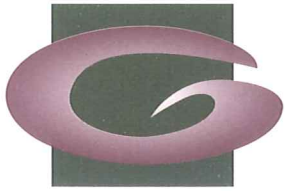


KVIE, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2011 AND 2010**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
KVIE, Inc.
Sacramento, California

We have audited the accompanying statements of financial position of KVIE, Inc., (Station) as of June 30, 2011 and 2010, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Station'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 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 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 KVIE, Inc., as of June 30, 2011 and 2010, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 11, 2011

KVIE, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 1,827,084	\$ 1,765,464
Accounts receivable, net	178,870	145,029
Membership, grants and contributions receivable, net	319,056	323,093
Inventory	33,710	30,622
Program broadcast rights, current portion	69,434	923,588
Prepaid expenses and deposits	54,314	138,357
Asset held for sale		469,736
Other current assets	<u>27,566</u>	<u>27,566</u>
Total current assets	2,510,034	3,823,455
NONCURRENT ASSETS:		
Program broadcast rights, net	9,597	368,020
Other assets	371,155	389,367
Investments	2,228,942	1,334,947
Property and equipment, net	<u>10,291,786</u>	<u>10,795,907</u>
TOTAL ASSETS	<u>\$ 15,411,514</u>	<u>\$ 16,711,696</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 356,762	\$ 230,436
Accrued expenses	286,803	393,298
Deferred revenue	469,477	136,452
Long-term debt, current portion	<u>80,097</u>	<u>76,722</u>
Total current liabilities	1,193,139	836,908
LONG-TERM DEBT, Net	<u>4,595,425</u>	<u>4,679,783</u>
Total liabilities	<u>5,788,564</u>	<u>5,516,691</u>
NET ASSETS:		
Unrestricted	9,156,975	10,733,851
Temporarily restricted	153,855	161,154
Permanently restricted	<u>312,120</u>	<u>300,000</u>
Total net assets	<u>9,622,950</u>	<u>11,195,005</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,411,514</u>	<u>\$ 16,711,696</u>

The accompanying notes are an integral part of these financial statements.

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Membership contributions	\$ 5,581,536	\$ 5,720,596
Less: Direct benefit to donors	<u>(705,739)</u>	<u>(548,820)</u>
Membership contributions, net	4,875,797	5,171,776
Grants and other contributions	3,395,200	3,386,553
Production	1,237,500	1,898,436
Underwriting	1,217,228	1,377,658
Rental income	435,946	415,852
Video productions	163,861	143,476
Special events	126,166	149,979
Government grants	16,741	402,739
Other revenue	167,095	155,016
Net assets released from restriction	<u>161,154</u>	<u>334,258</u>
Total revenues and support	<u>11,796,688</u>	<u>13,435,743</u>
EXPENSES:		
Program services:		
Programming and production	5,932,488	6,174,291
Program information and promotion	1,158,210	1,522,098
Broadcasting	<u>946,940</u>	<u>998,469</u>
Total program services	<u>8,037,638</u>	<u>8,694,858</u>
Supporting services:		
Fundraising and membership development	2,467,362	2,468,675
Management and general	<u>1,504,984</u>	<u>1,635,970</u>
Total supporting services	<u>3,972,346</u>	<u>4,104,645</u>
Total expenses	<u>12,009,984</u>	<u>12,799,503</u>
INCOME (LOSS) FROM OPERATIONS	(213,296)	636,240
Interest and investment income	261,166	105,840
Loss from impairment of asset held for sale	(469,736)	
Change in accounting estimate for PBS dues	<u>(1,155,010)</u>	<u> </u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(1,576,876)</u>	<u>742,080</u>

The accompanying notes are an integral part of these financial statements.

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and other contributions	\$ 153,855	\$ 81,721
Net assets released from restriction	<u>(161,154)</u>	<u>(334,258)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(7,299)</u>	<u>(252,537)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>12,120</u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	(1,572,055)	489,543
NET ASSETS, Beginning of Year	<u>11,195,005</u>	<u>10,705,462</u>
NET ASSETS, End of Year	<u>\$ 9,622,950</u>	<u>\$ 11,195,005</u>

The accompanying notes are an integral part of these financial statements.

