

**SHENANDOAH VALLEY EDUCATIONAL
TELEVISION CORPORATION**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014



ASSURANCE, TAX & ADVISORY SERVICES

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

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Neal Menefee
Stephen Davis
Richard Parker
Donna McCurdy

Chairman
Vice Chairman
Secretary
Treasurer

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Mary Maclin Weems
Karen Wigginton

General Manager

David Mullins

*Emeritus Board Member

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shenandoah Valley Educational Television Corporation
Harrisonburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Shenandoah Valley Educational Television Corporation which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Valley Educational Television Corporation as of June 30, 2014 and 2013, and the change in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

PB/Mares, LLP

Harrisonburg, Virginia
October 1, 2014

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 501,008	\$ 219,358
Receivables, net	196,080	89,456
Prepaid expenses	71,468	45,336
Investments	8,927,949	959,699
Broadcast and duplication rights	115,372	106,732
Property and equipment	2,396,767	3,609,887
Unamortized land lease rights	-	721,118
Total assets	\$ 12,208,644	\$ 5,751,586
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 118,495	\$ 586,001
Accounts payable	92,139	53,136
Accrued expenses	68,042	68,861
Deferred operating revenue	196,458	199,586
Deferred revenue for capital additions	1,417,947	2,234,713
Deposit on spectrum auction	7,000,000	-
Total liabilities	8,893,081	3,142,297
Commitments and Contingencies		
Net Assets		
Unrestricted:		
Undesignated, available for general operations	2,475,009	1,046,768
Designated by Board of Directors	771,351	781,396
Temporarily restricted	69,203	781,125
Total net assets	3,315,563	2,609,289
Total liabilities and net assets	\$ 12,208,644	\$ 5,751,586

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

STATEMENTS OF ACTIVITIES
Year Ended June 30, 2014 and 2013

	2014	2013
Change in Unrestricted Net Assets		
Revenues, gains and other support:		
Grants:		
CPB Community Service Contract	\$ 733,708	\$ 728,546
City, county and other grants	2,800	7,059
Memberships and donations	687,628	712,569
Program underwriting	272,135	281,830
Tower rental income	210,809	200,476
Outreach programs	19,524	48,840
Production and programming	98,029	42,792
Moss print income	27,755	30,534
Auction income	18,979	31,815
Other development projects	76,057	69,115
Educational service and other revenue	6,350	19,993
Investment gain	228,897	111,905
Gain on sale of fixed assets, net of amortization write-off	328,584	-
Amortization of deferred revenue from capital grants	816,766	1,284,040
Net assets released from expiration of purpose restrictions	39,804	32,634
Net assets released from expiration of time restrictions	746,357	66,600
Total unrestricted revenues, gains and other support	4,314,182	3,668,748
Expenses:		
Program services:		
Programming and production	690,740	736,586
Broadcasting	862,538	1,569,650
Program information	262,603	230,716
Fundraising and development	509,969	556,396
Administration	570,136	538,250
Total expenses	2,895,986	3,631,598
Change in unrestricted net assets	1,418,196	37,150
Change in Temporarily Restricted Net Assets		
Kids Book Festival contributions	49,000	38,500
Programming contributions	-	4,750
Change in time value of land use rights	25,239	44,587
Net assets released from purpose restrictions	(39,804)	(48,817)
Net assets released from time restrictions	(746,357)	(66,600)
Change in temporarily restricted net assets	(711,922)	(27,580)
Change in net assets	706,274	9,570
Net Assets, beginning	2,609,289	2,599,719
Net Assets, ending	\$ 3,315,563	\$ 2,609,289

