KVCR EDUCATIONAL FOUNDATION, INC.

AUDIT REPORT

June 30, 2011

christy white

A PROFESSIONAL ACCOUNTANCY CORPORATION

KVCR Educational Foundation, Inc.
Table of Contents
June 30, 2011

FINANCIAL SECTION

Independent Auditors' Report 1
Financial Statements
Statement of Financial Position 2
Statement of Activities 3
Statement of Functional Expenses 4
Statement of Cash Flows 5
Notes to Financial Statements 6

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governance Boards
KVCR Educational Foundation, Inc.
San Bernardino Community College District
San Bernardino, California

We have audited the accompanying statement of financial position of KVCR Educational Foundation, Inc. (the "Foundation"), as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 11, the Foundation's procedures for accounting for pledge receivable, bad debt expense, and inventory-related transactions are not sufficient to ensure the amounts recorded in the financial statements are complete and accurate. Further, the Foundation's financial statements encompass various operational inflows and outflows of KVCR-TV and KVCR-FM that may not be presented in conformity with generally accepted accounting principles.

In our opinion, except for the areas affected by the matters addressed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of KVCR Educational Foundation, Inc. as of June 30, 2011, and the changes 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.

Christy White Accountancy Corporation

San Diego, California
November 17, 2011

KVCR Educational Foundation, Inc.
Statement of Financial Position
June 30, 2011

ASSETS		
Cash and cash equivalents	$	2,975,082
Accounts receivable		3,093,642
Inventory		45,637
Prepaid expenses		52,000
Total assets	$	6,166,361
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable		33,908
Due to the District		329,336
Deferred revenues		312,434
Total liabilities		675,678
Net assets		
Unrestricted		216,206
Temporarily restricted		5,274,477
Total net assets		5,490,683
Total liabilities and net assets	$	6,166,361

The notes to the financial statements are an integral part of this statement.

KVCR Educational Foundation, Inc.
Statement of Activities
June 30, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Grants and contributions			
Television	$ 706,306	$ 144,882	$ 851,188
Radio	616,859	-	616,859
Underwriting income			
Television	349,120	-	349,120
Radio	859,279	-	859,279
Production income - television	57,500	-	57,500
Events and premium sales	394,956	-	394,956
Less direct benefit to donors	(441,894)	-	(441,894)
Lease income	354,323	-	354,323
Other income	220,280	-	220,280
Interest income	5,153	-	5,153
Net assets released from restrictions	845,940	(845,940)	-
Total support and revenues	3,967,822	(701,058)	3,266,764
OPERATING EXPENSES			
Fundraising operation			
Fundraising	1,030,970	-	1,030,970
Management and general	178,717	-	178,717
Total fundraising	1,209,687	-	1,209,687
Station operation			
Radio	771,102	-	771,102
Television-general	987,705	-	987,705
Television-FNX	618,100	-	618,100
Management and general	25,005	-	25,005
Total station operation	2,401,911	-	2,401,911
Total operating expenses	3,611,598	-	3,611,598
Change in net assets	356,224	(701,058)	(344,834)
Net assets at beginning of year	(140,018)	5,975,535	5,835,517
Net assets at end of year	$ 216,206	$ 5,274,477	$ 5,490,683

The notes to the financial statements are an integral part of this statement.

KVCR Educational Foundation, Inc.
Statement of Functional Expenses
June 30, 2011

	Program Services				Management	
	Radio	TV-General	TV-FNX	Total	and General	Total
FUNDRAISING EXPENSES						
Salaries and benefits	$ 153,700	$ 76,850	$ 76,850	$ 307,400	$ 152,345	$ 459,745
Supplies	311,593	411,977	-	723,570	-	723,570
Miscellaneous	-	-	-	-	26,372	26,372
Total fundraising expenses	465,293	488,827	76,850	1,030,970	178,717	1,209,687
STATION OPERATIONS EXPENSES						
Salaries and benefits	3,000	9,000	161,072	173,072	-	173,072
Consultants	62,272	228,837	228,181	519,290	-	519,290
Legal fees	-	4,289	32,575	36,864	-	36,864
Office expenses	2,281	54,374	8,669	65,324	-	65,324
Broadcasting	563,442	315,550	51,614	930,605	-	930,605
Production equipment	-	-	103,657	103,657	-	103,657
Information technology	36,208	75,592	12,604	124,404	-	124,404
Miscellaneous	-	-	229	229	-	229
Supplies	22,004	171,440	-	193,444	25,005	218,449
Transmitter lease	1,934	36,000	-	37,934	-	37,934
Telephone and utility interconnection	7,993	29,898	-	37,891	-	37,891
Bad debt	54,894	43,301	-	98,195	-	98,195
Travel	3,199	12,671	14,499	30,369	-	30,369
Dues and membership	13,875	6,753	5,000	25,628	-	25,628
Total station operations expenses	771,102	987,705	618,100	2,376,907	25,005	2,401,911
Total operating expenses	$ 1,236,395	$ 1,476,532	$ 694,950	$ 3,407,877	$ 203,722	$ 3,611,598

The notes to the financial statements are an integral part of this statement.

