years ended June 30, 2016 and 2015 was \$47,081. Future estimated amortization expense is as follows:

Year	Amount
2017	\$ 47,081
2018	47,081
2019	47,081
2020	47,081
2021	47,081
Thereafter	<u>659,134</u>
Total	<u>\$ 894,539</u>

NOTE 7 - INVESTMENTS

Investments at June 30, 2016 and 2015 consist of the following:

	2016	2015
Money market funds	\$ 36,033	\$ 183,509
Fixed income	5,031,818	4,657,906
Equities	<u>4,095,789</u>	<u>3,978,579</u>
Total investments	<u>\$ 9,163,640</u>	<u>\$ 8,819,994</u>

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Investment income (loss) for the years ended June 30, consists of the following:

	2016	2015
Investment income	\$ 553,378	\$ 540,297
Broker fees	(57,561)	(60,123)
Realized gain on investments	23,596	251,630
Unrealized loss on investments	(696,672)	(601,887)
	<u>\$ (177,259)</u>	<u>\$ 129,917</u>

Investment income (loss) is recorded in the following net asset categories in the statements of activities for the years ended June 30:

	2016	2015
Unrestricted net assets	\$ (177,259)	\$ 137,609
Temporarily restricted net assets	-	(7,692)
	<u>\$ (177,259)</u>	<u>\$ 129,917</u>

NOTE 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 June 30, 2016 and 2015:

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

	2016			Total
	Level 1	Level 2	Level 3	
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
	2015			Total
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 183,509	\$ -	\$ -	\$ 183,509
Fixed income bonds				
Intermediate	-	503,824	-	503,824
Government long-term	-	3,017,740	-	3,017,740
Corporate high yield	-	794,416	-	794,416
Global	-	341,926	-	341,926
Total fixed income bonds	-	4,657,906	-	4,657,906
Equity funds				
Large cap growth	534,122	-	-	534,122
Large cap value	535,975	-	-	535,975
Small cap core	532,870	-	-	532,870
Small cap growth	548,139	-	-	548,139
Public real estate	105,498	-	-	105,498
Developed markets	1,187,495	-	-	1,187,495
Emerging markets	534,480	-	-	534,480
Total equity funds	3,978,579	-	-	3,978,579
Total investments	\$ 4,162,088	\$ 4,657,906	\$ -	\$ 8,819,994
Split interest agreement	\$ -	\$ -	\$ 1,136,141	\$ 1,136,141

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

The following tables present a reconciliation of assets in which significant unobservable inputs (Level 3) were used to determine fair value for the years ended June 30, 2016 and 2015:

	2016	2015
Fair value, beginning of year	\$ 1,136,141	\$ 808,423
Cash received from split interest agreement	(82,240)	(82,400)
Change in value of split interest agreement	(22,509)	410,118
Fair value, end of year	<u>\$ 1,031,392</u>	<u>\$ 1,136,141</u>

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consist of the following:

	2016	2015
Land	\$ 377,677	\$ 377,677
Buildings and improvements	5,358,507	5,353,851
Furnishings and equipment	21,243,775	21,147,658
	<u>26,979,959</u>	<u>26,879,186</u>
Less accumulated depreciation	(20,685,354)	(19,737,116)
Property and equipment, net	<u>\$ 6,294,605</u>	<u>\$ 7,142,070</u>

NOTE 10 - LINE OF CREDIT

WHRO has a \$5,500,000 line of credit with UBS Bank USA and had a balance of \$3,220,768 and \$3,438,281 outstanding on the line at June 30, 2016 and 2015, 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 2.00%, which was 2.22% and 2.19% at June 30, 2016 and 2015, respectively. The credit line is collateralized by all WHRO investment accounts held by UBS and can be terminated at any time.

NOTE 11 - CAPITAL LEASES PAYABLE

WHRO has acquired \$297,411 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%.

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Future minimum lease payments are as follows:

Year	Amount
2017	\$ 43,646
2018	28,779
2019	28,779
2020	28,779
2021	4,796
	<u>134,779</u>
Less amount representing interest	<u>(7,229)</u>
Total capital leases payable	127,550
Less current portion	<u>(40,576)</u>
	<u>\$ 86,974</u>

NOTE 12 - 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, 2016 and 2015 totaled \$106,285 and \$111,561, respectively.

