FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

AND SUPPLEMENTAL INFORMATION

VERMONT ETV, INC.

JUNE 30, 2016 AND 2015

VERMONT ETV, INC.

JUNE 30, 2016 AND 2015

CONTENTS

Independent Auditor's Report

To the Board of Directors of
Vermont ETV, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Vermont ETV, Inc., (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 principles 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 Vermont ETV, Inc., as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Gallagher, Flynn & Company, LLP

November 7, 2016

VERMONT ETV, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	2016	2015
CURRENT ASSETS		
Cash	$ 13,187	$ 278,803
Pledges receivable, less allowance for uncollectible pledges of $9,936 in 2016 and $9,114 in 2015	280,016	220,747
Accounts receivable, less allowance for uncollectible accounts of $875 in 2016 and 2015	154,880	100,195
Prepaid expenses and other	158,589	153,004
Investments	2,390,119	2,369,347
Total current assets	2,996,791	3,122,096
PROPERTY AND EQUIPMENT, net	4,672,547	5,242,326
Total assets	$ 7,669,338	$ 8,364,422
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ 102,635	$ -
Accounts payable	440,911	553,385
Accrued expenses	202,476	198,848
Deferred revenues - current portion	63,383	187,308
Total current liabilities	809,405	939,541
SUPPLEMENTAL BENEFIT PLAN LIABILITY	320,853	326,700
ACCRUED EXPENSES, non-current portion	374,315	192,508
DEFERRED REVENUE, net of current portion	306,250	341,250
LIABILITY UNDER SPLIT-INTEREST AGREEMENTS	33,886	35,130
Total liabilities	1,844,709	1,835,129
NET ASSETS		
Unrestricted	5,451,853	6,268,852
Temporarily restricted	372,776	260,441
Total net assets	5,824,629	6,529,293
Total liabilities and net assets	$ 7,669,338	$ 8,364,422

The accompanying notes are an integral part of these statements.

VERMONT ETV, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	2016			2015		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE						
Support:						
Contributions	$ 2,225,002	$ -	$ 2,225,002	$ 2,243,068	$ -	$ 2,243,068
Program and production underwriting	107,427	542,776	650,203	152,166	420,441	572,607
Special event, net of direct costs of $29,986 in 2016 and $118,720 in 2015	19,027	-	19,027	5,905	-	5,905
Revenue:				-	-	
Program grants	1,299,610	-	1,299,610	1,676,821	-	1,676,821
Media services and sales	81,690	-	81,690	149,058	-	149,058
License and lease revenue	1,121,556	-	1,121,556	1,041,006	-	1,041,006
Other	29,665	-	29,665	28,398	-	28,398
Reclassifications:						
Net assets released from restrictions	430,441	(430,441)	-	382,892	(382,892)	-
Total support, revenue and reclassifications	5,314,418	112,335	5,426,753	5,679,314	37,549	5,716,863
PROGRAM EXPENSES						
Programming	851,494	-	851,494	955,518	-	955,518
Production	888,898	-	888,898	785,738	-	785,738
Community engagement	102,175	-	102,175	101,521	-	101,521
Engineering	1,276,689	-	1,276,689	1,269,827	-	1,269,827
Communications	248,953	-	248,953	388,410	-	388,410
Total program expenses	3,368,209	-	3,368,209	3,501,014	-	3,501,014
EARNINGS BEFORE SUPPORTING EXPENSES AND DEPRECIATION AND AMORTIZATION	1,946,209	112,335	2,058,544	2,178,300	37,549	2,215,849
SUPPORTING EXPENSES						
Administration	779,533	-	779,533	622,539	-	622,539
Member services	306,353	-	306,353	326,717	-	326,717
Financial development	1,065,610	-	1,065,610	1,165,407	-	1,165,407
Total supporting expenses	2,151,496	-	2,151,496	2,114,663	-	2,114,663
EARNINGS (LOSS) FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION	(205,287)	112,335	(92,952)	63,637	37,549	101,186
DEPRECIATION AND AMORTIZATION EXPENSE	661,982	-	661,982	745,443	-	745,443
EARNINGS (LOSS) FROM OPERATIONS	(867,269)	112,335	(754,934)	(681,806)	37,549	(644,257)
OTHER INCOME (LOSS)						
Interest and dividend income	67,538	-	67,538	67,699	-	67,699
Net loss on investments	(18,463)	-	(18,463)	(5,659)	-	(5,659)
Gain on disposal of equipment	-	-	-	101,725	-	101,725
Nonoperating grant revenues	17,136	-	17,136	173,143	-	173,143
Total other income	66,211	-	66,211	336,908	-	336,908
CHANGE IN NET ASSETS BEFORE EFFECT OF SUPPLEMENTAL BENEFIT LIABILITY ADJUSTMENT	(801,058)	112,335	(688,723)	(344,898)	37,549	(307,349)
Supplemental benefit plan liability - related changes other than net periodic benefit cost	(15,941)	-	(15,941)	(38,144)	-	(38,144)
INCREASE (DECREASE) IN NET ASSETS	(816,999)	112,335	(704,664)	(383,042)	37,549	(345,493)
NET ASSETS, BEGINNING OF YEAR, as previously reported	6,268,852	260,441	6,529,293	6,651,894	1,623	6,653,517
Adjustment to prior period to reflect change in accounting method	-	-	-	-	221,269	221,269
NET ASSETS, BEGINNING OF YEAR, as restated	6,268,852	260,441	6,529,293	6,651,894	222,892	6,874,786
NET ASSETS, END OF YEAR	$ 5,451,853	$ 372,776	$ 5,824,629	$ 6,268,852	$ 260,441	$ 6,529,293

