

THE KBOO FOUNDATION
FINANCIAL STATEMENTS
Years Ended September 30, 2010 and 2009

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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 statements of financial position of The KBOO Foundation (a not-for-profit corporation) as of September 30, 2010 and 2009, and the related statements of activities, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kern & Thompson, LLC

Portland, Oregon
September 15, 2011

THE KBOO FOUNDATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	\$ 375,099	\$ 503,014
Accounts receivable	15,151	6,629
Prepaid expenses	<u>11,521</u>	<u>11,151</u>
	401,771	520,794
Property and equipment - net	<u>269,451</u>	<u>282,293</u>
Beneficial interest in assets held by others	<u>195,865</u>	<u>189,779</u>
Total assets	<u>\$ 867,087</u>	<u>\$ 992,866</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 13,035	\$ 10,663
Accrued payroll and related liabilities	<u>14,704</u>	<u>23,842</u>
Total liabilities	<u>27,739</u>	<u>34,505</u>
Net assets		
Unrestricted		
Undesignated	432,178	525,650
Board designated for operating reserve	200,000	200,000
Board designated endowment funds	<u>195,865</u>	<u>189,779</u>
Total unrestricted	828,043	915,429
Temporarily restricted	<u>11,305</u>	<u>42,932</u>
Total net assets	<u>839,348</u>	<u>958,361</u>
Total liabilities and net assets	<u>\$ 867,087</u>	<u>\$ 992,866</u>

See notes to financial statements.

THE KBOO FOUNDATION
STATEMENTS OF ACTIVITIES

Years Ended September 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support						
Membership subscriptions	\$ 538,606	\$ -	\$ 538,606	\$ 528,029	\$ 35,557	\$ 563,586
Contributions	35,993	12,298	48,291	78,002	18,935	96,937
In-kind contributions	72,975	-	72,975	63,000	-	63,000
Special events, net of expense of \$3,729 and \$1,536, respectively	14,324	-	14,324	13,453	-	13,453
Underwriting and advertising	48,366	-	48,366	58,882	-	58,882
Lease income	30,060	-	30,060	34,800	-	34,800
Investment income	22,051	-	22,051	11,870	-	11,870
	<u>762,375</u>	<u>12,298</u>	<u>774,673</u>	<u>788,036</u>	<u>54,492</u>	<u>842,528</u>
Net assets released from restrictions	43,925	(43,925)	-	42,211	(42,211)	-
Total revenue, gains and other support	<u>806,300</u>	<u>(31,627)</u>	<u>774,673</u>	<u>830,247</u>	<u>12,281</u>	<u>842,528</u>
Expenses						
Programming and production	596,124	-	596,124	628,469	-	628,469
Broadcast and technical	120,660	-	120,660	124,369	-	124,369
Program information	13,488	-	13,488	15,870	-	15,870
Total program services	<u>730,272</u>	<u>-</u>	<u>730,272</u>	<u>768,708</u>	<u>-</u>	<u>768,708</u>
Supporting services						
Administration	50,416	-	50,416	54,421	-	54,421
Fund-raising	112,998	-	112,998	130,595	-	130,595
Total expenses	<u>893,686</u>	<u>-</u>	<u>893,686</u>	<u>953,724</u>	<u>-</u>	<u>953,724</u>
Change in net assets	(87,386)	(31,627)	(119,013)	(123,477)	12,281	(111,196)
Net assets, beginning of year	<u>915,429</u>	<u>42,932</u>	<u>958,361</u>	<u>1,038,906</u>	<u>30,651</u>	<u>1,069,557</u>
Net assets, end of year	<u>\$ 828,043</u>	<u>\$ 11,305</u>	<u>\$ 839,348</u>	<u>\$ 915,429</u>	<u>\$ 42,932</u>	<u>\$ 958,361</u>

See notes to financial statements.

THE KBOO FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (119,013)	\$ (111,196)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	36,095	42,064
Net (gain) loss on investments	(15,642)	1,421
Changes in assets and liabilities:		
Accounts receivable	(8,521)	(4,305)
Prepaid expenses	(370)	(1,667)
Accounts payable	2,372	(2,085)
Accrued payroll and related liabilities	(9,138)	22,002
Net cash provided by (used in) operating activities	(114,217)	(53,766)
Cash flows from investing activities:		
Distributions from beneficial interest in assets held by others	9,556	13,820
Purchase of property and equipment	(23,254)	-
Net cash provided by (used in) investing activities	(13,698)	13,820
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	-	(2,844)
Net increase in cash and cash equivalents	(127,915)	(42,790)
Cash and cash equivalents, beginning of year	503,014	545,804
Cash and cash equivalents, end of year	\$ 375,099	\$ 503,014

See notes to financial statements.

