FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

AND SUPPLEMENTAL INFORMATION

VERMONT ETV, INC.

JUNE 30, 2017 AND 2016

VERMONT ETV, INC.

JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 3, 2017

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VERMONT ETV, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	2017	2016
CURRENT ASSETS		
Cash	$ 165,033	$ 13,187
Pledges receivable, less allowance for uncollectible pledges of $0 in 2017 and $9,936 in 2016	214,173	280,016
Accounts receivable, less allowance for uncollectible accounts of $875 in 2017 and 2016	132,883	116,410
Prepaid expenses and other	156,141	197,059
Investments	2,077,204	2,390,119
Total current assets	2,745,434	2,996,791
PROPERTY AND EQUIPMENT, net	4,254,915	4,672,547
Total assets	$ 7,000,349	$ 7,669,338
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ 125,333	$ 102,635
Accounts payable	350,436	440,911
Accrued expenses	228,318	202,476
Deferred revenues - current portion	181,069	63,383
Total current liabilities	885,156	809,405
SUPPLEMENTAL BENEFIT PLAN LIABILITY	331,155	320,853
ACCRUED EXPENSES, non-current portion	406,991	374,315
DEFERRED REVENUE, net of current portion	271,250	306,250
LIABILITY UNDER SPLIT-INTEREST AGREEMENTS	32,649	33,886
Total liabilities	1,927,201	1,844,709
NET ASSETS		
Unrestricted	4,677,594	5,451,853
Temporarily restricted	395,554	372,776
Total net assets	5,073,148	5,824,629
Total liabilities and net assets	$ 7,000,349	$ 7,669,338

The accompanying notes are an integral part of these statements.

VERMONT ETV, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	2017			2016*		
		TEMPORARILY			TEMPORARILY	
	UNRESTRICTED	RESTRICTED	TOTAL	UNRESTRICTED	RESTRICTED	TOTAL
SUPPORT AND REVENUE						
Support:						
Contributions	$ 2,209,059	$ -	$ 2,209,059	$ 2,225,002	$ -	$ 2,225,002
Program and production underwriting	42,951	498,315	541,266	107,427	432,776	540,203
Revenue:					-	
Program grants	1,331,606	83,100	1,414,706	1,299,610	110,000	1,409,610
Media services and sales	74,854	-	74,854	81,690	-	81,690
License and lease revenue	1,159,900	-	1,159,900	1,121,556	-	1,121,556
Other	11,948	-	11,948	48,692	-	48,692
Reclassifications:						
Net assets released from restrictions	558,637	(558,637)	-	430,441	(430,441)	-
Total support, revenue and reclassifications	5,388,955	22,778	5,411,733	5,314,418	112,335	5,426,753
PROGRAM EXPENSES						
Programming	849,605	-	849,605	851,494	-	851,494
Production	1,023,266	-	1,023,266	888,898	-	888,898
Community engagement	121,135	-	121,135	102,175	-	102,175
Engineering	1,328,732	-	1,328,732	1,276,689	-	1,276,689
Communications	465,834	-	465,834	248,953	-	248,953
Total program expenses	3,788,572	-	3,788,572	3,368,209	-	3,368,209
EARNINGS FROM OPERATIONS BEFORE SUPPORTING EXPENSES AND DEPRECIATION AND AMORTIZATION EXPENSE	1,600,383	22,778	1,623,161	1,946,209	112,335	2,058,544
SUPPORTING EXPENSES						
Administration	791,218	-	791,218	779,533	-	779,533
Member services	321,852	-	321,852	306,353	-	306,353
Financial development	883,880	-	883,880	1,065,610	-	1,065,610
Total supporting expenses	1,996,950	-	1,996,950	2,151,496	-	2,151,496
EARNINGS (LOSS) FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION EXPENSE	(396,567)	22,778	(373,789)	(205,287)	112,335	(92,952)
DEPRECIATION AND AMORTIZATION EXPENSE	584,352	-	584,352	661,982	-	661,982
EARNINGS (LOSS) FROM OPERATIONS	(980,919)	22,778	(958,141)	(867,269)	112,335	(754,934)
OTHER INCOME (LOSS)						
Interest and dividend income	56,592	-	56,592	67,538	-	67,538
Net gain (loss) on investments	172,515	-	172,515	(18,463)	-	(18,463)
Nonoperating grant revenues	9,068	-	9,068	17,136	-	17,136
Total other income	238,175	-	238,175	66,211	-	66,211
CHANGE IN NET ASSETS BEFORE EFFECT OF SUPPLEMENTAL BENEFIT LIABILITY ADJUSTMENT	(742,744)	22,778	(719,966)	(801,058)	112,335	(688,723)
Supplemental benefit plan liability - related changes other than net periodic benefit cost	(31,515)	-	(31,515)	(15,941)	-	(15,941)
INCREASE (DECREASE) IN NET ASSETS	(774,259)	22,778	(751,481)	(816,999)	112,335	(704,664)
NET ASSETS, BEGINNING OF YEAR	5,451,853	372,776	5,824,629	6,268,852	260,441	6,529,293
NET ASSETS, END OF YEAR	$ 4,677,594	$ 395,554	$ 5,073,148	$ 5,451,853	$ 372,776	$ 5,824,629

