

THE KBOO FOUNDATION
FINANCIAL STATEMENTS
Year Ended September 30, 2013



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KERN & THOMPSON, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The KBOO Foundation
Portland, Oregon

We have audited the accompanying financial statements of The KBOO Foundation (a non-profit organization), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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.

Auditors' 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 auditors' 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 KBOO Foundation as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Organization's 2012 financial statements, which were reviewed by us, and in our report dated July 26, 2013, we stated that we are not aware of any material modifications that should be made to those statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Portland, Oregon
July 18, 2014

THE KBOO FOUNDATION
STATEMENT OF FINANCIAL POSITION

September 30, 2013
(With Comparative Totals as of September 30, 2012)

ASSETS

	2013	2012
	Audited	Reviewed
Cash and cash equivalents	\$ 257,335	\$ 314,611
Accounts receivable	8,537	9,035
Prepaid expenses	<u>7,599</u>	<u>15,369</u>
	273,471	339,015
Property and equipment - net	<u>198,313</u>	<u>222,865</u>
Beneficial interest in assets held by others	<u>208,930</u>	<u>198,511</u>
Total assets	<u>\$ 680,714</u>	<u>\$ 760,391</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 12,421	\$ 14,567
Accrued payroll and related liabilities	<u>18,821</u>	<u>18,705</u>
Total liabilities	<u>31,242</u>	<u>33,272</u>
Net assets		
Unrestricted		
Undesignated	240,542	311,608
Board designated for operating reserve	200,000	200,000
Board designated endowment funds	<u>208,930</u>	<u>198,511</u>
Total unrestricted	649,472	710,119
Temporarily restricted	<u>-</u>	<u>17,000</u>
Total net assets	<u>649,472</u>	<u>727,119</u>
Total liabilities and net assets	<u>\$ 680,714</u>	<u>\$ 760,391</u>

See notes to financial statements.

THE KBOO FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended September 30, 2013

(With Comparative Totals for the Year Ended September 30, 2012)

	2013 Audited			2012 Reviewed
	Unrestricted	Temporarily Restricted	Total	
Revenues, gains and other support				
Membership subscriptions	\$ 519,553	\$ -	\$ 519,553	\$ 552,462
Contributions	13,363	-	13,363	35,482
In-kind contributions	62,444	-	62,444	62,458
Special events, net of expense of \$9,800	15,456	-	15,456	5,482
Underwriting and advertising	73,583	-	73,583	51,553
Lease income	7,800	-	7,800	9,400
Investment income	22,069	-	22,069	24,103
	714,268	-	714,268	740,940
Net assets released from restrictions	17,000	(17,000)	-	-
Total revenue, gains and other support	731,268	(17,000)	714,268	740,940
Expenses				
Programming and production	552,077	-	552,077	522,351
Broadcast and technical	63,913	-	63,913	78,714
Program information	11,593	-	11,593	9,903
Total program services	627,583	-	627,583	610,968
Supporting services				
Administration	74,027	-	74,027	46,898
Fund-raising	90,305	-	90,305	87,164
Total expenses	791,915	-	791,915	745,030
Change in net assets	(60,647)	(17,000)	(77,647)	(4,090)
Net assets, beginning of year	710,119	17,000	727,119	731,209
Net assets, end of year	\$ 649,472	\$ -	\$ 649,472	\$ 727,119

See notes to financial statements.

THE KBOO FOUNDATION
STATEMENT OF CASH FLOWS

Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)

	2013	2012
	Audited	Reviewed
Cash flows from operating activities:		
Change in net assets	\$ (77,647)	\$ (4,090)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	24,552	31,276
Net (gain) loss on investments	(19,071)	(21,011)
Changes in assets and liabilities:		
Accounts receivable	498	3,004
Prepaid expenses	7,770	(13,699)
Accounts payable	(2,146)	12,320
Accrued payroll and related liabilities	116	1,520
Net cash provided by (used in) operating activities	(65,928)	9,320
Cash flows from investing activities:		
Distributions from beneficial interest in assets held by others	8,652	8,768
Net cash provided by (used in) investing activities	8,652	8,768
Net increase in cash and cash equivalents	(57,276)	18,088
Cash and cash equivalents, beginning of year	314,611	296,523
Cash and cash equivalents, end of year	\$ 257,335	\$ 314,611

See notes to financial statements.