KVIE, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (1,572,055)	\$ 489,543
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation and amortization	1,138,487	1,226,580
Net realized and unrealized gain on investments	(209,168)	(66,011)
Loss on disposal of property and equipment	6,256	65,418
Loss from impairment of asset held for sale	469,736	
Amortization of program broadcast rights	3,104,378	1,815,290
Permanently restricted contributions	(12,120)	
Changes in:		
Accounts receivable, net	(33,841)	12,240
Membership, grants and contributions receivable, net	4,037	254,729
Inventory	(3,088)	5,287
Program broadcast rights, net	(1,891,801)	(1,841,263)
Prepaid expenses and deposits	84,043	974
Other assets	18,212	8,364
Accounts payable	126,326	(143,540)
Accrued expenses	(106,495)	140,087
Deferred revenue	<u>333,025</u>	<u>(12,669)</u>
Net cash and equivalents provided by operating activities	<u>1,455,932</u>	<u>1,955,029</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(874,567)	(475,567)
Proceeds from sale of investments	189,740	1,062
Purchases of property and equipment	(650,096)	(792,592)
Proceeds from sale of property and equipment	<u>9,474</u>	<u>5,710</u>
Net cash and equivalents used by investing activities	<u>(1,325,449)</u>	<u>(1,261,387)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	12,120	
Repayment of long-term debt	<u>(80,983)</u>	<u>(106,608)</u>
Net cash and equivalents used by financing activities	<u>(68,863)</u>	<u>(106,608)</u>
INCREASE IN CASH AND EQUIVALENTS	61,620	587,034
CASH AND EQUIVALENTS, Beginning of Year	<u>1,765,464</u>	<u>1,178,430</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 1,827,084</u>	<u>\$ 1,765,464</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 322,546</u>	<u>\$ 353,627</u>

The accompanying notes are an integral part of these financial statements.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

1. ORGANIZATION AND PROGRAMS

KVIE, Inc., (Station) is a nonprofit corporation which was incorporated in 1955 under the laws of the State of California. Its purpose is to provide educational television programming to the North Central California area. Following is a description of the Station's primary programs:

- **Programming and production** consists of the selection of programs to be aired by the Station, and the production of content by the Station to be aired locally and nationally in the Public Broadcasting Service.
- **Program information and promotion** relates to providing viewers with information about the Station's programming, local productions, events, and other mission-related services.
- **Broadcasting** is related to the transmission of the Station's content to viewers through various media, including over-the-air broadcasting, cable, satellite, and the Internet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Station reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Membership revenues and other contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted. Permanently restricted net assets are those net assets whose use by the Station is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Station and consist of contributions to the Station's endowment fund.

Production revenues consist of sponsorship revenue for production cost of programs produced by the Station. These revenues are recorded as exchange transactions, with revenue being recognized based on percentage of production completion of the program sponsored.

Underwriting revenues relate to station sponsorships where the donor is recognized adjacent to programming on the Station. These revenues are recorded as exchange transactions, with revenue recognized over the life of the underwriting contract.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Video productions revenue consists of fees for production services provided by the Station to outside parties. These revenues are recorded as services are performed.

Government grant revenue is recognized when qualifying expenses are incurred.

Donations of materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition are not reflected in the financial statements.

Cash and equivalents – For financial statement purposes, the Station considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

The Station minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Station has not experienced any losses in such accounts and management believes the Station is not exposed to any significant credit risk related to cash.

Program broadcast rights – Program series and other syndicated products are recorded at the lower of unamortized cost or estimated net realizable value. Generally, these programs and products are amortized on the straight-line basis over the period of the license agreement.

In 2011, the Station determined that program broadcast rights obtained as part of dues paid to PBS no longer provided a guaranteed benefit to the Station beyond the contract year. Program broadcast rights recorded prior to 2011 have been expensed in the year ended June 30, 2011 as a change in estimate to reflect this treatment.

Investments are stated at fair value.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. The Station capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from three to forty years.