See Notes to Financial Statements.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services		
	Programming and Production	Broadcasting	Program Information
Salaries and wages	\$ 137,440	\$ 101,637	\$ 97,027
Employee benefits and other personnel costs	13,684	16,421	20,527
Broadcast rights	408,831	-	-
Travel and training	521	4,771	2,026
Maintenance and repairs	4,579	74,347	1,343
Operating supplies	4,221	1,024	4,008
Utilities and communication	43,394	113,481	13,396
Fees and dues	7,854	552	-
Contracted services	44,454	75,578	30,980
Postage and freight	295	885	819
Advertising and promotion	-	-	86,404
Depreciation	37,541	455,873	2,910
Insurance	9,110	7,680	2,672
Rent	179	36,965	491
Other	-	-	-
	<u>712,103</u>	<u>889,214</u>	<u>262,603</u>
Allocation of joint activity costs	<u>(21,363)</u>	<u>(26,676)</u>	<u>-</u>
	<u>\$ 690,740</u>	<u>\$ 862,538</u>	<u>\$ 262,603</u>

See Notes to Financial Statements.

Total Program Services	Fundraising and Development	Administration	Total
\$ 336,104	\$ 146,525	\$ 164,174	\$ 646,803
50,632	31,474	54,738	136,844
408,831	-	-	408,831
7,318	4,080	3,448	14,846
80,269	3,448	5,110	88,827
9,253	94,698	6,171	110,122
170,271	31,139	17,522	218,932
8,406	1,614	14,706	24,726
151,012	90,577	152,908	394,497
1,999	20,258	17,477	39,734
86,404	-	-	86,404
496,324	6,614	8,064	511,002
19,462	6,860	10,165	36,487
37,635	1,161	77,998	116,794
-	23,482	37,655	61,137
1,863,920	461,930	570,136	2,895,986
(48,039)	48,039	-	-
\$ 1,815,881	\$ 509,969	\$ 570,136	\$ 2,895,986

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013

	Program Services		
	Programming and Production	Broadcasting	Program Information
Salaries and wages	\$ 138,233	\$ 108,020	\$ 92,784
Employee benefits and other personnel costs	12,983	16,878	18,177
Broadcast rights	459,334	-	-
Travel and training	440	4,026	56
Maintenance and repairs	11,190	69,831	2,382
Operating supplies	1,040	899	2,606
Utilities and communication	39,345	111,152	9,627
Fees and dues	7,498	521	-
Contracted services	25,883	53,570	26,425
Postage and freight	317	586	2,008
Advertising and promotion	-	-	69,808
Depreciation	52,869	1,209,618	4,241
Insurance	10,068	7,792	2,143
Rent	167	34,897	459
Other	-	406	-
	<u>759,367</u>	<u>1,618,196</u>	<u>230,716</u>
Allocation of joint activity costs	(22,781)	(48,546)	-
	<u>\$ 736,586</u>	<u>\$ 1,569,650</u>	<u>\$ 230,716</u>

See Notes to Financial Statements.

Total Program Services	Fundraising and Development	Administration	Total
\$ 339,037	\$ 161,446	\$ 153,123	\$ 653,606
48,038	32,458	58,166	138,662
459,334	-	-	459,334
4,522	5,103	2,725	12,350
83,403	8,484	11,161	103,048
4,545	94,575	5,808	104,928
160,124	26,249	13,689	200,062
8,019	1,467	16,271	25,757
105,878	90,330	132,281	328,489
2,911	21,402	4,859	29,172
69,808	-	-	69,808
1,266,728	9,639	11,161	1,287,528
20,003	7,633	10,043	37,679
35,523	1,085	69,021	105,629
406	25,198	49,942	75,546
2,608,279	485,069	538,250	3,631,598
(71,327)	71,327	-	-
\$ 2,536,952	\$ 556,396	\$ 538,250	\$ 3,631,598