THE KBOO FOUNDATION
NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE A – DESCRIPTION OF ORGANIZATION

The KBOO Foundation (the Foundation) is an Oregon non-profit corporation which operates a listener-supported, non-commercial public radio station in Portland, Oregon.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate unrestricted net assets for specific purposes.
- **Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be permanently maintained.

Expenses are reported as a decrease in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation classifies as cash and cash equivalents all checking, savings, and money market accounts used for operating purposes.

Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. The Foundation has elected to show temporarily restricted contributions whose restrictions are met in the same fiscal year as unrestricted.

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Concentrations of Credit Risk

Receivables consist primarily of uncollected fees from program contracts and subleases, which are unsecured. No allowance for doubtful accounts has been recorded, as management believes all accounts are collectible, based on historical experience and knowledge of current circumstances. Accounts receivable over 90 days old are considered delinquent and are immaterial at September 30, 2013.

The Foundation has cash and cash equivalents which may exceed depository insurance limits. The Foundation makes such deposits with high credit quality entities and has not experienced any credit related losses.

Investments are valued at their fair value in the statement of financial position. Net appreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is also shown in the statement of activities.

Endowment Investment and Spending Policies

The goal of the Foundation's investment program for funds held as Board designated endowment is to achieve a total rate of return that will allow the Foundation to respond to today's needs and the long-term growth necessary to respond to future needs. The investment objective for endowed funds is to retain (at a minimum) when possible an increase in the purchasing power of the funds, while at the same time producing a reasonable return for distribution to meet current needs. To meet this investment objective, the Foundation follows a total return strategy in which investment decisions are made with the intent of maximizing the long-term total return of the portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). Foundation endowment assets are invested in The Oregon Community Foundation (OCF) as an endowment partner.

The Foundation has adopted a spending policy based on the policies of its endowment partner, OCF, to determine the annual amount available for distributions from funds held as Board designated endowment. Each year OCF sets an annual payout rate for the coming year based on a 10-year projection of investment return. Currently, if the projected 10-year return is 9% or above, the payout for grants will be 5% of market value; if the projected 10-year return is below 9%, the payout for grants will be 4-1/2% of market value. Market value is determined using a 13-quarter trailing average of fund market value.

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investment and Spending Policies (Continued)

The Foundation's investment objective for funds held as Board designated endowment funds is to preserve capital and, if possible, purchasing power over the life of the fund. To meet this objective, assets of individual funds are invested in a mixture of cash, bonds, stocks and other investments that will produce a reasonable return over a reasonable period, consistent with the payout schedule and program objective of the fund.

Contributed Services

The value of contributed services meeting the requirements for recognition has been recorded in the financial statements (see Note H). Additionally, numerous volunteers have donated a significant number of hours to the Foundation. Although these services do not meet the criteria for recognition under generally accepted accounting principles, they are integral to the Foundation's mission. The Foundation had approximately 500 volunteers for the year ended September 30, 2013.

Property and Equipment

Fixed assets in excess of \$1,500 individually are reported at cost or, in the case of donated property, at estimated fair value determined as of the date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of individual assets, which range from 5 to 30 years.

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. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Foundation has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined not to be a private foundation under Section 509(a)(1) of the Code. Accordingly, donations made to the Foundation qualify as charitable contributions.

The Organization does not believe it has unrelated trade or business income in excess of \$1,000. As such, no provision for income taxes is reflected in the financial statements. The Foundation's federal exempt organization information returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized in the Statements of Activities. Certain costs, including salaries and benefits, rent and utilities, have been allocated among the programs and supporting services benefited.

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

NOTE C – FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair values are prioritized into the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets. Assets in this level typically include publicly traded equities, mutual fund investments, exchange traded funds, and cash equivalents.

Level 2 – Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data such as published interest rates and yield curves, over-the-counter derivatives, market modeling, or other valuation methodologies.