The accompanying notes are an integral part of these statements.

VERMONT ETV, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	2016	2015
INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (704,664)	$ (345,493)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Net realized and unrealized loss on investments	18,463	5,659
Interest and dividend income reinvested	(67,538)	(67,699)
Depreciation and amortization	661,982	745,443
Gain on disposal of equipment	-	(101,725)
Supplemental benefit plan liability	27,816	51,362
Changes in assets and liabilities:		
Receivables	(113,954)	256,302
Other current assets	(5,585)	(24,187)
Accounts payable	(112,474)	(136,708)
Liability under split-interest agreements	(1,244)	(3,627)
Accrued expenses	185,435	(71,316)
Deferred revenues	(158,925)	(39,107)
Supplemental benefit plan liability	(33,663)	(33,341)
Grants received for long-term purposes	(17,136)	(173,143)
	383,177	407,913
Net cash provided by (used in) operating activities	(321,487)	62,420
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(19,710)	(191,617)
Net proceeds from sale of investments	48,013	141,886
Proceeds from disposal of equipment	-	72,715
Capital acquisitions	(92,203)	(246,915)
Net cash used in investing activities	(63,900)	(223,931)
Subtotal (forward)	$ (385,387)	$ (161,511)

(CONTINUED)

VERMONT ETV, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	2016	2015
Subtotal (forwarded)	$ (385,387)	$ (161,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Grants received for long-term purposes	17,136	173,143
Net proceeds from line of credit	102,635	-
Net cash provided by financing activities	119,771	173,143
Net increase (decrease) in cash	(265,616)	11,632
CASH, beginning of year	278,803	267,171
CASH, end of year	$ 13,187	$ 278,803

Supplemental Disclosures of Cash Flows Information

Cash paid during the year for:		
Interest expense	$ 1,255	$ 697
Income taxes	$ 16,976	$ 9,423

The accompanying notes are an integral part of these statements.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Nature of activities:

Vermont ETV, Inc., doing business as Vermont PBS (the Corporation), is a statewide public media organization, serving Vermont and the surrounding regions, with its headquarters in Colchester, Vermont. The Corporation distributes content online and through direct community engagement and is licensed by the Federal Communications Commission to broadcast noncommercial content. The Corporation's content includes a variety of relevant issues, such as public affairs, educational, cultural and scientific topics, as well as artistic content. As a Public Broadcasting Service (PBS) member station, the primary source of content is PBS, with the Corporation providing localized context and content. The Corporation has transmission facilities on owned and leased land throughout the state, and contracts for the use of these facilities with others for broadcast and telecommunication purposes.

Accounting policies:

The following is a summary of the more significant accounting policies applied in the preparation of the accompanying financial statements:

1. <u>Basis of presentation</u>

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

2. <u>Cash and cash equivalents</u>

For purposes of the statements of cash flows, the Corporation considers all highly liquid instruments with a maturity of three months or less to be cash equivalents.