NOTE 13 - 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 15. 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 at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Program and supporting services	<u>\$ 9,072,760</u>	<u>\$ 8,911,083</u>

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - RESTRICTED NET ASSETS

Restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Temporarily restricted		
Education	\$ 1,691,207	\$ 2,324,423
Programming	1,087,518	1,136,372
Vehicles	10,324	-
	<u>\$ 2,789,049</u>	<u>\$ 3,460,795</u>
Permanently restricted		
Education	\$ 100,000	\$ 100,000
Programming	25,000	25,000
	<u>\$ 125,000</u>	<u>\$ 125,000</u>

Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 by incurring expenses satisfying the purposes or time restrictions specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Education	\$ 737,416	\$ 689,943
Programming	149,345	82,400
Vehicles	29,676	-
	<u>\$ 916,437</u>	<u>\$ 772,343</u>

NOTE 15 - 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.

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 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:

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

- (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 has a policy of appropriating 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 specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund at June 30, 2016 and 2015 is as follows:

	2016			
	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	<u>\$ 9,072,760</u>	<u>\$ 1,001,154</u>	<u>\$ 125,000</u>	<u>\$ 10,198,914</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 1,001,154	\$ 125,000	\$ 1,126,154
Board designated funds	8,911,083	-	-	8,911,083
Balance, June 30, 2015	<u>\$ 8,911,083</u>	<u>\$ 1,001,154</u>	<u>\$ 125,000</u>	<u>\$ 10,037,237</u>

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ 6,883,875	\$ 9,772	\$ 175,377	\$ 7,069,024
Contributions		1,000,000	25,000	1,025,000
Board designations	1,968,296	-	-	1,968,296
Reclassification pursuant to donor direction	75,377	-	(75,377)	-
Investment income	137,609	(7,692)	-	129,917
Expenditures	<u>(154,074)</u>	<u>(926)</u>	<u>-</u>	<u>(155,000)</u>
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	<u>(155,000)</u>	<u>-</u>	<u>-</u>	<u>(155,000)</u>
Balance, June 30, 2016	<u>\$ 9,072,760</u>	<u>\$ 1,001,154</u>	<u>\$ 125,000</u>	<u>\$ 10,198,914</u>

NOTE 16 - 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, 2016 and 2015, WHRO recognized \$708,912 and \$695,026, respectively, of lease income related to these agreements. These amounts are shown net of the shared rents of \$70,151 and \$75,523 for the years ended June 30, 2016 and 2015, respectively.

WHRO has a channels lease agreement with an initial term of ten years expiring in August 2016. The lease agreement also provides for four automatic renewals of five years each for a total thirty year term as defined in the agreement. During the years ended June 30, 2016 and 2015, WHRO recognized \$1,003,636 and \$989,136 of lease income related to this agreement, respectively.

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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:

<u>Year</u>	<u>Amount</u>
2017	\$ 1,630,586
2018	1,539,375
2019	1,498,822
2020	1,520,084
2021	1,541,740
Thereafter	<u>6,700,674</u>
	<u>\$ 14,431,281</u>

NOTE 17 - 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 and \$51,788, respectively for the years ended June 30, 2016 and 2015, attributable to these operating leases. Minimum future annual rent commitments under these agreements are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 53,576
2018	53,576
2019	53,576
2020	<u>48,813</u>
	<u>\$ 209,541</u>

NOTE 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.

NOTE 19 - RECLASSIFICATIONS

Certain amounts in the 2015 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.



**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION**

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

We have audited the financial statements of Hampton Roads Educational Telecommunications Association, Inc. as of and for the year ended June 30, 2016, and have issued our report thereon dated September 12, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2016 financial statements as a whole.

The following schedules of functional expenses and changes in property and equipment 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 taken as a whole.

The June 30, 2015 supplemental information of Hampton Roads Educational Telecommunications Association, Inc. was audited by other auditors, whose report dated October 23, 2015, expressed an unmodified opinion. Certain 2015 amounts have been reclassified to conform with the current year presentation. The reclassifications had no impact on results of operations as previously reported.

