



Report of Independent Auditors and  
Financial Statements for

**Oregon Public Broadcasting**

June 30, 2011 and 2010

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors  
Oregon Public Broadcasting

We have audited the accompanying statements of financial position of Oregon Public Broadcasting (OPB) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of OPB'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 OPB 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.

*Moss Adams LLP*

Portland, Oregon  
November 21, 2011

**OREGON PUBLIC BROADCASTING**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,389,854	\$ 3,382,690
Underwriting and other accounts receivable, net	2,668,475	2,288,107
Contributions and bequests receivable, net	1,781,142	1,404,444
Investments	23,510,613	22,741,655
Investments in LLCs	2,366,714	2,345,198
Investments for charitable trusts and gift annuities	1,776,889	1,651,279
Prepays and other assets	1,358,493	1,557,206
Property and equipment, net	16,585,301	15,207,500
<b>TOTAL ASSETS</b>	<b>\$ 55,437,481</b>	<b>\$ 50,578,079</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 2,637,260	\$ 2,335,378
Accrued liabilities	592,865	1,159,375
Deferred revenue	565,470	183,259
Actuarial liability for charitable trusts and gift annuities	910,605	909,459
Total liabilities	4,706,200	4,587,471
<b>NET ASSETS</b>		
Unrestricted	27,563,828	25,754,281
Board-designated	17,193,762	14,184,551
Total unrestricted	44,757,590	39,938,832
Temporarily restricted	3,474,090	3,813,467
Permanently restricted	2,499,601	2,238,309
Total net assets	50,731,281	45,990,608
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 55,437,481</b>	<b>\$ 50,578,079</b>

**OREGON PUBLIC BROADCASTING**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 13,064,289	\$ 279,672	\$ 255,500	\$ 13,599,461
Content creation grants and contracts	634,826	5,999,349	-	6,634,175
Other grants and contracts	4,820,003	4,235,735	-	9,055,738
Sales and services	1,527,530	-	-	1,527,530
Donated services and materials	247,666	-	-	247,666
Investment income:				
Interest and dividends	382,585	59,523	-	442,108
Realized gains on investments	360,583	58,838	-	419,421
Net unrealized gains on investments	2,093,331	205,627	-	2,298,958
Gain on investments in LLCs	12,055	-	-	12,055
Gain (loss) on charitable trusts and gift annuities	238,216	(29,820)	5,792	214,188
Net assets released from restrictions and transfers	11,148,301	(11,148,301)	-	-
	<u>34,529,385</u>	<u>(339,377)</u>	<u>261,292</u>	<u>34,451,300</u>
<b>EXPENSES</b>				
Programming and content creation	14,187,580	-	-	14,187,580
Broadcasting	5,521,204	-	-	5,521,204
Marketing	1,030,085	-	-	1,030,085
Management and general	4,533,661	-	-	4,533,661
Development and fund-raising	4,438,097	-	-	4,438,097
	<u>29,710,627</u>	<u>-</u>	<u>-</u>	<u>29,710,627</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	4,818,758	(339,377)	261,292	4,740,673
<b>NET ASSETS, beginning of year</b>	<u>39,938,832</u>	<u>3,813,467</u>	<u>2,238,309</u>	<u>45,990,608</u>
<b>NET ASSETS, end of year</b>	<u>\$ 44,757,590</u>	<u>\$ 3,474,090</u>	<u>\$ 2,499,601</u>	<u>\$ 50,731,281</u>

**OREGON PUBLIC BROADCASTING**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 13,875,476	\$ 211,508	\$ 256,350	\$ 14,343,334
Content creation grants and contracts	288,392	6,620,800	-	6,909,192
Other grants and contracts	3,914,275	3,582,420	-	7,496,695
Sales and services	1,565,844	-	-	1,565,844
Donated services and materials	1,896,762	-	-	1,896,762
Investment income:				
Interest and dividends	416,082	75,040	-	491,122
Realized gains on investments	82,913	12,943	-	95,856
Net unrealized gains on investments	942,005	7,785	-	949,790
Loss on investments in LLCs	(143,244)	-	-	(143,244)
Gain (loss) on charitable trusts and gift annuities	462,823	(9,492)	4,360	457,691
Net assets released from restrictions and transfers	11,140,569	(11,140,569)	-	-
	<u>34,441,897</u>	<u>(639,565)</u>	<u>260,710</u>	<u>34,063,042</u>
Total revenues, gains, and other support				
<b>EXPENSES</b>				
Programming and content creation	13,687,436	-	-	13,687,436
Broadcasting	5,379,397	-	-	5,379,397
Marketing	1,014,919	-	-	1,014,919
Management and general	4,076,933	-	-	4,076,933
Development and fund-raising	4,376,168	-	-	4,376,168
	<u>28,534,853</u>	<u>-</u>	<u>-</u>	<u>28,534,853</u>
Total expenses				
<b>INCREASE (DECREASE) IN NET ASSETS</b>	5,907,044	(639,565)	260,710	5,528,189
<b>NET ASSETS, beginning of year</b>	<u>34,031,788</u>	<u>4,453,032</u>	<u>1,977,599</u>	<u>40,462,419</u>
<b>NET ASSETS, end of year</b>	<u>\$ 39,938,832</u>	<u>\$ 3,813,467</u>	<u>\$ 2,238,309</u>	<u>\$ 45,990,608</u>