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

STATEMENTS OF CASH FLOWS

June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from members and donors	\$ 630,004	\$ 751,114
Cash received from grants	736,508	735,605
Cash received from underwriters	270,610	285,308
Cash received from special events and other sources	455,900	530,519
Interest and dividends	98,856	24,063
Cash paid to employees and vendors	(2,342,722)	(2,313,122)
Net cash provided by (used in) operating activities	(150,844)	13,487
Cash Flows From Investing Activities		
Purchase of equipment	(638,126)	(30,488)
Proceeds from sale of assets	2,376,335	-
Proceeds from sale of investments	162,760	378,408
Deposit on spectrum sale	7,000,000	-
Purchase of investments	(8,000,969)	(203,519)
Net cash provided by investing activities	900,000	144,401
Cash Flows From Financing Activities		
Net borrowings (repayments) on line of credit	(467,506)	28,534
Principal payments on notes payable	-	(4,938)
Net cash provided by (used in) financing activities	(467,506)	23,596
Net increase (decrease) in cash and cash equivalents	281,650	181,484
Cash and Cash Equivalents:		
Beginning	219,358	37,874
Ending	\$ 501,008	\$ 219,358

(Continued)

See Notes to Financial Statements.

	2014	2013
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 706,274	\$ 9,570
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	511,002	1,287,528
Unrealized gain on sale of assets	(1,036,091)	-
Unrealized gain on investments	(130,041)	(87,842)
Change in present value of contributed land lease rights	(25,239)	(44,587)
Amortization of land lease rights	746,357	66,600
Amortization of deferred grant revenue	(816,766)	(1,284,040)
Decrease (increase) in:		
Receivables	(106,624)	11,478
Prepaid expenses and broadcast and duplication rights	(34,772)	7,352
Increase (decrease) in:		
Accounts payable and accrued expenses	38,184	(43,004)
Deferred operating revenue	(3,128)	90,432
Net cash provided by (used in) operating activities	\$ (150,844)	\$ 13,487
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 14,884	\$ 23,046

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: Shenandoah Valley Educational Television Corporation (the Organization) is a not-for-profit corporation whose primary operations consist of producing and broadcasting educational (public) television programs in and around the Shenandoah Valley, Central Virginia, Northern Virginia, and parts of the District of Columbia. Originating from its studio in Harrisonburg, the Organization broadcasts over its television stations, WVPT in Staunton and WVPY in Front Royal, and five translators.

The Organization receives a significant amount of its funding from state and federal governments. A significant reduction in the level of this support, if it were to occur, could have a significant effect on the Organization's activities.

A summary of the Organization's significant accounting policies follows:

Support and revenue recognition: Unrestricted contributions including unconditional promises to give are recognized as revenue when the pledge is received. Operating grants are recognized in the applicable grant period. Grants for specific projects and activities are recognized as revenue when expended. Grants for construction or acquisition of property and equipment are initially recorded as deferred revenue and amortized to income over the estimated aggregate lives of the assets related to the grant(s). Contributions restricted by donors and not yet expended or available for expenditure, if any, are reported as temporarily or permanently restricted net assets. Revenue from leases, rentals and underwriting contracts is recorded in the period earned.

The Organization receives donated items that are sold during annual auctions. The amount of revenue recognized by the Organization approximates the fair value of those items.

Cash and cash equivalents: The Organization considers demand deposits, money market accounts, and other investments with a maturity of less than three months when purchased to be cash equivalents. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Receivables: Receivables consist principally of membership subscriptions, certain grant receivables, and amounts for underwriting and miscellaneous receivables. They are carried at original amounts billed, less an estimate for doubtful receivables based on periodic review by management. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to certain types of receivables, primarily membership subscriptions. Receivables are written off when deemed uncollectible. Recoveries of amounts previously written off are recorded when received.

Broadcast and duplication rights: The costs of purchased broadcast rights are capitalized and charged to operating expenses over the length of the license period based upon the estimated number of future showings, which is generally less than one year. Contributions of rights to duplicate artwork for resale are capitalized and charged to expense as the prints are sold.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Investments: Investments in mutual funds are stated at fair value as determined by quoted market prices. Purchases and sales of securities are recorded on a trade date basis; dividends are recorded as of the ex-dividend date. See Note 4 for additional information on fair value measurement.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Property and equipment: Property and equipment are stated at cost. Equipment donated by the Public Broadcasting Service is included at the fair market value of the equipment as of the date of the donation. Depreciation is determined by the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	5-27 years
Transmitter, towers and antennas	5-25 years
Other broadcasting equipment	5-10 years
Office furniture and equipment	3-10 years
Vehicles	5-7 years

Depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Deferred revenue: Deferred operating revenue consists of advance grant payments, advance rental payments and the unearned portion of underwriting support. Deferred revenue for capital additions represents capital expenditure grants, which are recognized as revenue as the related assets are depreciated (as described in Note 5).