3. <u>Revenue recognition</u>

License and lease revenue

The Corporation leases and licenses building and tower space, as well as capacity on a nonbroadcast spectrum to lessees and licensees. Payments received in advance are recorded as deferred revenues. Revenues associated with these agreements are recorded as license and lease revenue during the period covered.

Contributions and promises to give

Contribution revenues include program and production underwriting and membership revenue from individual members. The fair value of membership to the member is de minimis.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

3. Revenue recognition (continued)

Contributions and promises to give (continued)

The Corporation accounts for contributions and promises to give under ASC Topic 958 *Not-For-Profit Entities*. Contributions received (including corporate underwriting agreements, see Note J) are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges receivable are stated at the amount the Corporation expects to collect. The Corporation maintains allowances for doubtful accounts for estimated losses resulting from the inability of its contributors to make required payments. Management considers the history of collections of operating pledges to estimate the expected cash to be collected. Based on management's assessment, the Corporation provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Corporation has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Non-operating grants

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Corporation's activities).

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

3. Revenue recognition (continued)

Cost reimbursement grants

The Corporation is awarded cost reimbursement grants by various federal and state agencies and private foundations. Payments received in advance of performance are recorded as deferred revenues. Revenues associated with these grants are recorded as program grant revenues as the associated expenses are incurred.

4. Contributed materials and services

Materials contributed to the Corporation for resale or for use in operations are recorded at fair value as contribution revenue in the period received. Contributed services must either create or enhance nonfinancial assets of the Corporation, and require a specialized skill that the Corporation would otherwise need to purchase in order to be recognized and recorded in the financial statements. Qualified contributed services are recorded at their fair value during the period in which the service is received. The value of contributed materials, services, and equipment meeting the criteria for recognition in the financial statements was approximately $36,000 in 2016 and $68,000 in 2015.

5. Accounts receivable

Trade accounts receivable are stated at the amount the Corporation expects to collect. The Corporation maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the Corporation’s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management’s assessment, the Corporation provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Corporation has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

6. Investments and investment income

Investments are recorded at fair value in the statement of financial position with changes in fair value during the period included in increases (decreases) in net assets.

Gains and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the gains and investment income are recognized.

7. Fair value measurements

Under the Financial Accounting Standards Board (FASB) authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income, and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique.

These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. <u>Fair value measurements (continued)</u>

Level 3: Unobservable inputs supported by little or no market activity for 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; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

During the years ended June 30, 2016 and 2015, there were no changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or change in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Mutual funds

Valued at the daily closing price as reported by the fund. Mutual funds held by the plan are open-end and exchange-traded mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the plan are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. Property and equipment

Property and equipment are recorded at cost or, if acquired by a gift, at the fair market value at the date of the gift. The Corporation provides for depreciation on a straight-line basis over their estimated useful lives.

9. Impairment of long-lived assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

10. Income taxes

The Corporation qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. The Corporation is, however, subject to federal and state income tax on net unrelated business income from certain leasing activities as defined in the applicable provisions of the Internal Revenue Code. The Corporation has a provision for unrelated business income taxes of approximately $15,000 in 2016 and $10,000 in 2015.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation has recognized a liability for potential additional income taxes payable in the amounts of approximately $302,000 and $192,000 at June 30, 2016 and 2015, respectively, which is included in accrued expenses - non-current portion, and has also included in the provision for unrelated business income taxes approximately $126,000 in 2016 and $44,000 in 2015, respectively, for this potential matter. Interest and penalties associated with unrecognized tax benefits totaling approximately $57,000 in 2016 and $0 in 2015, are classified as additional income taxes in Administration expenses in the statement of activities.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

10. Income taxes (continued)

With few exceptions, the Corporation is no longer subject to U.S. federal income tax examinations by tax authorities for years before the year ended June 30, 2013.

11. Net assets

In accordance with Topic 958 *Not-For-Profit Entities*, the Corporation reports information regarding its financial position and activities, depending upon the existence or absence of donor restrictions on organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) and in accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as adopted by the State of Vermont.