*Reclassified for comparative purposes

The accompanying notes are an integral part of these statements.

VERMONT ETV, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	2017	2016
INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (751,481)	$ (704,664)
Adjustments to reconcile decrease in net assets to cash used in operating activities:		
Net realized and unrealized (gain) loss on investments	(172,515)	18,463
Interest and dividend income reinvested	(56,592)	(67,538)
Depreciation and amortization	584,352	661,982
Supplemental benefit plan liability	45,072	27,816
Changes in assets and liabilities:		
Receivables	49,370	(113,954)
Other current assets	40,918	(5,585)
Accounts payable	(90,475)	(112,474)
Liability under split-interest agreements	(1,237)	(1,244)
Accrued expenses	58,518	185,435
Deferred revenues	82,686	(158,925)
Supplemental benefit plan liability	(34,770)	(33,663)
Grants received for long-term purposes	(9,068)	(17,136)
	496,259	383,177
Net cash used in operating activities	(255,222)	(321,487)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(58,083)	(19,710)
Net proceeds from sale of investments	600,105	48,013
Capital acquisitions	(166,720)	(92,203)
Net cash provided by (used in) investing activities	375,302	(63,900)
Subtotal (forward)	$ 120,080	$ (385,387)

(CONTINUED)

VERMONT ETV, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	2017	2016
Subtotal (forwarded)	$ 120,080	$ (385,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	22,698	102,635
Grants received for long-term purposes	9,068	17,136
Net cash provided by financing activities	31,766	119,771
Net increase (decrease) in cash	151,846	(265,616)
CASH, beginning of year	13,187	278,803
CASH, end of year	$ 165,033	$ 13,187

<u>Supplemental Disclosures of Cash Flows Information</u>

Cash paid during the year for:		
Interest expense	$ 731	$ 1,255
Income taxes	$ 6,779	$ 16,976

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 noncommercial content online through the world wide web and through direct community engagement, and broadcasts noncommercial content over a variety of spectrum under licenses issued by the Federal Communications Commission. 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 of Vermont, and contracts for the use of these facilities with other commercial and noncommercial entities 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. Basis of presentation

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

2. Cash and cash equivalents

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. Revenue recognition

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 di 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) are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted are reported as increases 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.

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).

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. 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.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. 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 $39,000 in 2017 and $36,000 in 2016.

6. Accounts and pledges 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.

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.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

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.

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.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Fair value measurements (continued)

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, 2017 and 2016, 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.

8. 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.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

9. 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.

10. 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.

11. Income taxes – other accrued expenses

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 $3,000 in 2017 and $15,000 in 2016.