Functional allocation of expenses: Program, fundraising, and administrative costs have been summarized on a functional basis in the statements of activities. Certain direct costs have been charged to programs and supporting services on the basis of the activity benefited. The Organization's production and broadcasting activities and certain program information materials include fundraising appeals. Accordingly, joint costs are allocated to fundraising as displayed in the statements of functional expenses.

Advertising: Advertising costs are expensed as incurred.

Retirement plan: The Organization sponsors a 401(k) defined contribution retirement plan, which allows for contributions by employees as well as the Organization, covering substantially all employees. The Organization may match a portion of elective employee contributions to the plan and/or make additional contributions at the discretion of the Board of Directors. There were no employer contributions for retirement plan expense for each of the years ended June 30, 2014 or 2013.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Income taxes: The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an educational organization which qualifies donations to the Organization as charitable contributions for tax purposes. Unrelated business income, primarily tower rental, is taxable to the Organization. The Organization follows the provisions of accounting for uncertainty in income tax positions as required by the Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification; however, management does not believe it is exposed to any such positions as they are defined in this guidance. Annually, the Organization files information and unrelated business income tax returns with the United States Department of Treasury, and a corporate income tax return with the Commonwealth of Virginia. Such returns for the tax years ended June 30, 2011 through 2014 remain open to potential examination by taxing authorities.

Estimates and assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: Subsequent events have been evaluated through October 1, 2014, which was the date the financial statements were available to be issued.

Note 2. Receivables

Receivables at June 30, 2014 and 2013 consist of the following:

	2014	2013
Contributions receivable	\$ 46,202	\$ 23,514
Grants and other receivables	162,058	78,122
	<u>208,260</u>	<u>101,636</u>
Less allowance for doubtful accounts	12,180	12,180
	<u>\$ 196,080</u>	<u>\$ 89,456</u>

Contributions receivable are expected to be collected within one year.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments

Investments carried at fair value as determined by quoted market prices, consist of the following mutual funds and securities at June 30, 2014 and 2013:

	2014	2013
American Funds AMCAP Fund	\$ 100,665	\$ 76,996
American Funds American Balanced Fund	149,198	129,598
American Funds Capital Income Builder	96,879	98,322
American Funds Fundamental Investors	109,526	113,662
American Funds Global Balanced Fund	102,976	99,954
American Funds Growth Fund of America	95,895	75,992
American Funds Investment Co of America Fund	90,892	72,545
American Funds Money Market (included in cash equivalents)	110,289	110,289
American Funds Short-term Bond Fund	34,735	34,394
American Funds SMALLCAP World A	51,209	-
Bank Baroda Certificate of Deposit	-	61,881
Federated International Leaders Fund	50,810	-
Goldman Sachs Income Builder	124,448	-
Goldman Sachs Strategic Income	121,240	-
Guggenheim S&P 500 Equal Weighted Index	104,556	-
Hotchkis & Wiley Mid Cap C.	53,728	-
Loomis Sayles Bond Fund II	101,958	-
Lord Abbett Short Duration Income	61,582	60,343
PIMCO Income Fund	70,938	68,049
PIMCO Investment Corporate bond	44,864	67,963
Thompson Bond Fund	100,000	-
U.S. Treasuries	7,001,760	-
Vanguard Index ETF	104,069	-
Vanguard Mid-Cap ETF	52,215	-
Vanguard Total Stock Market ETF	103,806	-
	\$ 9,038,238	\$ 1,069,988

The following schedule summarizes the investment returns in the Statements of Activities for the years ended June 30, 2014 and 2013:

	2014	2013
Interest on short-term investments	\$ 153	\$ 10
Income and dividends on mutual funds	22,836	24,053
Net investment gain (loss)	205,908	87,842
	\$ 228,897	\$ 111,905

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that priorities the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair market value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Input to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in active markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2014 and 2013.