The Board has established three endowment funds that are Board designated including the "Frank & Peggy Taplin Fund," "Wyant Fund," and "Board Designated Fund." The funds in these accounts are available first to satisfy obligations of the Corporation, then for purposes designated by the Board of Directors.

The following are the descriptions of the Corporation's board designated endowment funds which are included in unrestricted net assets.

Return objective and risk parameters

The primary investment objectives of all funds are safety, return on investment, liquidity, diversification, and cost control. Safety of principal is the foremost objective and investments are undertaken to ensure preservation of capital in the overall portfolio. The portfolio is designed to achieve a reasonable rate of return given the risk being assumed. Liquidity is maintained to meet reasonable operating requirements subject to the approval of the Board of Directors. The portfolio is diversified to avoid overconcentration in specific issue or business sectors, limits investment in high credit risk issues, and maintains varying maturity dates. The portfolio will not directly be invested in individual securities of companies whose primary source of revenue stems from the production or sale of nuclear or tobacco interests.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

11. Net assets (continued)

Strategies employed for achieving objectives

Management of the investment portfolios is accomplished through an authorized financial dealer or institution approved by the Corporation's Board of Directors. Investment activities are subject to the approval of the Corporation's Corporate Treasurer acting through the Corporation's Board of Directors, and are reviewed regularly by the Investment Committee of the Board. Investments are diversified by investment category within ranges approved by the Board.

The investment policies can be amended when deemed necessary by management subject to the approval of the Board of Directors.

The amended investment policy requires that equity holdings are readily marketable securities traded on the major stock exchanges. Direct international equity investments of similar quality and marketability will be permitted, but will not exceed 10% of the portfolio. Fixed income investments include debt instruments of the U.S. Government and its agencies, corporations, or foreign denominated securities and 100% of the bond portfolio must be rated BBB investment grade or better. Short-term funds shall be issues of high-quality that are readily marketable. Venture capital funds, letter stocks, junk bonds and real estate properties are not permissible. Investments in real estate investment trusts are permissible. The use of mutual funds is highly encouraged.

Spending policy

Withdrawals from all funds are made upon the approval of the Corporation's Board of Directors. Withdrawals can be made from earnings, interest, dividends, or principal for any purpose approved by the Board of Directors. Withdrawals may be up to 5% per fiscal year, not to exceed the total return of the portfolio for the prior fiscal year.

12. Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services based on the degree to which the cost element was incurred for program or for other function purposes. Generally, indirect costs were allocated on a systematic basis, such as the percentage of total personnel costs for personnel related costs, and percentage of square feet occupied for occupancy costs.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

13. Trade and barter income and expenses

The Corporation enters into agreements with suppliers and service providers for the exchange of services during a defined period of time. The assets and liabilities are measured at estimated fair value and are recognized as revenue and expenses upon use. Unused amounts at the end of the agreement period are credited or charged to operations.

14. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

15. Evaluation of subsequent events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 7, 2016, the date the financial statements were available to be issued.

16. Recently issued accounting pronouncements

The Corporation is currently evaluating the impact of adopting the following accounting standards on its financial statements.

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 *Leases (Topic 842).* This ASU was issued in three parts: (a) Section A, Leases: Amendments to the FASB *Accounting Standards Codification*, (b) Section B, Conforming Amendments Related to Leases: Amendments to the FASB *Accounting Standards Codification*, and (c) Section C, Background Information and Basis for Conclusions. While both lessees and lessors are affected by the new guidance which includes many changes, the effects on lessees are much more significant. The most significant change for lessees is the requirement to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, affecting leases which previously were accounted for as operating leases. This ASU is effective in 2021, and must be implemented using a modified retrospective approach.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

16. Recently issued accounting pronouncements (continued)

Not-for-profit reporting standards

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The most significant elements of the ASU will include reduction of net asset classes from three to two classes (unrestricted and donor restricted) and enhanced disclosures related to investments, financial liquidity, and expense allocation. The ASU is effective for the Corporation in 2019.

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. The ASU is effective in 2021.

B) PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give (all unrestricted once fulfilled), all due in less than one year, at June 30:

	2016	2015
Gross pledges receivable	$ 289,952	$ 229,361
Less allowance for uncollectible pledges	9,936	9,114
	$ 280,016	$ 220,247

C) INVESTMENTS

The Corporation maintains investments at fair value. A summary of the Corporation's investments (all Level 1) are as follows for June 30:

	2016	2015
Cash and cash equivalents	$ 162,616	$ 119,147
Mutual funds:		
Bonds		
Emerging markets	97,446	103,711
Short-term	225,914	223,490
U.S. long-term government	96,132	76,543
U.S. corporate	300,436	300,753
Other	139,006	136,051
International small / mid blend	56,226	61,560
International large blend	276,168	312,905
Large growth	313,346	312,907
Large value	316,163	310,099
Mid growth	73,055	76,411
Mid value	73,313	74,539
Small growth	57,118	61,885
Small value	59,184	60,589
Real estate	113,409	95,529
Other	30,587	43,228
	2,227,503	2,250,200
	$ 2,390,119	$ 2,369,347

The following summarizes the total investment return, all unrestricted, in the statements of activities for the years ended June 30:

	2016	2015
Interest and dividend income	$ 67,538	$ 67,699
Net realized and unrealized loss on investments	(18,463)	(5,659)
	$ 49,075	$ 62,040

D) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2016	2015
Building and improvements	$ 3,188,322	$ 3,136,361
Production and transmission equipment	10,153,731	10,137,518
Other equipment, furniture and fixtures	399,924	375,895
	13,741,977	13,649,774
Less accumulated depreciation and amortization	9,069,430	8,407,448
	$ 4,672,547	$ 5,242,326

E) LINE OF CREDIT

The Corporation has available a $350,000 line of credit with Merchants Bank, expiring in August 2017. Interest is payable at the greater of 3.75% or the bank's prime rate (3.50% at June 30, 2016) plus 0.25%, and is secured by real estate.

F) LIABILITY UNDER SPLIT-INTEREST AGREEMENTS

The Corporation has entered into several gift annuity agreements with various donors. The agreements obligate the Corporation to pay a stated return on the donors' initial investments as defined in the agreements. The Corporation has recorded a liability for each agreement in an amount which approximates the net present value of the annuity to the donor based upon assumptions of the annuitant's mortality and a discount rate to calculate return on assets. The discount rates utilized to record the initial liability to annuitants range from 5.6% to 12%. The net difference between the initial contribution and the estimated present value of the obligation is recorded as a charitable contribution.

The liabilities are revalued annually for changes in assumptions. There were no new agreements entered into during 2016 and 2015. The total estimated liabilities under split-interest agreements were approximately $34,000 at June 30, 2016 and $35,000 at June 30, 2015.

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS

Retirement plan

The Corporation participates in a contributory retirement plan, which is an Internal Revenue Code Section 403(b) plan, covering all full-time employees, including those under a contract with International Brotherhood of Electrical Workers (AFL-CIO). The Teachers Insurance and Annuity Association (TIAA), the College Retirement Equities Fund (CREF), and Fidelity Investments administer the investment options. All contributions are held in individual employee accounts, and the employee is immediately vested in all funds. Employees eligible for the Corporation's contribution must be at least 21 years of age, employed by the Corporation for two years and contribute a minimum of 2% of gross salary. The Corporation generally contributes an additional 5% of the employee's gross salary to the plan. Total retirement expenses charged to operations relating to the plan were approximately $55,000 in 2016 and $59,000 in 2015.

Supplemental benefit plan

The Corporation sponsors an unfunded noncontributory defined supplemental benefit insurance plan that is subject to modification or elimination at the exclusive discretion of the Corporation's Board of Directors, and is not a "vested" benefit. The plan covers employees who were qualified as of June 30, 1999, at which date the plan was closed, which covers six retired employees and their spouses as of June 30, 2016 and 2015.

The plan provides a fixed quarterly stipend to participants for post-Medicare benefit coverage rather than paying post-Medicare claims. The plan also provides dental care benefits and life insurance coverage for participants.

The recording of benefits in these financial statements in accordance with ASC Topic 715, *Compensation - Retirement Benefits*, reflects the Corporation's historical practice of maintaining the plan, but is not an acknowledgement of any legal obligation on the part of the Corporation.