McPhillips, Roberts & Deans, PLC

September 12, 2016
Norfolk, Virginia

SCHEDULES OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

	2016			Total
	Program	Management and General	Fundraising and Development	
Salaries and wages	\$ 4,652,885	\$ 563,641	\$ 924,624	\$ 6,141,150
Fringe benefits	998,849	112,206	164,423	1,275,478
Total personnel	<u>5,651,734</u>	<u>675,847</u>	<u>1,089,047</u>	<u>7,416,628</u>
Bad debts	-	-	850	850
Computer maintenance contracts	273,556	35,441	-	308,997
Conferences, seminars and training	56,116	50,309	5,719	112,144
Consultant fees	93,389	131,186	34,526	259,101
Credit card and bank fees	3,912	14,933	121,372	140,217
Dues and licenses	141,931	44,564	11,213	197,708
Education software and licenses	405,915	-	-	405,915
Fundraising premiums	-	-	170,464	170,464
Hospitality and travel	77,785	30,076	50,598	158,459
Independent contractors and talent	301,020	-	8,300	309,320
Insurance	122,539	21,669	11,693	155,901
Interest and taxes	8,438	69,423	-	77,861
Listing services and audience research	4,084	-	-	4,084
Marketing and advertising	56,192	4,794	4,812	65,798
Miscellaneous	49,382	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	103,530	2,813	40,829	147,172
Postage and shipping	50,394	30,226	147,014	227,634
Production costs	43,821	-	12,906	56,727
Professional fees	5,742	119,307	-	125,049
Program fees	345,656	-	-	345,656
Public Broadcasting Service fees	1,177,205	-	-	1,177,205
Repairs and maintenance	218,459	113,254	138	331,851
Streaming fees	49,200	-	-	49,200
Supplies and subscriptions	76,486	13,613	6,836	96,935
Telephone and bandwidth	364,966	2,423	46,643	414,032
Temporary services and graphic design	26,634	9,892	-	36,526
Utilities	326,326	56,718	30,603	413,647
	<u>10,529,374</u>	<u>1,500,302</u>	<u>1,806,885</u>	<u>13,836,561</u>
Depreciation	<u>942,832</u>	<u>166,717</u>	<u>89,851</u>	<u>1,199,400</u>
	<u>\$ 11,472,206</u>	<u>\$ 1,667,019</u>	<u>\$ 1,896,736</u>	<u>\$ 15,035,961</u>

2015

Program	Management and General	Fundraising and Development	Total
\$ 3,932,300	\$ 713,171	\$ 1,182,831	\$ 5,828,302
797,528	114,228	229,616	1,141,372
4,729,828	827,399	1,412,447	6,969,674
435	-	4,911	5,346
194,902	37,938	-	232,840
81,585	28,601	8,291	118,477
18,409	84,033	38,688	141,130
46,901	15,134	97,291	159,326
103,213	46,859	8,778	158,850
528,601	-	-	528,601
2,264	23,993	147,609	173,866
54,616	32,838	56,557	144,011
228,604	3,000	39,750	271,354
140,475	2,143	11,564	154,182
2,589	32,427	58,015	93,031
2,945	-	-	2,945
13,902	4,726	5,788	24,416
48,223	-	1,411	49,634
506,081	-	-	506,081
195	69,537	12,445	82,177
100,707	104	31,546	132,357
43,186	26,966	133,462	203,614
38,096	-	10,380	48,476
3,341	86,427	1,007	90,775
269,138	-	10,000	279,138
1,055,199	-	-	1,055,199
214,365	121,246	17,209	352,820
23,173	-	-	23,173
56,721	12,465	18,119	87,305
356,544	8,881	68,485	433,910
5,168	10,334	-	15,502
394,970	6,026	32,513	433,509
9,264,376	1,481,077	2,226,266	12,971,719
1,085,507	16,561	89,357	1,191,425
\$ 10,349,883	\$ 1,497,638	\$ 2,315,623	\$ 14,163,144

SCHEDULE OF CHANGES IN PROPERTY AND EQUIPMENT

For the Years Ended June 30, 2016 and 2015

HAMPTON ROADS EDUCATIONAL TELECOMMUNICATIONS ASSOCIATION, INC.

SCHEDULE OF CHANGES IN PROPERTY AND EQUIPMENT

For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Transfers and Disposals	Balance June 30, 2016
Land	\$ 377,677	\$ -	\$ -	\$ 377,677
Buildings and improvements	5,353,851	7,430	(2,774)	5,358,507
Furnishings and equipment				
Antennas and towers	3,154,858	-	-	3,154,858
Camera and video tape recorders	611,832	-	-	611,832
Microwave and ITFS	660,607	2,553	-	663,160
Other equipment	11,270,296	308,523	(174,670)	11,404,149
Production	882,249	38,505	(78,478)	842,276
Radio	2,483,430	7,527	(10,309)	2,480,648
Transmitters	2,084,386	2,466	-	2,086,852
Subtotal	21,147,658	359,574	(263,457)	21,243,775
Property and equipment	26,879,186	367,004	(266,231)	26,979,959
Allowance for depreciation	(19,737,116)	(1,199,400)	251,162	(20,685,354)
Property and equipment, net	\$ 7,142,070	\$ (832,396)	\$ (15,069)	\$ 6,294,605