THE KBOO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2010 and 2009

NOTE A – DESCRIPTION OF ORGANIZATION

The KBOO Foundation (the Foundation) is an Oregon non-profit corporation which operated a listener-supported, non-commercial public radio station from 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, 2010 and 2009

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 stipulates specify how the donated assets must be used. Gifts of long-lived assets will 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, 2010 and 2009.

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. Unrealized gains and losses are included in the change in net assets. 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 permanent 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 permanent 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, 2010 and 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investment and Spending Policies (Continued)

The Foundation's investment objective for funds held as permanent 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, and stocks 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 473 volunteers and 480 volunteers for the years ended September 30, 2010 and 2009, respectively.

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 business tax 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, 2010 and 2009

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 were as follows:

	2010 Level 3	2009 Level 3
Beneficial interest in assets held by others	\$ 195,685	\$ 189,779

For the years ended September 30, 2010 and 2009, the changes in investments (all unrestricted board designated net assets) classified as Level 3 are as follows:

Balance, September 30, 2008	\$	205,020
Total gains and (losses)		(1,421)
Distributions		(13,820)
Balance September 30, 2009	\$	189,779
Total gains and (losses)		15,642
Distributions		(9,556)
Balance September 30, 2010	\$	195,865

THE KBOO FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2010 and 2009

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, 2010 and 2009 consist of:

	2010	2009
Cash on hand and in checking	\$ 15,047	\$ 15,902
Money market accounts (includes Board designated operating reserve of \$200,000).	359,541	486,601
Securities	511	511
	\$ 375,099	\$ 503,014

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2010 and 2009:

	2010	2009
Land	\$ 23,709	\$ 23,709
Building and improvements	192,720	192,720
Office furniture and equipment	108,524	102,748
Production and broadcast equipment	1,013,888	996,410
	1,338,841	1,315,587
Less accumulated depreciation	(1,069,390)	(1,033,294)
	\$ 269,451	\$ 282,293

Depreciation expense for the years ended September 30, 2010 and 2009 was \$36,096 and \$42,064, respectively.

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 revisionary interest totals \$59,769 for the years ended September 30, 2010 and 2009. The revisionary interest will be in effect until June 30, 2015.

THE KBOO FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2010 and 2009

NOTE G – NET ASSETS

The Board has designated a portion of cash and unrestricted net assets as a three month operating reserve for the future. The Board designated net assets totaled \$200,000 as of September 30, 2010 and 2009.

Temporarily restricted net assets are restricted by donors for equipment purchases. Funds were raised under a capital campaign.

As of September 30, 2010 and 2009, temporarily restricted net assets consist of:

	2010	2009
Capital campaign	\$ 11,305	\$ 21,800
Other grants restricted for programs	-	21,132
	\$ 11,305	\$ 42,932

NOTE H – IN-KIND CONTRIBUTIONS

In-kind contributions included in the statements of activities for the year ended September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Transmitter space rent	\$ 63,000	\$ 63,000
Professional services	7,475	-
Classroom rent	2,500	-
	\$ 72,975	\$ 63,000

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:

Year Ending September 30,			
2011	\$	50,590	
2012		52,032	
2013		50,253	
2014		47,220	
2015		31,480	
		\$ 231,575	

Total rent expense for the years ended September 30, 2010 and 2009 was \$48,804 and \$50,120, respectively.

THE KBOO FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2010 and 2009

NOTE I – LEASE COMMITMENTS (CONTINUED)

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.

NOTE J – LINE OF CREDIT

The Foundation had an unsecured line of credit providing for maximum borrowings of \$50,000 with a variable interest rate. There was no balance outstanding in the line of credit at September 30, 2010 and 2009. The line of credit was closed in 2011.

NOTE K – EMPLOYEE BENEFIT PLAN

The Foundation maintains a defined contribution plan under Section 401(k) of the Code covering eligible employees. Retirement contributions by the Foundation are at the discretion of the board of directors. Contributions made by the Foundation amounted to \$2,322 and \$10,173 for the years ended September 30, 2010 and 2009, respectively.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 15, 2011, which is the date the financial statements were available to be issued.