Equipment purchased with grant funds from the National Telecommunications and Information Administration is to revert to that agency if the Station wishes to dispose of the equipment within 10 years from the date of the grant. Such equipment is capitalized and included in property and equipment.

Inventory consists of supplies and membership inducement premiums. Inventory is stated at the lower of cost or market under the first-in, first-out method of valuation.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the usage of resources.

Income taxes – The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Station has implemented the amended accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Station is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2007.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair value measurements – The Station values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Station utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- | | |
|----------------|---|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly. |
| Level 3 Inputs | Unobservable inputs in which there is little or no market data, which requires management to develop their own assumptions. |

Subsequent events have been reviewed through November 11, 2011, the date the financial statements were issued.

Reclassification – Certain 2010 amounts have been reclassified to conform to the 2011 financial statement presentation.

Recent accounting pronouncements – In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*. This update is effective for the annual reporting periods beginning January 1, 2010. Other than requiring additional disclosures, adoption of this update will not have a material effect on the Station's financial statements.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

3. ACCOUNTS RECEIVABLE

Accounts receivable are as follows:

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 179,977	\$ 145,229
Less: Allowance for doubtful accounts	<u>(1,107)</u>	<u>(200)</u>
Accounts receivable, net	<u>\$ 178,870</u>	<u>\$ 145,029</u>

4. MEMBERSHIP, GRANTS AND CONTRIBUTIONS RECEIVABLE

Membership, grants and contributions receivable are as follows:

	<u>2011</u>	<u>2010</u>
Memberships receivable	\$ 340,474	\$ 389,224
Grants receivable	63,700	
Contributions receivable		46,128
Less: Allowance for doubtful accounts	<u>(85,118)</u>	<u>(112,259)</u>
Membership, grants and contributions receivable, net	<u>\$ 319,056</u>	<u>\$ 323,093</u>

5. INVESTMENTS

Interest and investment income consists of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 51,998	\$ 39,829
Net realized and unrealized gains	<u>209,168</u>	<u>66,011</u>
Total	<u>\$ 261,166</u>	<u>\$ 105,840</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Investments consist of the following and are included in Level 1 of the fair value hierarchy as they are based on quoted prices in active markets:

	<u>2011</u>	<u>2010</u>
Cash and equivalents	\$ 79,062	
Mutual funds – equity		
Small blend	332,957	
Small growth	12,669	\$ 10,592
Mid-cap growth	12,045	10,017
Large growth	309,928	215,283
Large value	288,690	237,886
Foreign large blend	36,799	42,840
Foreign large growth	206,313	104,486
Diversified emerging markets	20,854	
Mutual funds – fixed income		
High yield bond	94,180	64,490
Intermediate government		224,637
Intermediate term bond	394,176	278,650
Multi-sector bond	73,617	72,153
Ultra-short bond	254,093	
World bond	<u>113,559</u>	<u>73,913</u>
Total	<u>\$ 2,228,942</u>	<u>\$ 1,334,947</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,392,502	\$ 2,392,502
Buildings	8,471,714	8,236,303
Broadcast equipment	6,564,923	6,446,434
Production equipment	1,304,867	1,572,599
Office and production furniture and equipment	920,806	996,586
Leasehold improvements	427,713	427,713
Vehicles and related equipment	<u>81,549</u>	<u>81,549</u>
Total	20,164,074	20,153,686
Less accumulated depreciation and amortization	<u>(9,872,288)</u>	<u>(9,357,779)</u>
Property and equipment, net	<u>\$ 10,291,786</u>	<u>\$ 10,795,907</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Office and production furniture and equipment includes assets acquired under capital leases in the amount of \$33,033 and \$215,201 for 2011 and 2010, respectively.

The federally mandated transition to digital broadcasting technology, which occurred on June 12, 2009, caused the Channel 53 Digital Transmitter held by the Station to become obsolete to the Station. The asset was classified as held for sale at that time, however, the Station determined that the asset had no market value due to the nature of the asset and recognized a full impairment during 2011.