KVCR Educational Foundation, Inc.
Statement of Cash Flows
June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(344,834)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Increase) decrease in operating assets		
Accounts receivable		1,863,136
Inventory		91,739
Prepaid expenses		(38,550)
Increase (decrease) in operating liabilities		
Accounts payable		(149,925)
Due to the District		(47,478)
Deferred revenues		312,434
Net cash provided by (used in) operating activities		1,686,522
Net increase (decrease) in cash		1,686,522
Beginning cash		1,288,560
Ending cash	$	2,975,082

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

KVCR Educational Foundation, Inc. (the "Foundation"), located in San Bernardino County, was incorporated as a nonprofit public benefit corporation in the State of California on July 15, 1999. The Foundation was formed as an auxiliary organization of the San Bernardino Community College District (the "District") under the provision of California Education Code, Title V of the California Code of Regulations, and the Implementing Regulations of the District. Per the Foundation's Master Agreement with the District and its Bylaws, the Foundation was formed for the purpose of administering the operation of KVCR-TV and KVCR-FM (the "Station"). The Foundation is funded primarily through program underwriting fees, production income, and grants and contributions from the public.

B. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

C. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenditures have been allocated between program and supporting services based on management's estimates.

D. Basis of Accounting

The Foundation's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Financial Statement Presentation

The Foundation is required to report 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. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the Foundation in accordance with its Bylaws and Master Agreement. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the Foundation in perpetuity while the earnings on those assets are available for use by the Foundation to support its activities. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Foundation's financial statement presentation.

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the Foundation if not donated.

G. Income Taxes

The Foundation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Foundation is also exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation did not have any net unrelated business income for the year ended June 30, 2011. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

The Foundation has not adopted a policy to capitalize significant asset purchases in conformance with generally accepted accounting principles because the District has reversionary interest in any property or equipment acquired by the Foundation and/or used in its operation.

I. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Foundation prior to the incurrence of qualifying expenses. In subsequent periods, when both revenue recognition criteria are met or when the Foundation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

J. Cash and Cash Equivalents

The Foundation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

K. Investments

The Foundation's method of accounting for investments is the fair value method. Fair value is determined by published quotes when they are readily available. Adjustments to fair values are included in the accompanying statement of financial position and statement of activities.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes 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 the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

M. Recent Accounting Pronouncements

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 15, 2009.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011, consist of the following:

Petty cash	$	376
Cash in checking		239,471
Cash in savings		352,189
Cash in banks, restricted - FNX (see Note 7)		2,044,118
Cash held by the District, restricted - FNX (see Note 7)		338,928
Total cash and cash equivalents	$	2,975,082

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk for deposits. Through December 31, 2012 the FDIC insures 100% of balances in non-interest bearing accounts and up to $250,000 per depositor in interest bearing accounts per insured bank. As of June 30, 2011, the Foundation's bank balance of $2,072,237 at Wells Fargo Bank was exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011, consist of the following:

Underwriting fees	$	63,392
Lease income		33,000
		96,392
Pledge receivable - San Manuel (see Note 7)		2,890,099
Other pledge receivables		235,363
Allowance for uncollectible pledges		(128,182)
Total pledges receivable		2,997,280
Total accounts receivable	$	3,093,672

NOTE 4 – INVENTORY

Inventory consists primarily of unsold event tickets and other items that are sold by the Foundation and/or distributed to donors in exchange for pledging a specified level of funds to support the Station. Direct benefit to donors of $441,894 exceeds proceeds from events and premium sales income of $394,956 for two reasons: (a) the pledge income associated with distribution of some items recorded as inventory is recognized as grant and contribution income, and (b) the direct benefit to donor includes the value of donated tickets and the offsetting non-cash income is recognized as grant and contribution income (see Note 6 and Note 10).