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS (continued)

Supplemental benefit plan (continued)

A summary of the supplemental benefit plan for the Corporation is as follows as of and for the years ended June 30:

	2016	2015
Accumulated benefit obligation	$ 320,853	$ 326,700
Funded status:		
Benefit obligation	$ 320,853	$ 326,700
Fair value of plan assets	-	-
Accrued benefit cost	$ 320,853	$ 326,700
Net periodic benefit costs charged to operations consists of:		
Interest cost	$ 13,200	$ 13,767
Amortization of transition obligation	10,400	10,400
Amortization of net actuarial loss	10,375	11,150
Amortization of prior year service benefit	(22,100)	(22,100)
Net periodic benefit cost	$ 11,875	$ 13,217
Significant activities during the year:		
Employer contributions to the Plan	$ 33,663	$ 33,341
Benefits paid	$ 33,663	$ 33,341
Expected contributions from employer to be made in the next fiscal year:	$ 34,000	$ 33,900
Amounts included in "supplemental benefit plan liability-related changes other than net periodic benefit cost" expected to be recognized in the following year:		
Prior service benefit	$ 22,100	$ 22,100
Transition obligation	$ (10,400)	$ (10,400)
Amortization of net actuarial loss	$ (11,099)	$ (10,750)
Amounts included in unrestricted net assets, but not yet reclassified as components of net periodic benefit cost:		
Unrecognized prior service benefit	$ 176,298	$ 198,398
Unrecognized transition obligation	(62,400)	(72,800)
Unrecognized net actuarial loss	(185,614)	(181,369)
	$ (71,716)	$ (55,771)

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS (continued)

Supplemental benefit plan (continued)

The change in amounts included in unrestricted net assets, but not yet reclassified as components of net periodic benefit costs is as follows:

Balance, July 1, 2014	$ (17,627)
Net actuarial loss due to change in discount rate	(37,594)
Recognition of periodic service benefit due to amendment	(22,100)
Reclassification from amortization of transition obligation	10,400
Reclassification from amortization of net actuarial loss recognized this year	11,150
	(38,144)
Balance, June 30, 2015	(55,771)
Net actuarial loss due to change in discount rate	(14,620)
Recognition of periodic service benefit due to amendment	(22,100)
Reclassification from amortization of transition obligation	10,400
Reclassification from amortization of net actuarial loss recognized this year	10,375
	(15,945)
Balance, June 30, 2015	$ (71,716)

Weighted-average assumptions used to determine the net periodic benefit cost included a discount rate of 3.43% at June 30, 2016 and 4.26% at June 30, 2015.

Benefits expected to be paid by the plan during the ensuing five years are approximately as follows for the years ending June 30:

2017	$ 34,000
2018	$ 34,000
2019	$ 34,100
2020	$ 34,100
2021	$ 34,200
Thereafter	$ 133,500

H) OPERATING LEASES AND LICENSING AGREEMENTS (AS LESSOR/LICENSOR)

The Corporation leases and licenses building and tower space on leased land (see Note I) and owned property, as well as capacity on non-broadcast spectrum to lessees and licensees under unsecured agreements, expiring at various dates, ranging from 2017 to 2026. Some lease and license amounts are prepaid, and unearned portions are included within deferred revenue. With the exception of the spectrum lease, the majority of these agreements are cancellable by either party with one year's notice. Some agreements allow for original terms of up to fifteen years with automatic renewal for up to an additional fifteen-year period. Additionally, some agreements call for the return of prepaid amounts in the event the Corporation cancels the agreement, as specifically defined in the agreements. As of June 30, 2016, noncancellable minimum lease/license payments to be received and gross revenue to be recognized are estimated to be $62,100 in 2017, $64,000 in 2018, $65,900 in 2019, $67,900 in 2020, and $70,000 in 2021.

Following is a summary of property held for lease and license at June 30:

	2016	2015
Buildings and towers	$ 2,147,689	$ 2,103,189
Less accumulated depreciation	1,210,408	1,170,465
	$ 937,281	$ 932,724

Lease and license revenue earned was approximately $1,121,500 in 2016 and $1,041,000 in 2015.

I) OPERATING LEASE COMMITMENTS (AS LESSEE)

The Corporation leases land for mountaintop transmitters and the land upon which the studio and administrative facilities are located ("ground lease") under various operating leases with varying expiration dates and certain agreements, which are cancelable by the lessee according to the terms of the agreements. Agreements for tower leases have expirations dates ranging from September 2020 through December 2023 and the ground lease expires December 2060 requiring annual payments ranging from $2,000 to $51,200. As of June 30, 2016 noncancellable minimum lease payments are $76,800 in 2017, $76,800 in 2018, $76,800 in 2019, $76,800 in 2020, $57,600 in 2021, and $204,800 thereafter.