Investments: Mutual funds valued at the closing price reported on the active market on which the mutual funds are sold.

Certificate of Deposit: The certificate of deposit is valued by the selling broker based on prices of similar instruments.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

The following is a summary of the Organization's financial assets that were recorded at fair value on a recurring basis during the year, by level, within the fair value hierarchy:

	Assets at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Mid Cap Value	\$ 124,448	\$ -	\$ -	\$ 124,448
Mid Cap Blended	104,069	-	-	104,069
Mid Cap Growth	44,864	-	-	44,864
Money Markets	-	110,289	-	110,289
Large Cap Value	241,140	-	-	241,140
Large Cap Blended	7,616,453	-	-	7,616,453
Large Cap Growth	149,198	-	-	149,198
Short-Term Bonds	275,875	-	-	275,875
Intermediate Term Bonds	268,096	-	-	268,096
U.S. Treasuries	103,806	-	-	103,806
Total investments at fair value	\$ 8,927,949	\$ 110,289	\$ -	\$ 9,038,238

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Money Markets	\$ -	\$ 110,289	\$ -	\$ 110,289
Large Cap Value	98,322	-	-	98,322
Large Cap Blended	415,759	-	-	415,759
Large Cap Growth	152,988	-	-	152,988
Short-Term Bonds	94,737	-	-	94,737
Intermediate Term Bonds	136,012	-	-	136,012
Certificate of Deposit	-	61,881	-	61,881
Total investments at fair value	\$ 897,818	\$ 171,170	\$ -	\$ 1,069,988

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment

Property and equipment consists of the following at June 30, 2014 and 2013:

	2013	2012
Buildings	\$ 954,726	\$ 3,506,307
Transmitter, towers and antennas	4,373,448	6,217,295
Other broadcasting equipment	3,102,278	5,488,175
Office furniture and equipment	181,562	119,772
Vehicles	93,859	93,859
	<u>8,705,873</u>	<u>15,425,408</u>
Less accumulated depreciation	<u>6,309,106</u>	<u>11,815,521</u>
	<u>\$ 2,396,767</u>	<u>\$ 3,609,887</u>

The Organization has received equipment grants from federal agencies which have been used to cover the cost of specific items of equipment. The federal agencies have a lien on this equipment for a period of ten years from the date of acquisition. If during the ten-year period certain conditions are not met, or the equipment is disposed of, the Organization could be required to refund a portion of the grant proceeds to the granting agency. The net book value of these assets is approximately \$1,418,000 and \$2,234,000 at June 30, 2014 and 2013, respectively.

All tower lease agreements require the Organization to return the leased land to a pristine condition in the event the leases are terminated. Management is unable to estimate the remedial costs that would be incurred to return land to a pristine condition. Management intends to renew all tower lease agreements indefinitely; therefore, management cannot reasonably estimate a timeframe in which those costs would be incurred. The accompanying financial statements do not include any adjustments if and when these agreements are terminated.

Note 6. Line of Credit

The Organization has a bank line of credit for borrowings to a maximum of \$700,000. A portion of this line, \$118,495 and \$156,001 at June 30, 2014 and 2013, respectively, is scheduled to be repaid in minimum monthly installments of \$3,566, including interest at 5.1% annually, with a final payment due May 2017. This portion of the line is collateralized by all personal property of the Organization. The remaining outstanding balances on the line of credit were \$-0- and \$430,000 at June 30, 2014 and 2013, respectively. The line of credit accrues interest at prime rate plus 0.65% and is also subject to a floor of 5.0%. The remaining balance of the line of credit is unsecured with principal due on demand and interest payable monthly.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 6. Line of Credit (Continued)

Future minimum principal payments on the amortizing portion of the line at June 30, 2014 are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2015	\$ 39,041
2016	40,530
2017	38,824

Note 7. Unrestricted Net Assets

Unrestricted net assets consist of designated and undesignated amounts. Undesignated amounts are available for general operations. Designated amounts are assigned by the Board for specific purposes.