7. LONG TERM DEBT

Long-term debt is as follows:

	<u>2011</u>	<u>2010</u>
Promissory note, secured by the Station's building, payable in monthly payments ranging from \$29,767 to \$33,404 including interest at 6.00%, with a final payment of \$4,155,578 due August 1, 2017.	\$ 4,669,098	\$ 4,736,088
Capital lease obligations relating to production and office equipment.	<u>6,424</u>	<u>20,417</u>
Total	4,675,522	4,756,505
Less current portion	<u>(80,097)</u>	<u>(76,722)</u>
Long-term debt, net	<u>\$ 4,595,425</u>	<u>\$ 4,679,783</u>

Maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	
2012	\$ 80,097
2013	74,380
2014	79,124
2015	84,172
2016	89,542
Thereafter	<u>4,268,207</u>
Long-term debt	<u>\$ 4,675,522</u>

Total interest expense was \$318,186 and \$353,285 for 2011 and 2010, respectively.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

8. LINE OF CREDIT

The Station has a \$500,000 revolving line of credit with a bank, payable in one installment of principal and interest accrued at 3.75% per annum, maturing on March 15, 2012. There were no amounts outstanding on this line of credit at June 30, 2011 and 2010.

9. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Education	\$ 46,592	\$ 133,264
Outreach	30,657	
Equipment	11,485	
Programming	10,200	13,483
Other	<u>54,921</u>	<u>14,407</u>
Total	<u>\$ 153,855</u>	<u>\$ 161,154</u>

Permanently restricted net assets are comprised of donor-restricted endowment funds to be used to support the ongoing operations of the Station. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Station classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Permanently restricted net assets as of June 30, 2011 and 2010 consist of one endowment fund that is invested in perpetuity with interest and dividends to be used for operating purposes. There were restricted contributions of \$12,120 made to the fund in 2011. There were no restricted investment earnings or distributions made from the fund in 2011 and 2010.

The endowment investment policy, approved by the Board of Directors, emphasizes preservation of the principal balance as its primary objective and growth and income as secondary objectives.

Board-restricted net assets of \$1,832,637 and \$1,157,662 at June 30, 2011 and 2010, respectively, have been designated to provide reserves to assure the ability of the Station to meet operating needs on an as-needed basis and do not represent a Board endowment fund.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

10. DONATED SERVICES, MATERIALS, AND FACILITIES

The Station received the following donated services, materials, and facilities:

	<u>2011</u>	<u>2010</u>
Tower facilities	\$ 360,000	\$ 360,000
Professional services	<u>175,000</u>	<u>174,996</u>
Total donated materials and services	<u>\$ 535,000</u>	<u>\$ 534,996</u>

11. RENTAL INCOME

The Station leases office space to a local not-for-profit university under a non-cancelable operating lease expiring June 30, 2018, with an option to extend for two additional five year periods. Revenue from this agreement will be recognized on the straight-line basis in accordance with professional standards.

Minimum future lease payments to be received under this agreement are as follows:

<u>Year ending June 30:</u>	
2012	\$ 339,770
2013	349,618
2014	359,467
2015	369,315
2016	379,163
Thereafter	<u>787,872</u>
Total	<u>\$ 2,585,205</u>

12. COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, nonprofit and grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations in order to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

According to the Communications Act, funds may be used at the discretion of recipients. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

The grants are reported on the accompanying financial statements as unrestricted operating revenue; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

13. RETIREMENT PLAN

The Station has a defined contribution plan. Regular full-time and part-time employees with at least one year of service are eligible to participate. Under the provisions of the plan, the Station contributes 4% of qualified wages when the participant contributes at least 1% monthly. The Station contracts with TIAA/CREF to provide retirement benefits to its employees. All pension plan liabilities are fully funded through individually owned annuity contracts. The obligation for the payment of benefits has been transferred from the Station to TIAA/CREF. The employer made no retirement plan contributions for the years ended June 30, 2011 and 2010. The Station temporarily suspended the matching provision of the plan effective April 2009.

14. INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by the Video Production Department, which provides video production facilities and services, is taxable as unrelated business income.