NOTE 5 – RELATED PARTIES

As described in Note 1, the Foundation is an auxiliary organization of the District; therefore, transactions between the Foundation and the District are expected. Per the Foundation's Bylaws, the District's Chancellor, Vice Chancellor of Fiscal Services, and up to three other members of the Board of Trustees are ex-officio members of the Foundation's Board of Directors by virtue of their positions. In addition, the General Manager of the Station is designated as the Secretary of the Foundation's Board and all staff of the Foundation are employed by the District. The District incurred a total of $459,745 in salaries and benefits expense for Foundation development and administrative staff, which is recorded in these financial statements as a non-cash contribution and fundraising expense. The District incurred an additional $1,355,063 in salaries and benefits expense for Station operations staff, which is not recorded in these financial statements.

During the year ended June 30, 2004, the District loaned the Station a total of $1,815,000 at zero percent interest, to pay for the digital conversion of the Station's broadcasting equipment and signal. The terms of the loan provided for no payments to the District for seven years. Based on the terms of the loan, repayment was scheduled to begin during the year ended June 30, 2011. In May 2011, the District's Board of Trustees agreed to postpone the commencement of loan payments one additional year to May 2012. As the loan is between the District and the Station, it is not recorded in these financial statements. However, as the Foundation is the primary fundraising vehicle for the Station and is an auxiliary organization of the District, the District may have rights to direct repayment of the loan from net assets of the Foundation.

As of June 30, 2011, the Foundation owes the District a total of $329,336 for distributions made from the General Fund to support the Station's prior year operations, over and above the District's budgeted apportionment. The Foundation made a payment of $300,000 to the District during the year ended June 30, 2011; however, the District determined that $47,478 would be used to reduce the receivable from the Foundation and the remaining $252,522 would be used to reduce the District's General Fund support of the Station for the year ended June 30, 2011.

NOTE 6 – DONATED GOODS

During the year ended June 30, 2011, the Foundation received contributions of concert and event tickets valued at $143,330, which were used as inventory sales and/or pledge gifts (see Note 4).

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011, by nature of restriction, consist of the following:

First Nations Experience	$ 5,196,649
Autism Challenge	21,878
Vision of the Future pledges	55,950
Total Temporarily Restricted Net Assets	$ 5,274,477

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS (continued)

First Nations Experience

In April 2010, the Foundation entered into a grant agreement with the San Manuel Band of Mission Indians, a federally recognized Indian Tribe (the "Tribe") whereby the Tribe agrees to contribute $6,000,000 over the course of three years toward development and operation of a native cultural television channel (now known as First Nations Experience or "FNX"). The terms of the grant stipulate that the Tribe's intention is to fully support the operation of FNX for three years and that funds are exclusively restricted for expenses related to FNX. As of June 30, 2011, the Foundation has collected $3,000,000 within the agreed upon schedule and terms. The Foundation has recorded $2,890,099 as a pledge receivable, net of unamortized discount calculated at 5% annually, for amounts due and payable subsequent to June 30, 2011 under the terms of the agreement.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Station is funded in part through federal grants from the Corporation for Public Broadcasting (the "CPB"), which are paid through the District because the District is the broadcasting licensee and are not reported in these financial statements. Funds from the CPB are designated for the purpose of operating the Station and are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

NOTE 9 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for the period from June 30, 2011 through November 17, 2011, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

NOTE 10 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Pledge receivables and Bad Debt

The Foundation records pledge receivable, net of the allowance for uncollectible pledges (see Note 3) and the associated bad debt expense as of June 30th for the entire preceding fiscal year. The contemporaneous recording of pledges is handled in a separate donor tracking database that is programmed to automatically write off pledges that are more than six months old. Further, the allowance for uncollectible pledges is estimated using net realizable percentages that are carried forward from one year to the next. Because the amounts recorded in the financial statements at the end of each year are net of the automatic mid-year write offs, pledge income and bad debt expense may be understated. In addition, the validity of the net realizable estimates cannot be evaluated.

NOTE 10 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

Inventory, Event and Premium Sale income, and Direct Benefit to Donors

The Foundation adjusts the inventory value as of June 30th for the entire preceding fiscal year. The contemporaneous recording of ticket sales, pledge gift distribution and sales, other event income, acceptance of contributed tickets, and restriction of promised tickets for future events is handled in a series of spreadsheets. Sufficient control procedures are not in place to ensure the accuracy and completeness of amounts recorded in the spreadsheets, and ultimately in the financial statements. The classification of event tickets and items distributed as pledge gifts may not be best classified as inventory as all proceeds from sale of inventory are classified by the Foundation as pledges and the cost of said pledges is classified as direct benefit to donor, rather than cost of inventory sold.

Exclusion of some Station operation inflows and outflows

The Foundation's financial statements include Station operational income and expenses as income and expense. However, some of the Station's income and expenses flow through the District and are not included in these financial statements. Generally accepted accounting principles indicate that financial statements should encompass all inflows and outflows related to an entity's activities for the period.