Adelphia Recovery Trust
Financial Statements
(with Supplementary Information)
and Independent Auditor's Report
December 31, 2017

CohnReznick
Accounting • Tax • Advisory

Adelphia Recovery Trust
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Financial Statements

Independent Auditor's Report

To the Trustees of the Adelphia Recovery Trust

We have audited the accompanying financial statements of the Adelphia Recovery Trust (the "ART"), which comprise the balance sheet as of December 31, 2017, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Trustees' Responsibility for the Financial Statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adelphia Recovery Trust as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in the Adelphia Recovery Trust Distribution Waterfall as of December 31, 2017, which is the responsibility of the Trustees, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the ART was dissolved on December 31, 2016 and is in a staged wind-down process. Our opinion is not modified with respect to that matter.

CohnReznick LLP

Hartford, Connecticut
March 9, 2018

Adelphia Recovery Trust
Balance Sheet

		As of December 31, 2017
Assets		
Cash and cash equivalents	$	1,521,413
Prepaid assets		409,288
Note and accrued interest receivable		6,452,662
Total assets	$	8,383,363
Liabilities and net assets		
Accrued expenses	$	6,002
Deferred holder distributions		150,109
Total liabilities		156,111
Net assets		8,227,252
Total liabilities and net assets	$	8,383,363

See accompanying notes to financial statements

Adelphia Recovery Trust
Statement of Operations and Changes in Net Assets

		For the year ended December 31, 2017
Revenues		
Interest income	$	291,213
Total revenues		291,213
Operating expenses		
General and administrative expenses		1,035,422
Professional expenses		258,404
Total operating expenses		1,293,826
Net loss		(1,002,613)
Net assets, beginning of year		11,229,865
Interest holder distributions		(2,000,000)
Net assets, end of year	$	8,227,252

See accompanying notes to financial statements

Adelphia Recovery Trust
Statement of Cash Flows

		For the year ended December 31, 2017
Operating activities		
Net loss	$	(1,002,613)
Adjustments to reconcile net loss to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Prepaid assets		(83)
Note and accrued interest receivable		(282,049)
Deferred holder distribution		22,056
Accrued expenses		(5,634)
Net cash used by operating activities		(1,268,323)
Financing activities		
Interest holder distributions		(2,000,000)
Net cash used by financing activities		(2,000,000)
Net change in cash and cash equivalents		(3,268,323)
Cash and cash equivalents, beginning of year		4,789,736
Cash and cash equivalents, end of year	$	1,521,413

See accompanying notes to financial statements

Adelphia Recovery Trust
Notes to Financial Statements
December 31, 2017

1. Nature and Purpose

The Adelphia Recovery Trust (the "ART") is a Delaware statutory trust. The ART was created at the expense of Adelphia Communications Corporation ("Adelphia") and certain of its subsidiaries (together with Adelphia the "Debtors"). The ART was established on February 13, 2007 pursuant to the First Modified Fifth Amended Joint Chapter 11 Plan of Reorganization of Adelphia Communications Corporation and Certain Affiliated Debtors (the "Plan"), which was confirmed by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") by an order dated January 5, 2007. The ART became effective February 13, 2007 (the "Effective Date"). On the Effective Date, Adelphia contributed $25.0 million to the ART and paid certain expenses of the ART, to fund the initial costs of operation. Additional amounts appropriate to prosecute outstanding Causes of Action or otherwise fund the activities of the ART were obtained from proceeds received from resolved Causes of Action and through earnings on ART investments. These amounts, and any amounts held pending Distribution to the Holders, were the only amounts held by the ART.

Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934, the ART registered its CVV Series ACC-7 Interests with the Securities and Exchange Commission (the "SEC") with its filing of an SEC Form 10 on April 30, 2008 and a subsequent amendment on July 2, 2008. The Form 10 and the amendment are available on the ART Website at Adelphiarestructuring.com.