Level 3 – Unobservable inputs that reflect management's assumptions and best estimates based on available data. Assets in this level include beneficial interest in assets held by others.

Fair value of the beneficial interest in assets held by others is determined by the Foundation's endowment partner, OCF, and is based upon the Foundation's proportionate interest in OCF's endowment partner fund liability after adjustments for contributions and distributions made during the year. OCF's endowment partner fund liability is stated at fair value, which is generally equivalent to the present value of future payments expected to be made to the endowment partners.

Realized and unrealized gains and losses from investments are reported in the Statement of Activities as investment income as they occur. There have been no changes in valuation techniques and related inputs.

Fair value of assets measured on a recurring basis at September 30, 2013 were:

	<u>Level 3</u>
Beneficial interest in assets held by others	\$ <u>208,930</u>

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE C – FAIR VALUE MEASUREMENTS (CONTINUED)

For the year ended September 30, 2013, the changes in investments (all unrestricted board designated net assets) classified as Level 3 are as follows:

Balance September 30, 2012	\$ 198,511
Total gains and (losses)	19,071
Distributions	<u>(8,652)</u>
Balance September 30, 2013	<u>\$ 208,930</u>

NOTE D – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In December 2000, \$100,000 was transferred to the Oregon Community Foundation (OCF) in conjunction with the Board designated endowment fund. Variance power was not granted to OCF unless the Foundation ceases to exist or loses its tax exempt status, and distributions in the amount of a reasonable rate of return determined by OCF will be distributed to the Foundation each year.

NOTE E – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at September 30, 2013 consist of:

Cash on hand and in checking	\$ 43,300
Money market accounts (includes Board designated operating reserve of \$200,000)	213,051
Brokerage	<u>984</u>
	<u>\$ 257,335</u>

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2013:

Land	\$ 23,709
Building and improvements	192,720
Office furniture and equipment	108,524
Production and broadcast equipment	<u>1,032,694</u>
	1,357,647
Less accumulated depreciation	<u>(1,159,334)</u>
	<u>\$ 198,313</u>

Depreciation expense for the year ended September 30, 2013 was \$24,552.

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE F – PROPERTY AND EQUIPMENT (CONTINUED)

Several pieces of equipment were acquired with partial funding from the National Telecommunications and Information Administration, which retains a priority reversionary interest in the equipment. Equipment subject to the reversionary interest totals \$77,466 for the year ended September 30, 2013, and is included in property and equipment on page 2. The reversionary interest will be in effect through April 2021.

NOTE G – NET ASSETS

In addition to the Board designated endowment funds (see Note C), the Board has designated a portion of cash and unrestricted net assets as a three-month operating reserve for the future. These Board designated net assets totaled \$200,000 as of September 30, 2013.

NOTE H – IN-KIND CONTRIBUTIONS

In-kind contributions of transmitter space rents included in the Statement of Activities for the year ended September 30, 2013 are \$62,444.

NOTE I – LEASE COMMITMENTS

The Foundation leases tower space for certain repeater stations from third parties under operating lease agreements for various terms ranging up to 5 years with renewal options. The minimum rental commitments are summarized as follows:

<u>Year Ending September 30,</u>	
2014	\$ 52,838
2015	54,574
2016	<u>38,467</u>
	<u>\$ 145,879</u>

Total rent expense for the year ended September 30, 2013 was \$118,063, including in-kind transmitter space rents contributed.

The Foundation subleases space on the towers to various unaffiliated not-for profit organizations on a month-to-month basis. Tower rental income is included as "lease income" in the statement of activities.

THE KBOO FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2013

NOTE J – EMPLOYEE BENEFIT PLAN

The Foundation maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code covering eligible employees. Retirement contributions by the Foundation are at the discretion of the Board of Directors. No contributions were made by the Foundation for the year ended September 30, 2013.

NOTE K – SUBSEQUENT EVENTS

Effective October 4, 2013, the Organization entered into a labor union contract with the Communications Workers of America Local 7901, which will expire September 30, 2014, and covers all employees.

Subsequent events have been evaluated through July 18, 2014, which is the date the financial statements were available to be issued.