

KVCR EDUCATIONAL FOUNDATION, INC.

AUDIT REPORT

**For the Year Ended
June 30, 2012**

christy**white**
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

KVCR EDUCATIONAL FOUNDATION, INC.
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JUNE 30, 2012

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FINANCIAL SECTION

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Licensed by the California
State Board of Accountancy

Board of Directors
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, 2012, 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. The 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 10, the Foundation's procedures for accounting for pledges receivable, bad debt expense, and inventory-related transactions are not sufficient to ensure 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 in the first paragraph present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012, 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 Associates

San Diego, California
September 22, 2012

KVCR EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

Current assets

Cash and cash equivalents	\$	2,641,112
Accounts receivable		1,051,019
Inventory		43,457
Prepaid expense		8,000
		<u>8,000</u>

Total Assets **\$ 3,743,588**

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$	89,806
Deferred revenues		275,571
Total liabilities		<u>365,377</u>

Net assets

Unrestricted		42,951
Temporarily restricted		3,335,261
Total net assets		<u>3,378,211</u>

Total Liabilities and Net Assets **\$ 3,743,588**

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

KVCR EDUCATIONAL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions and grants			
Television	\$ 883,751	\$ 15,344	\$ 899,095
Radio	432,603	-	432,603
Underwriting income			
Television	84,709	-	84,709
Radio	258,591	-	258,591
Production income	-	-	-
Television	14,575	-	14,575
Radio	225	-	225
Events and premium sales	20,147	-	20,147
Less direct benefit to donors	(143,287)	-	(143,287)
Lease income	438,070	-	438,070
Interest income	1,127	4,647	5,774
Miscellaneous income	7,405	-	7,405
Net assets released from restrictions	1,959,207	(1,959,207)	-
Total Support and Revenues	3,957,123	(1,939,216)	2,017,907
EXPENSES			
Fundraising activities			
Fundraising	564,813	-	564,813
Management and general activities	9,438	-	9,438
Total fundraising activities	574,251	-	574,251
Station operations			
Radio	759,157	-	759,157
Television - general	1,363,905	-	1,363,905
Television - FNX	1,401,612	-	1,401,612
Management and general activities	31,453	-	31,453
Total station operations	3,556,128	-	3,556,128
Total Expenses	4,130,378	-	4,130,378
CHANGE IN NET ASSETS	(173,255)	(1,939,216)	(2,112,471)
Net Assets - Beginning	216,206	5,274,477	5,490,683
Net Assets - Ending	\$ 42,951	\$ 3,335,261	\$ 3,378,212

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

**KVCR EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

	Program Services				Management and General	Total
	Radio	TV- General	TV- FNX	Total		
EXPENSES						
Fundraising Expenses						
Consultants	\$ 93,936	\$ 145,718	\$ 192,043	\$ 431,697	\$ -	\$ 431,697
Supplies	40,291	69,161	23,664	133,116	9,438	142,554
Total fundraising expenses	134,227	214,879	215,707	564,813	9,438	574,251
Station Operations expenses						
Consultants	313,008	485,551	639,913	1,438,472	-	1,438,472
Office expenses	-	13,288	691	13,979	-	13,979
Broadcasting	287,299	207,146	95,604	590,049	-	590,049
Production Equipment	6,166	176,822	345,576	528,564	-	528,564
Information Technology	-	3,880	2,409	6,289	-	6,289
Supplies	134,252	230,454	78,850	443,556	31,453	475,009
Transmitter lease	1,920	36,000	-	37,920	-	37,920
Travel	2,209	40,416	76,560	119,185	-	119,185
Dues and membership	14,303	39,651	5,009	58,963	-	58,963
Transfer to District	-	130,697	157,000	287,697	-	287,697
Total station operations expenses	759,157	1,363,905	1,401,612	3,524,675	31,453	3,556,128
Total Expenses	\$ 893,384	\$ 1,578,784	\$ 1,617,319	\$ 4,089,487	\$ 40,891	\$ 4,130,378

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

KVCR EDUCATIONAL FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (2,112,472)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
(Increase) decrease in operating assets	
Accounts receivable	2,042,623
Inventory	2,180
Prepaid expense	44,000
Increase (decrease) in operating liabilities	
Accounts payable	55,898
Due to District	(329,336)
Deferred revenues	(36,863)
Net cash provided by (used in) operating activities	<u>(333,970)</u>
NET INCREASE (DECREASE) IN CASH	(333,970)
Cash and cash equivalents - Beginning	<u>2,975,082</u>
Cash and cash equivalents - Ending	<u>\$ 2,641,112</u>