The ART held certain litigation claims transferred to it pursuant to the Plan against various third parties (the "Causes of Action"). The Causes of Action transferred to the ART for resolution were recorded at the nominal amount of $1. The ART existed to resolve the Causes of Action through litigation or settlement for the holders of interests (the "Holders" or "Interest Holders") in the ART. The Holders on the Effective Date were the restitution fund established under the Plan by the U.S. Treasury (the "Restitution Fund") and certain creditors and equity holders of the Debtors. The ART has distributed to the Holders the net proceeds from resolving the Causes of Action, less amounts withheld for the costs of administering the ART ("Distributions").

The Plan provides that the ART shall dissolve upon the earlier of the Distribution of all of its assets to the Holders or the fifth anniversary of its creation which was on February 13, 2012, subject to the right of the Trustees to extend the ART's term with the approval of the Bankruptcy Court for the Southern District of New York. In November 2011, the ART filed a motion to extend the term of the ART through December 31, 2014 because several Causes of Action were unlikely to be resolved prior to February 13, 2012. In December 2011, the motion was granted by the Bankruptcy Court. In July 2014, the ART filed a second motion to extend the term of the ART in light of the current status of the Causes of Action and the administrative tasks to be performed after the Causes of Action are resolved. On September 23, 2014 the Bankruptcy Court approved an extension through September 23, 2015.

The ART filed a further motion in August 2015, with the Bankruptcy Court, to extend the term of the ART to December 31, 2016 in light of the current status of the Causes of Action. The motion also sought the cancellation of certain Series of CVV Interests as part of a staged wind-down process. The Bankruptcy Court granted the motion on September 22, 2015. Following the cancellation of the CVV Interests, including the CVV Series ACC-7 Interests which were registered with the SEC, the ART discontinued SEC reporting, as disclosed in a Form 15 filed on September 28, 2015. The Form 15 is available on the ART Website at Adelphiarestructuring.com.

Having pursued the Causes of Action to final resolution, the ART was dissolved on December 31, 2016 (the "Dissolution Date") pursuant to the Plan, Declaration, and the September 22, 2015 court order. After the Dissolution Date, for purpose of liquidating and winding up the affairs of the ART, the Trustees shall continue, pursuant to the Declaration and the Plan, to act until the Trustees' duties under the Declaration and the Plan have been fully performed. All funds remaining after the ART's obligations have been paid (and the winding up process completed) shall be distributed to the ART Interest Holders. Upon completion of the winding up activities, the Institutional Trustee shall file a Certification of Cancellation with the Delaware Secretary of State, thereby terminating the ART (the "Termination Date").

The ART is administered by five individual Trustees who were appointed by creditors of the Adelphia Estate. The ART had no employees through December 31, 2017. The Trustees engage third party professionals and others including Quest Turnaround Advisors (the "Trust Administrator") , which along with Adelphia, assist the Trustees in administering the activities of the ART. The Trustees have the duty and authority to take actions necessary to wind up the affairs of the ART.

Pursuant to the Plan and the Declaration, the Trustees are permitted to retain amounts for contingent and future costs and expenses. Pursuant to the Plan and the Declaration, all Distributions are net of any costs and expenses incurred by the ART in connection with administering, litigating or otherwise resolving the various Causes of Action of the ART.

The Distribution of any net proceeds from settlements or judgments are made at the sole discretion of the Trustees in accordance with the provisions of the Plan and the Declaration. On December 21, 2010 the ART made a Distribution of $215 million in cash to the Holders of Interests in the Trust in accordance with the waterfall priority established in the Plan. A record date of December 13, 2010 was established by the Trust for purposes of this Distribution. No Distributions were made in 2011. The Trustees made two Distributions in 2012, one on March 1, 2012 for $30 million with a record date of February 23, 2012 and one on December 18, 2012 for $30 million with a record date of December 10, 2012.