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 as other accrued expenses – non-current portion in the amounts of approximately $339,000 and $302,000 at June 30, 2017 and 2016, respectively. The Corporation has also included in the provision for unrelated business income taxes amounts, which includes interest and penalties associated with unrecognized tax benefits, totalling approximately $29,000 in 2017 and $126,000 in 2016 for this potential matter. Interest and penalties associated with unrecognized tax benefits totalling approximately $8,000 in 2017 and $57,000 in 2016, are classified as additional income taxes in administration expenses in the statements of activities.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

11. 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, 2014.

12. 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)

12. 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.

13. 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)

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 3, 2017, 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 for years beginning after December 15, 2019, 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 years beginning after December 15, 2017.

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 for years beginning after December 15, 2018.

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:

	2017	2016
Gross pledges receivable	$ 214,173	$ 289,952
Less allowance for uncollectible pledges	-	9,936
	$ 214,173	$ 280,016

C) INVESTMENTS

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

	2017	2016
Cash and cash equivalents	$ 45,914	$ 162,616
Mutual funds:		
Stock funds	1,311,814	1,368,569
Bond funds	719,476	858,934
	2,031,290	2,227,503
	$ 2,077,204	$ 2,390,119

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

	2017	2016
Interest and dividend income	$ 56,592	$ 67,538
Net realized and unrealized gain (loss) on investments	172,515	(18,463)
	$ 229,107	$ 49,075

D) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2017	2016
Building and improvements	$ 3,270,000	$ 3,188,322
Production and transmission equipment	10,211,951	10,153,731
Other equipment, furniture and fixtures	426,746	399,924
	13,908,697	13,741,977
Less accumulated depreciation and amortization	9,653,782	9,069,430
	$ 4,254,915	$ 4,672,547

E) LINE OF CREDIT

The Corporation has available a $350,000 line of credit with Community Bank, expiring in December 2017. Interest is payable at the Wall Street Journal prime rate (4.25% at June 30, 2017) plus .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 2017 and 2016. The total estimated liabilities under split-interest agreements were approximately $33,000 at June 30, 2017 and $34,000 at June 30, 2016.

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 one year 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 $54,000 in 2017 and $55,000 in 2016.

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS (continued)

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 Director's, 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, 2017 and 2016.

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. The liability is based on an actuarial valuation as of the beginning of the year.

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

	2017	2016
Accumulated benefit obligation	$ 331,155	$ 320,853
Funded status:		
Benefit obligation	$ 331,155	$ 320,853
Fair value of plan assets	-	-
Accrued benefit cost	$ 331,155	$ 320,853
Net periodic benefit costs charged to operations consists of:		
Interest cost	$ 11,399	$ 13,200
Amortization of transition obligation	10,400	10,400
Amortization of net actuarial loss	13,857	10,375
Amortization of prior year service benefit	(22,100)	(22,100)
Net periodic benefit cost	$ 13,556	$ 11,875
Significant activities during the year:		
Employer contributions to the Plan	$ 34,770	$ 33,663
Benefits paid	$ 34,770	$ 33,663
Expected contributions from employer to be made in the next fiscal yea	$ 33,800	$ 34,000

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS (continued)

Supplemental benefit plan (continued)

	2017	2016
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	$ (13,837)	$ (11,099)
Amounts included in unrestricted net assets, but not yet reclassified as components of net periodic benefit cost:		
Unrecognized prior service benefit	$ 154,200	$ 176,298
Unrecognized transition obligation	(52,000)	(62,400)
Unrecognized net actuarial loss	(205,431)	(185,614)
	$ (103,231)	$ (71,716)

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, 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, 2016	(71,716)
Net actuarial loss due to change in discount rate	(33,672)
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	13,857.00
	(31,515)
Balance, June 30, 2017	$ (103,231)

G) RETIREMENT AND SUPPLEMENTAL BENEFIT PLANS (continued)

Supplemental benefit plan (continued)

Weighted-average assumptions used to determine the net periodic benefit cost included a discount rate of 3.60% at June 30, 2017 and 3.43% at June 30, 2016.