Rental expense for all leases charged to operations approximated $135,000 in 2016 and $123,000 in 2015.

J) TEMPORARILY RESTRICTED NET ASSETS/CHANGE IN ACCOUNTING PRINCIPLE

During 2016, the Corporation changed its methodology of recognizing revenues related to underwriting agreements from accounting for them as exchange transactions to accounting for them as contributions. Management believes that this methodology is more consistent with industry practice. The effect of the change was to increase temporarily restricted net assets as of July 1, 2014 by $221,269 and increase temporarily restricted net assets for 2015 by $39,172.

Net assets at June 30, 2016 and 2015 consist of amounts pledged and received under corporate underwriting agreements restricted for use in the following fiscal year.

K) BOARD DESIGNATED NET ASSETS

The Board has established three board designated funds for certain purposes, the assets of which are to be used first to satisfy the general obligations of the Corporation and then for purposes designated by the Board. These board designated funds include two funds established for certain purposes by the donors on which the donors granted the Corporation's Board of Directors variance power. This power grants the Board the discretion to utilize the net assets included in the funds for other purposes at its discretion. Board designated funds include the following:

- Frank & Peggy Taplin Fund: The Frank & Peggy Taplin fund was established for the purpose of supporting productions for Local Cultural and Natural Programming.
- Wyant Fund: The Wyant fund was established for the purpose of supporting cross-border programs that address issues within Vermont and Canada.
- Board Designated Fund: The Board Designated Fund was established to meet the needs of the Corporation for purposes at the discretion of the Board.

K) BOARD DESIGNATED NET ASSETS (continued)

The Corporation had the following board designated endowment-related activities:

	Taplin Fund	Wyant Fund	Board Designated Fund	Total
Balance as of July 1, 2014	$ 720,094	$ 356,991	$ 1,130,382	$ 2,207,467
Contributions	100	-	189,350	189,450
Investment gain	22,116	10,895	30,929	63,940
Appropriations	(36,500)	(18,100)	(66,900)	(121,500)
Other	(5,038)	(2,497)	(8,707)	(16,242)
Balance as of June 30, 2015	700,772	347,289	1,275,054	2,323,115
Contributions	1,000	-	17,400	18,400
Investment gain	15,213	7,472	27,582	50,267
Appropriations	(18,200)	(8,900)	-	(27,100)
Other	(4,772)	(2,364)	(8,788)	(15,924)
Balance as of June 30, 2016	$ 694,013	$ 343,497	$ 1,311,248	$ 2,348,758

L) FUNDING AND PROGRAMMING SOURCES

Funding

Operating

The Corporation receives a significant portion of its operating revenue from the state of Vermont and the Corporation for Public Broadcasting (CPB). Any significant reduction in state, federal, or CPB funding would impact the Corporation's ability to provide programs. The Corporation received funding as follows for the years ended June 30:

	2016	2015
State of Vermont	$ 271,103	$ 547,683
Corporation for Public Broadcasting	1,004,113	1,064,855
	$ 1,275,216	$ 1,612,538

L) FUNDING AND PROGRAMMING SOURCES (continued)

Nonoperating

The Corporation receives a significant portion of its nonoperating revenue from the state of Vermont.

During 2016 and 2015, the Corporation received awards from the State of Vermont for the purchase of property and equipment, which permit unexpended amounts to be carried forward to future periods. The amounts of these awards recognized as nonoperating grant revenues were $17,136 in 2016 and $173,143 in 2015. As of June 30, 2016, the Corporation has been notified that the State of Vermont has appropriated up to approximately $9,000 available for future purchases of property and equipment.

Programming

The Corporation obtains most of its broadcast programming from the Public Broadcasting Service (“PBS”). As of June 30, 2016 and 2015, amounts payable to PBS included in accounts payable are approximately $244,000 and $277,000, respectively.