**OREGON PUBLIC BROADCASTING**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 4,740,673	\$ 5,528,189
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	2,291,493	2,002,855
Adjustment in value of broadcast license	55,000	72,191
Realized and unrealized gains on investments	(2,718,379)	(1,045,646)
Gain on charitable trusts and gift annuities	(214,188)	(457,691)
Contributions of charitable trusts and gift annuities	(58,361)	(72,720)
Loss (gain) on disposal of property and equipment	6,958	(13,130)
(Gain) loss on investments in LLCs	(12,055)	143,244
Contributed equipment	-	(1,545,725)
Changes in operating assets and liabilities:		
Underwriting and other accounts receivable	(380,368)	(106,309)
Contributions and bequests receivable	(376,698)	(740,547)
Prepays and other assets	93,789	(34,923)
Accounts payable	301,882	963,476
Accrued liabilities	(566,510)	1,486
Deferred revenue	382,211	(378,585)
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	(2,104,622)	(892,150)
Net cash from operating activities	<u>1,440,825</u>	<u>3,424,015</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(18,175,579)	(12,894,480)
Proceeds from sale of investments	20,125,000	3,415,382
Purchase of property and equipment	(3,551,328)	(1,667,245)
Proceeds from sale of property and equipment	-	13,698
Purchase of broadcast license	(75,000)	-
Capital contribution to LLC	(9,461)	(4,086)
Net cash from investing activities	<u>(1,686,368)</u>	<u>(11,136,731)</u>

**OREGON PUBLIC BROADCASTING**  
**STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	\$ -	\$ (225,000)
Payments to annuitants and trust beneficiaries	(142,548)	(168,103)
Proceeds from matured annuities and trusts	136,409	418,827
Proceeds from distributions of trusts	11,677	-
Proceeds from gifted annuities and trusts	130,072	192,359
Changes in present value of charitable trusts	12,475	(23,190)
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	2,104,622	892,150
	<u>2,252,707</u>	<u>1,087,043</u>
Net cash from financing activities		
	<u>2,252,707</u>	<u>1,087,043</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,007,164	(6,625,673)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>3,382,690</u>	<u>10,008,363</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,389,854</u>	<u>\$ 3,382,690</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 4,538</u>

## OREGON PUBLIC BROADCASTING

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Oregon Public Broadcasting (OPB or the Organization) is a not-for-profit public broadcasting corporation incorporated in Oregon. OPB operates a network of five television and sixteen radio stations located in Oregon, serving Oregon and southern Washington.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting and presentation** – The financial statements of OPB have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which is consistent with the Financial Reporting Guidelines Supplemental Guide issued by the Corporation for Public Broadcasting.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of OPB and changes therein are classified and reported as follows:

*Unrestricted net assets* reflect the cumulative effect of net activity absent donor-imposed restrictions. OPB's Board has designated the use of various contributions for their discretion. The funds are used to meet operating and capital needs.

*Temporarily restricted net assets* result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Most of OPB's content creation funding contains donor-imposed restrictions. When a donor 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 and reported in the statements of activities as net assets released from restrictions.

*Permanently restricted net assets* result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions.

**Use of estimates** – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – All cash and highly liquid investments with maturities of three months or less at the date of acquisition are considered cash and cash equivalents.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Underwriting, other accounts receivable, and contributions and bequests receivable** – OPB’s receivables are stated at amounts estimated by management to be the net realizable value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Bequests and estates are recorded upon completion of the probate process and are expected to be collected within a year. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible receivables is provided based upon management’s judgment, including such factors as prior collection history and type of receivable. Accounts are charged off when all collection efforts have been exhausted.

**Investments** – Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the increase in unrestricted net assets, unless the donor has imposed restrictions on the earnings.

Fair values of certain private equity and real estate investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations, assumptions, and methods are reviewed by the Organization’s management and the Finance and Investment Committee.

It is the Organization’s policy to recognize transfers of investments between levels in the fair value hierarchy on June 30<sup>th</sup> of each year.

**Property and equipment** – Property and equipment are valued at historical cost. Donated property and equipment are valued at estimated fair market value at date of receipt. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	9 – 50 years
Equipment	3 – 15 years
Computer software	2 – 8 years

New equipment and expenditures for major repairs and improvements exceeding \$5,000 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred.