No Distributions were made in 2013 or 2014. On December 8, 2015, the ART made a distribution of $20 million in cash. A record date of December 1, 2015 was established by the Trust for purposes of this distribution. On October 25, 2016, the Trust made a Distribution of $8 million in cash. A record date of October 18, 2016 was established by the Trust for purposes of this Distribution. On December 14, 2017, the Trust made a Distribution of $2 million in cash. A record date of December 7, 2017 was established by the Trust for purposes of this Distribution.

Previously issued ART Distributions reverted to the ART in the amounts of approximately $101,000 and $27,000 in 2013 and 2016 respectively. In 2017, previously issued ART Distributions reverted to the ART in the amount of approximately $22,000. These funds were returned to the ART in accordance with Plan provisions regarding unclaimed Distributions and have been recorded as a deferred holder distributions liability on the ART balance sheet. Such funds have reverted to the ART for the benefit of Interest Holders in the class of the forfeiting Holders and will be distributed to such Interest Holders at a time determined by the Trustees.

The ART Trustees will continue to retain cash in reserve to administer the ART and will continue to assess the adequacy of funds held for all potential costs and expenses of the ART and will distribute ART excess assets, if any, to Holders. No Distributions are currently planned. If and when future Distributions occur, they will be made according to the waterfall priority established in the Plan. Any assets not previously distributed by the ART, and that are not required for remaining costs and expenses, will be distributed in accordance with the Trust Declaration upon the winding up of the ART.

2. Significant Accounting Policies

Basis of Accounting

The ART has assessed the requirements to report under the liquidation basis of accounting. The Financial Accounting Standards Board stipulated in its 2013-07 update, that an entity with a limited life, as stipulated in its formation documents, should not apply the liquidation basis of accounting. Consequently, the ART will continue to report under United States generally accepted accounting principles for going-concern entities. The ART will assess the need to adopt any required changes to its current basis of accounting on an ongoing basis.

Use of Estimates

The financial statements were prepared in conformity with accounting principles generally accepted in the United States and require the ART to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results are likely to differ from those estimates and those differences may be significant.

Cash and Cash Equivalents

The ART considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Substantially all cash and cash equivalents are held in the trust department of a financial institution. The amount on deposit does not exceed the federally insured limit. As of December 31, 2017 all cash equivalents consist of bank deposits or money market funds which are invested in US Government Treasury obligations in accordance with the ART investment policy.

Income Taxes

The ART is not subject to federal or state income taxes. The ART is not aware of any transactions or events up to and including December 31, 2017 that would subject it to federal income taxes. Further, the ART has no unrecognized income tax benefits as of December 31, 2017 nor are there any amounts required to be included in the financial statements for interest or penalties on unrecognized income tax benefits.

The Plan and Declaration provide that, for federal income tax purposes, the ART was deemed to be formed in two steps. The contribution by Adelphia of $25.0 million for the purpose of pursuing the Causes of Action, the Causes of Action and any and all other property transferred to the ART (together, the "ART Property") were treated first as a deemed transfer of the ART Property to the holders of claims and equity interests who receive interests in the ART ("Interests") (in proportion to the fair market values of the Interests they receive). This was followed by a deemed transfer by each such holder of its interest in the ART Property to the ART, in exchange for Interests.

The Holders are treated as the grantors of the ART and the Trustees have and will continue to file tax returns for the ART as a "grantor trust" pursuant to Section 1.671-4(a) of the U.S. Treasury Regulations. The ART obtained a private letter ruling from the Internal Revenue Service confirming the ART's treatment for tax purposes as a pass-through grantor trust. As a condition to receiving that private letter ruling, the ART amended its Declaration to eliminate the Trustees' obligation under the Declaration of Trust to "use reasonable best efforts and with the approval of the Bankruptcy Court to have the [ART] interests … listed on a national securities exchange." On June 4, 2008, the Bankruptcy Court granted the Trust's motion to so amend the ART's Declaration.

Items of income, gain, loss, deduction and other tax items have been and will be allocated to the Holders that would be entitled to receive such items if they constituted cash distributions or reductions therefrom. The Holders are responsible for the payment of taxes on a current basis that result from such allocations whether or not cash is distributed.