The designated amounts consist of the Artistic and Cultural Enrichment Fund (Moss Fund). The Moss Fund, which was initiated from the annual sale of art work donated by P. Buckley Moss, is designated to support television programs promoting artistic excellence and cultural awareness.

The change in designated amounts is summarized as follows:

	<u>2014</u>	<u>2013</u>
Designations	\$ 27,755	\$ 30,534
Expenditures	(37,800)	(33,441)
	<u>(10,045)</u>	<u>(2,907)</u>
Designated net assets, beginning	781,396	784,303
Designated net assets, ending	<u>\$ 771,351</u>	<u>\$ 781,396</u>

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions for the Kids Book Festival and donor requested programming.

Net assets were released through expiration of time restrictions in the amount of the annual rental value of the above mentioned land use rights. Additionally, net assets were released through the expiration of purpose restrictions related to expenses incurred for the Kids Book Festival program and donor requested programming aired during the year.

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 9. Contributions and Donated Personnel Services

In-kind contributions during the year ended June 30, 2014 and 2013 consisting of professional services, advertising, materials, and other items, totaled \$88,404 and \$69,808, respectively.

The Organization received donated personnel services for volunteer and student workers in relation to various fundraising activities for the years ended June 30, 2014 and 2013. These services do not meet the criteria for recognition in the financial statements.

Note 10. Leases

The Organization entered into a lease for copiers and office equipment in March 2009. The lease term has expired in prior years and the lease is currently paid on a month-to-month basis.

The Organization has rented land in two different locations in order to facilitate the usage of towers. One of these leases expired during the current year. The second lease will expire on June 1, 2016 and requires a payment of a base rent of \$1,500 plus an annual consumer price index adjustment.

A lease was signed by the Organization in order to rent a tower and related equipment for broadcasting purposes. The original lease term was for five years and included two optional five year renewals. The second renewal period will expire on January 30, 2018 and requires a payment of \$1,680 plus an increase of 3.6% annually.

The Organization entered into an agreement in January 2014 to outsource master control services to Commonwealth Public Broadcasting Corporation. The agreement is for five years with an option to renew and requires payments of \$10,456 per month.

The Organization entered into an agreement for office space in January 2014. The agreement is for five years and three months with two five year renewal options. The agreement calls for payments of \$7,000 per month for the first term and increases to \$7,875 in the second term.

The Organization entered into an agreement in February 2014 for tower site and interior space rental. The agreement is for eighteen years and three months, terminating August 2031. The agreement calls for payments of \$1,134 per month.

Future minimum lease payments at June 30 2014 are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2015	\$ 246,930
2016	247,734
2017	247,068
2018	237,546
2019	156,798
Thereafter	165,542

SHENANDOAH VALLEY EDUCATIONAL TELEVISION CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 11. Deposit on Spectrum Auction

On November 29, 2013, the Organization entered into an agreement with a counter party in anticipation of a broadcast incentive auction to be conducted by the FCC under Section 6403 of the Middle Class Tax Relief and Job Creation Act of 2012. The terms of the agreement provide for the Organization to assign to the counter party the proceeds of certain spectrum use rights in the north western portion of Virginia.

The Organization received a \$7 million deposit in connection with the agreement. The agreement contains contingencies as to final settlement prices and specific performance matters. Management anticipates that the auction will take place in 2015.

As part of the agreement, the Organization granted the counter party a security interest in certain property including one FCC license. The Organization also agreed to several negative covenants including: not incurring any indebtedness or liens regarding the subject assets, restrictions on fundamental changes to the Organization or asset sales, limitations on investments and acquisitions, and limitations on operating deficits.