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

2018	$ 33,800
2019	$ 33,900
2020	$ 33,900
2021	$ 34,000
2022	$ 34,000
Thereafter	$ 140,300

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 a lessee under an unsecured agreement, 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, 2017, noncancellable minimum lease/license payments to be received and gross revenue to be recognized are estimated to be $64,000 in 2018, $65,900 in 2019, $67,900 in 2020, $69,900 in 2021, and $36,000 in 2022.

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

	2017	2016
Buildings and towers	$ 2,203,056	$ 2,147,689
Less accumulated depreciation	1,249,036	1,210,408
	$ 954,020	$ 937,281

Lease and license revenue earned was approximately $1,159,900 in 2017 and $1,121,500 in 2016.

I) OPERATING LEASE COMMITMENTS (AS LESSEE)/ASSET RETIREMENT OBLIGATION

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. Expiration dates range from September 2020 through December 2023, and the ground lease expires December 2060. Annual payments range from $2,000 to $51,200. Certain agreements are cancelable by the lessee according to the terms of the agreement. As of June 30, 2017, noncancellable minimum lease payments are approximately $137,000 in 2018, $137,000 in 2019, $137,000 in 2020, $125,500 in 2021, $121,800 in 2022, and $329,500 thereafter.

Rental expense for all leases charged to operations approximated $153,000 in 2017 and $135,000 in 2016.

The Corporation is required to return the properties "to a natural state" in the event that the Corporation terminates the leases. No amounts have been included in the financial statements for these costs due to the uncertainty of timing and the cost is not estimable at June 30, 2017 and 2016.

J) NET ASSETS

Unrestricted - Board Designated

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.

J) NET ASSETS (continued)

Unrestricted - Board Designated (continued)

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

	Taplin Fund	Wyant Fund	Board Designated Fund	Total
Balance as of July 1, 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
Contributions	100	-	71,248	71,348
Investment gain	76,001	37,494	116,272	229,767
Appropriations	(35,700)	(17,600)	(540,900)	(594,200)
Other	(4,954)	(2,451)	(7,421)	(14,826)
Balance as of June 30, 2017	$ 729,460	$ 360,940	$ 950,447	$ 2,040,847

Temporarily Restricted

Net assets at June 30, 2017 and 2016 consist of amounts pledged and received under corporate underwriting agreements restricted for use in the following fiscal year and production grants restricted for use according to the terms of the agreements:

	2017	2016
Corporate underwriting agreements	$ 215,016	$ 262,776
Production grants	118,538	110,000
Pledges receivable, other	62,000	-
	$ 395,554	$ 372,776

K) FUNDING AND PROGRAMMING SOURCES

Funding

The Corporation received a significant portion of its operating revenue from the state of Vermont and the Corporation for Public Broadcasting (CPB). The Corporation received funding as follows for the years ended June 30:

	2017	2016
State of Vermont	$ 271,103	$ 271,103
Corporation for Public Broadcasting	1,032,016	1,004,113
	$ 1,303,119	$ 1,275,216

Management expects that there will be no funding from the State of Vermont in 2018 and does not expect any impact on the Corporation's ability to provide programs due to proceeds received from a "spectrum auction" in 2018 (see Note L).

Programming

The Corporation obtains most of its broadcast programming from the Public Broadcasting Service ("PBS"). As of June 30, 2017 and 2016, amounts payable to PBS included in accounts payable are $0 and approximately $244,000, respectively.

L) SUBSEQUENT EVENT/REVERSE AUCTION CONDUCTED BY THE FEDERAL COMMUNICATIONS COMMISSION

The Corporation participated in a “spectrum auction” (auction) conducted by the Federal Communications Commission (“FCC”) culminating in April 2017 as part of the FCC’s larger scope program to repackage certain spectrum. The FCC offered voluntary participant sellers to submit for auction certain licenses to use spectrum, which the FCC would then arrange to be purchased by participating buyers. In conjunction with the auction, the FCC also imposed involuntary channel reassignments of licenses to use spectrum in its overall nationwide repackaging plan.