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

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

KVCR Educational Foundation, Inc. (the “Foundation”), was formed as a California nonprofit public benefit corporation on July 15, 1999. The Foundation was formed as an auxiliary Foundation of the San Bernardino Community College District (the “District”) under the provision of the California Education Code, Title V of the California Code of Regulations, and the Implementing Regulation of the District. Per the Foundation’s Master Agreement with the District and its Bylaws, the Foundation was formed for the purpose of raising and receiving gifts, property and funds to be used for the benefit of the District’s radio and TV station know as KVCR-TV and KVCR-FM (the “Station”). The Foundation will engage only in those activities that are in support of and consistent with state and federal laws and with the policies, rules, regulations and program goals of the District. The Foundation is funded primarily through program underwriting fees, production income, and grand 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.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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. Temporarily or permanently restricted net assets are restricted by the donor or as matter of law. Temporarily restricted net assets are only expendable for the purposes specified by the donor or though 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.

F. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. A contribution is recognized as income at the date the contribution is received or pledged.

Non-cash contributions of goods and materials 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 who possesses 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 Foundation 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 and is registered with the California Attorney General as a charity.

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, 2012. It is management's belief that the Foundation does not hold any uncertain tax positions that would materially impact the financial statements. The Foundation's foundation and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

H. Property and Equipment

The Foundation has no adopted 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 operations.

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 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 most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Unrealized gains and losses are included in the accompanying statement of activities.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

L. Fair Value Hierarchy

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012, consist of amounts held in non-interest bearing checking, interest bearing checking, money market, and brokerage accounts totaling \$2,641,112.

Petty Cash	\$	300
Cash in checking		75,892
Cash in savings		156,809
Cash in banks, restricted		<u>2,408,111</u>
Total cash and cash equivalents	\$	<u>2,641,112</u>

Cash in Bank

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 non-interest bearing accounts and up to \$250,000 per depositor of interest bearing accounts per insured bank. As of June 30, 2012, the Foundation's bank balance of \$2,606,333 at Wells Fargo was exposed to custodial credit risk for deposits held over \$250,000.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 consist of the following:

Accounts receivable	\$	55,853
Pledge Receivable - San Manuel		1,071,796
Other pledges receivable		61,259
Allowance for uncollectible pledges		<u>(138,889)</u>
	\$	<u>1,050,019</u>

NOTE 4 – INVENTORY

The Foundation's inventory balance 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 \$143,287 exceeds proceeds from events and premium sales income of \$20,147 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.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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 \$298,565 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 \$1,235,957 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 original 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 the year ending June 30, 2012. Then on May 17, 2012, the District’s Board of Trustees agreed to postpone the first payment until May 2013. As the loan is between the District and 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, 2012, the Foundation owes the District a total of \$287,697 for distributions made from the General Fund to support the Station’s prior year operations, over and above the District’s budgeted apportionment.

NOTE 6 – DONATED GOODS

During the year ended June 30, 2012, the Foundation received contributions of cars valued at \$59,833, which were sold to generate donation revenue.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2012, by nature of restriction, consist of the following:

First Nations Experience	\$	3,292,892
Autism Challenge		21,878
Vision of the Future pledges		<u>20,491</u>
Total Temporarily Restricted Nets Assets	\$	<u>3,335,261</u>

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

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, towards 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 the FNX for three years and that funds are exclusively restricted for expenses related to FNX. As of June 30, 2012, the Foundation has collected \$ 5,000,000 within the agreed upon schedule and terms. The Foundation has recorded \$932,907 as pledge receivable, net of unamortized discount calculated at 5% annually, for amounts due and payable subsequent to June 30, 2012 under the terms of the agreement.

NOTE 8 – CONTINGENCIES AND COMMITMENTS

The Station is funded in part through 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 for 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, 2012 through September 22, 2012, 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 – DEPARTURE FROM GAAP

Pledges Receivable and Bad Debt

The Foundation records pledges 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.

KVCR EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 – DEPARTURE FROM GAAP (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 benefits 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.