As of December 31, 2017 the net tax basis of the ART is approximately $1,112,166 lower than the reported amount of net assets in the ART financial statements.

Revenue Recognition

Revenue from Causes of Action is recognized when collection is reasonably assured and:

For settlements that are not submitted to the Bankruptcy Court for approval, when the settlement agreement is fully executed by all parties to the agreement.

For settlements that are submitted for Bankruptcy Court approval, when an order entered by the Bankruptcy Court approving the settlement becomes a final order and is not subject to appeal. Settlements collected but subject to appeal are recorded as deferred settlement revenue until the time for appeal expires.

For judgments, when a judgment entered by the Bankruptcy Court becomes a final judgment and is not subject to appeal or such appeal when made is determined to be frivolous or have a remote chance of success.

The ART has reached final resolution on all of the ART Causes of Action and does not expect to receive any additional Cause of Action related revenues.

3. Distributions

Pursuant to the Plan and the Declaration, Distributions to Holders are net of any costs and expenses incurred by the ART in connection with administering, litigating or otherwise resolving the various Causes of Action. Such amounts withheld from distribution may also include those amounts used to pay for expected fees and expenses of the Trustees, premiums for directors and officers insurance, and other insurance and fees and expenses of attorneys and consultants. Distributions will be made only from assets of the ART and only to the extent that the ART has sufficient assets (over amounts retained for contingent liabilities and future costs and expenses) to make such payments in accordance with the Plan and the Declaration. No Distribution is required to be made to any Holder unless such Holder is to receive in such Distribution at least $25.00 (per Holder class, name and address), or unless such Distribution is the final Distribution to such Holder pursuant to the Plan and the Declaration.

Distributions are made at the sole discretion of the Trustees in accordance with the provisions of the Plan and the Declaration and are payable to Holders of Interests in the Trust in accordance with the waterfall priority established in the Plan. On December 14, 2017, the Trust made a Distribution of $2 million in cash. A record date of December 7, 2017 was established by the Trust for purposes of this Distribution.

4. Notes Receivable

On August 3, 2007 the ART settled a Cause of Action and received an unsecured note bearing simple (non-compounding) interest, at a rate of 8%, in the principal amount of $4,875,250. The Court approved the settlement of that Cause of Action on September 6, 2007. The note is recourse only to the future proceeds of approximately $25.4 million from life insurance policies on the lives of Mr. Leonard Tow and his wife. In July 2014, a first to die rider on one of the policies was triggered by the death of Claire Tow and a payment of $2.1 million was made to the ART in October 2014, by Adelphia, as required by the terms of the note and the settlement. The $2.1 million payment was allocated ratably between principal of $1.340 million and accrued interest of $0.760 million through the payment date.

The remaining proceeds shall not be paid until the death of Mr. Leonard Tow. As of December 31, 2017 the balance under the note was $6,452,662, comprised of the principal amount of the note of $3,535,309 and accrued interest of $2,917,353. Principal and accrued interest are considered fully collectable.

5. Other Related Party Transactions and Prepaid Expenses

The Trust Administrator and Adelphia continue to provide administrative support to the ART including maintaining electronic data and paper documents used in prosecuting the Causes of Action, support for Holder Distributions when they might occur (including maintenance of data related to the implementation of Plan provisions) and financial reporting. These services have and will continue to be provided at no cost to the ART under the terms of various agreements between the ART, the Trust Administrator and Adelphia. The ART financial statements do not reflect any amounts for these services.

6. Fair Value of Financial Instruments

As of December 31, 2017 the fair value of cash and cash equivalents, prepaid assets and accrued expenses approximate their carrying values.