As a result of the auction, the Corporation irrevocably agreed to relinquish control of one license to use spectrum in exchange for gross proceeds of approximately $56 million, from which the Corporation also paid selling costs of approximately $1.2 million. The terms of the auction agreements allow the Corporation the use of the relinquished spectrum until 180 days after the receipt of proceeds from the FCC, subject to review by the FCC on request of the Corporation. The payment was received by the Corporation in July 2017.

The FCC has also issued an order requiring channel reassignment of two spectrum licenses held by Vermont ETV, Inc. New equipment or construction of new facilities is required to implement the channel reassignments. The investment to comply with these requirements will be incurred in fiscal year 2018. The FCC has established a fund to reimburse licensees up to 90% of the qualified costs of equipment and construction.

Due to the nature of the auction agreements, the Corporation concluded that the transfer of ownership and control of the relinquished spectrum license does not occur until payment is received and use of the licensed spectrum discontinued. Consequently, the gain of approximately $55 million will be reflected in the 2018 statement of activities.

SUPPLEMENTAL INFORMATION

VERMONT ETV, INC.

SCHEDULE OF FUNCTIONAL EXPENSES - UNRESTRICTED

YEAR ENDED JUNE 30, 2017

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	YEAR ENDED JUNE 30, 2017												SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016
	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		
Salaries	$ 53,207	$ 491,834	$ 73,156	$ 477,276	$ 215,622	$ 1,311,095	$ 289,303	$ 107,935	$ 363,617	$ 760,855	$ 2,071,950		$ 2,010,139
Employee benefits	11,022	128,578	16,634	128,799	32,214	317,247	53,226	27,936	59,541	140,703	457,950		427,650
Payroll taxes	3,971	36,709	5,460	35,623	16,093	97,856	21,592	8,056	27,139	56,787	154,643		148,787
Total salaries and related expenses	68,200	657,121	95,250	641,698	263,929	1,726,198	364,121	143,927	450,297	958,345	2,684,543		2,586,576
Professional services	358	173,318	300	71,671	60,904	306,551	272,812	13,028	200,981	486,821	793,372		626,439
Supplies	290	14,323	1,433	5,957	654	22,657	3,931	844	2,531	7,306	29,963		24,274
Travel	1,799	42,100	2,203	13,287	3,216	62,605	13,425	71	8,073	21,569	84,174		51,164
Utilities	3,705	22,203	2,470	278,888	7,401	314,667	9,871	7,401	11,105	28,377	343,044		325,227
Communications	1,649	23,692	13,436	58,241	78,299	175,317	27,763	128,532	82,703	238,998	414,315		329,863
Maintenance	2,206	21,458	827	197,627	2,482	224,600	1,642	827	828	3,297	227,897		225,989
Subscriptions/dues	66,541	8,966	668	6,801	26,585	109,561	28,003	1,249	94,107	123,359	232,920		252,620
Acquisitions	674,659	11,175	-	-	-	685,834	-	-	-	-	685,834		680,358
Insurance	18,579	30,202	2,963	36,336	15,226	103,306	14,884	16,937	22,660	54,481	157,787		125,704
Bank charges	8,715	15,413	1,280	13,671	5,354	44,433	12,965	6,778	7,748	27,491	71,924		68,986
Miscellaneous	2,904	3,295	305	4,555	1,784	12,843	2,346	2,258	2,847	7,451	20,294		23,722
Provision for unrelated business income tax and related interest	-	-	-	-	-	-	39,455	-	-	39,455	39,455		198,783
Total expenses before depreciation	849,605	1,023,266	121,135	1,328,732	465,834	3,788,572	791,218	321,852	883,880	1,996,950	5,785,522		5,519,705
Depreciation and amortization	-	89,887	-	469,860	1,638	561,385	2,147	5,218	15,602	22,967	584,352		661,982
Total expenses	$ 849,605	$ 1,113,153	$ 121,135	$ 1,798,592	$ 467,472	$ 4,349,957	$ 793,365	$ 327,070	$ 899,482	$ 2,019,917	$ 6,369,874		$ 6,181,687