M) RELATED-PARTY TRANSACTIONS

Public Television Association of Quebec

Public Television Association of Quebec (PTAQ) was a Canadian corporation with tax-exempt status as a registered charity. The primary objective of PTAQ was to advance education through the production, distribution, and promotion of noncommercial television programs and films of an educational nature in Canada. PTAQ utilized the Corporation’s accounting system to process its financial data. During 2015, Revenue Canada (the Canadian tax authority) ruled that PTAQ is no longer qualified as a tax-exempt organization and PTAQ’s tax-exempt status was formally revoked in November 2015.

The Corporation has a receivable from PTAQ, included in other receivables, of $40,636 as of June 30, 2015.

During the years ended June 30, 2016 and 2015, PTAQ provided funding to the Corporation in the form of individual memberships, grants, bequests, and corporate underwriting in the following amounts:

	2016	2015
Individual memberships/contributions	$ 25,943	$ 326,300
Bequests	-	22,500
Underwriting	22,957	42,237
	$ 48,900	$ 391,037

SUPPLEMENTAL INFORMATION

VERMONT ETV, INC.

SCHEDULE OF FUNCTIONAL EXPENSES - UNRESTRICTED

YEAR ENDED JUNE 30, 2016

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

	YEAR ENDED JUNE 30, 2016											SUMMARIZED INFORMATION
	Program Services						Support Services					
	Programming	Production	Community Engagement	Engineering	Communications	Total Program Services	Administration	Member Services	Financial Development	Total Support Services	Total Program and Support Services	FOR THE YEAR ENDED JUNE 30, 2015
Salaries	$ 52,030	$ 502,974	$ 61,956	$ 475,218	$ 137,352	$ 1,229,530	$ 288,607	$ 102,952	$ 389,050	$ 780,609	$ 2,010,139	$ 2,004,276
Employee benefits	11,397	130,607	11,444	108,177	22,951	284,576	45,968	28,363	68,743	143,074	427,650	468,473
Payroll taxes	3,840	37,118	4,572	35,070	10,136	90,736	21,298	7,598	29,155	58,051	148,787	157,360
Total salaries and related expenses	67,267	670,699	77,972	618,465	170,439	1,604,842	355,873	138,913	486,948	981,734	2,586,576	2,630,109
Professional services	5,274	76,139	-	74,993	30,254	186,660	115,353	32,518	291,908	439,779	626,439	591,765
Supplies	246	5,317	1,188	7,420	1,460	15,631	5,045	1,312	2,286	8,643	24,274	28,752
Travel	909	19,954	2,704	7,580	2,974	34,121	10,303	-	6,740	17,043	51,164	80,349
Utilities	1,842	23,410	1,842	266,280	9,364	302,738	5,603	7,522	9,364	22,489	325,227	326,794
Communications	2,693	22,151	14,085	57,900	9,099	105,928	26,061	115,475	82,399	223,935	329,863	373,382
Maintenance	2,229	21,079	836	195,769	2,508	222,421	1,896	836	836	3,568	225,989	213,336
Subscriptions/dues	60,547	11,182	378	6,217	3,792	82,116	24,182	-	146,322	170,504	252,620	318,380
Acquisitions	678,508	1,850	-	-	-	680,358	-	-		-	680,358	793,202
Insurance	19,772	18,047	1,949	26,654	11,815	78,237	17,831	6,115	23,521	47,467	125,704	113,050
Bank charges	8,501	15,711	850	10,733	5,048	40,843	14,960	2,550	10,633	28,143	68,986	67,578
Equipment	-	-	-	-	-	-	567	-	-	567	567	540
Miscellaneous	3,706	3,359	371	4,678	2,200	14,314	3,076	1,112	4,653	8,841	23,155	24,818
Provision for unrelated business income tax and related interest	-	-	-	-	-	-	198,783	-	-	198,783	198,783	53,622
Total expenses before depreciation	851,494	888,898	102,175	1,276,689	248,953	3,368,209	779,533	306,353	1,065,610	2,151,496	5,519,705	5,615,677
Depreciation and amortization	-	87,359	-	549,270	-	636,629	3,790	5,218	16,345	25,353	661,982	745,443
Total expenses	$ 851,494	$ 976,257	$ 102,175	$ 1,825,959	$ 248,953	$ 4,004,838	$ 783,323	$ 311,571	$ 1,081,955	$ 2,176,849	$ 6,181,687	$ 6,361,120