The fair value of the note receivable and accrued interest has been determined using unobservable inputs (i.e. Level 3, as defined in Accounting Standards Codification 820-10) and approximates $5.8 million as of December 31, 2017. The fair value was derived by discounting to December 31, 2017 the projected maturity value of the note including accrued interest. The discount rate was derived using the published yield on the 3 and 5 year benchmark U.S. Treasury bond plus the average reported spread on certain public unsecured bonds of the life insurance companies that provided the Tow life insurance policies. The projected maturity values, including interest, were calculated using life expectancy tables. The discount rate is based on the yield on the notes issued by the life insurance companies underwriting the life insurance policies and various other risk factors associated with the note.

The carrying values were approximately $6.5 million as of December 31, 2017. The note bears 8% simple interest and is recourse only to the proceeds of various life insurance policies on Mr. Leonard Tow.

7. Trustee Compensation

After December 31, 2007 the Official Committee of Unsecured Creditors of Adelphia Communications Corporation and all of its Affiliated Debtors-In-Possession (the "Creditors Committee") agreed to Trustee compensation of $43,750 per quarter, or $175,000 annually. On November 8, 2017 the Trustees agreed to reduce the base compensation of each Trustee beginning on April 1, 2018, to $24,000 annually, for the remainder of the ART's wind-down.

In addition to the base compensation, each Trustee shall receive an equal portion of an amount equal to 10% of the amount of each Distribution made to Interest Holders after February 5, 2018. The Trustees will receive this additional compensation at the same time the Distribution is made to the Interest Holders.

8. Causes of Action

No currently active Causes of Action

Avoidance Actions

No currently active Avoidance Actions

9. Subsequent Events

The ART has evaluated events and transactions for potential recognition or disclosure through March 9, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

ART Distribution Waterfall Chart [1]

December 31, 2017[2]

Remaining Aggregate Distribution [3]	Distribution Description [4]	ART Distribution Recipient	
0	RF Holders Paid In Full	RF	0.00%
		Arahova	0.00%
		ACC-1	0.00%
		Olympus	0.00%
		FrontierVision	0.00%
		ACC-2	0.00%
		ACC-3	0.00%
		FPL	0.00%
0 - 380,000,000	Until Series Olympus has received aggregate distributions of $16 million plus the Olympus Fees, plus accrued post-Effective Date dividends	Arahova	45.87%
		ACC-1	42.73%
		Olympus	5.00%
		FrontierVision	2.50%
		ACC-2	2.25%
		ACC-3	0.90%
		FPL	0.75%

Capitalized terms used in this chart but not otherwise defined have the respective meaning given to them under the Plan.

[1] This waterfall chart is being presented in an abbreviated version to reflect that the ART was dissolved on December 31, 2016 and is liquidating and winding up its affairs. All funds remaining after the ART's obligations have been paid (and the winding up process completed) shall be distributed to the ART Interest holders at the sharing percentages reflected for "Series Olympus". Given the remaining assets available for distribution upon termination, the only meaningful tier (tranche) that reflects the recoveries for each of the CVV Series entitled to a distribution is the Series Olympus tier. Therefore, for purposes of the eligible recoveries, the chart has been modified and simplified to reflect the remaining payout percentages.

[2] Remaining aggregate distributions and ART distribution percentages are as of December 31, 2017.

[3] Pursuant to the terms of the Plan, certain series of Interests are entitled to post-Effective Date dividends on certain amounts due to the corresponding class of claims. For purposes of calculating the reference amount on which post-Effective Date dividends accrue, the distribution of the True-Up Holdback is treated as if it occurred on the Effective Date. Remaining aggregate distributions have been reduced as a result of the $215 million cash distribution to certain CVV Holders as of December 21, 2010, the $30 million cash distribution on March 1, 2012, the $30 million cash distribution on December 18, 2012, the $20 million cash distribution on December 8, 2015, the $8 million cash distribution on October 25, 2016, and the $2 million cash distribution on December 14, 2017 as well as distributions made by Adelphia for excess reserves and for refunds of reserves established for Settlement Party Fee Claims.

[4] Unless otherwise stated, post-Effective Date dividends accrue at a rate of 8.9% per annum.

See Independent Auditor’s Report.

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