**Assets held in charitable trusts and gift annuities** – OPB serves as the trustee for various charitable trusts and gift annuities. Under the terms of these agreements, OPB makes distributions to income beneficiaries for a given term or for the life of the beneficiaries. Assets remaining in the trust and annuity will be transferred to OPB at the end of the term or upon death of the beneficiaries.

OPB classifies the assets held in charitable trusts and gift annuities as investments, which are recorded at their fair value. The related liability is recorded at the estimated discounted value of the amounts due to the income beneficiaries.

**Prepays and other assets** – Prepays and other assets consist primarily of prepaid leases, broadcast licenses, and miscellaneous prepaid expenses. Prepaid leases are amortized over the lease term of 10 to 20 years using the straight-line method.

## OREGON PUBLIC BROADCASTING

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Deferred revenue** – Deferred revenue is primarily content creation funding advances for projects in progress.

**Actuarial liability for gift annuities** – The actuarial liability for gift annuities has been computed using a discount factor ranging from 5% to 12% and an estimated life expectancy of annuitants based on applicable mortality tables.

**Revenue recognition** – Unconditional contributions and promises to give are recognized as revenue in the period committed. Conditional promises to give, which depend on the occurrence of a future event, are recognized when the conditions are substantially met. Restricted contributions for which the restriction is met in the year the contribution is made are recorded as unrestricted contributions.

**Advertising costs** – Advertising and development funding promotion costs are expensed as incurred and aggregated \$72,972 and \$108,104 for the years ended June 30, 2011 and 2010, respectively.

**Fund-raising expenses** – All costs attributable to the production, printing, and mailing of literature to the public, that have both an educational and fund-raising appeal, have been recorded as fund-raising expenses in the financial statements as they do not meet the requirements for the allocation of joint costs as provided by accounting standards.

**Income taxes** – OPB is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, OPB qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Organization recognizes the tax benefit from uncertain tax positions, if any, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlements. The Organization recognizes interest accrued and penalties related to tax matters in administrative expenses.

The Organization had no unrecognized tax benefits at June 30, 2011 or 2010. No interest and penalties were accrued upon adoption or for the year ended June 30, 2011 or 2010. The Organization files an exempt organization return and unrelated business income tax return in the U.S. federal jurisdiction and with the Oregon charities division and Oregon Department of Revenue, and is no longer subject to income tax examinations by taxing authorities for years before 2007 for its federal and state filings.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. OPB recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. OPB's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. OPB has evaluated subsequent events through November 21, 2011, which is the date the financial statements were issued.

**NOTE 3 – UNDERWRITING AND OTHER ACCOUNTS RECEIVABLE**

Underwriting and other accounts receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Underwriting	\$ 1,390,803	\$ 1,405,303
Content creation	1,207,068	690,383
Other	<u>191,671</u>	<u>318,188</u>
Total underwriting and other accounts receivable	2,789,542	2,413,874
Less reserve for uncollectible underwriting and other accounts receivable	<u>(121,067)</u>	<u>(125,767)</u>
Underwriting and other accounts receivable, net	<u><u>\$ 2,668,475</u></u>	<u><u>\$ 2,288,107</u></u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE**

Contributions and bequests receivable after one year were discounted using an adjusted risk free interest rate commensurate with the period over which the contribution will be received for the years ended June 30, 2011 and 2010, which was approximately 5%. The annual payments are scheduled to be received as follows:

	<u>2011</u>	<u>2010</u>
Contributions and bequests receivable due in less than one year	\$ 1,698,152	\$ 1,281,705
Contributions and bequests receivable due in one to five years	<u>95,000</u>	<u>142,869</u>
	1,793,152	1,424,574
Less unamortized discount	<u>(12,010)</u>	<u>(20,130)</u>
Contributions and bequests receivable, net	<u>\$ 1,781,142</u>	<u>\$ 1,404,444</u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - INVESTMENTS**

Investments are stated at fair value as determined by external investment managers if market values are not readily ascertainable. Realized and unrealized gains and losses are reflected in the statements of activities. Investments, presented by type, are as follows at June 30, 2011:

Investments, at fair value:

Equity securities	
Mutual funds – fixed income	\$ 3,701,633
Mutual funds – international equities	3,517,038
Mutual funds – U.S. equities focused	2,406,968
Mutual fund – real return	1,830,262
Exchange traded funds – public real estate	940,024
Debt securities	
U.S. government agency notes	4,129,731
Commercial paper	999,435
Alternative investments	
Hedge funds	2,226,738
Real estate funds	934,754
Equity funds	<u>2,813,030</u>
Total investments at fair value	23,499,613
Other investments, at cost:	
Miscellaneous	<u>11,000</u>
Total investments	<u><u>\$ 23,510,613</u></u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - INVESTMENTS - (continued)**

Investments, presented by type, as are follows at June 30, 2010:

Investments, at fair value:	
Mutual funds – equity investments	\$ 5,972,442
Mutual funds – fixed income securities	4,758,442
U.S. government agency securities	7,853,189
Alternative investments:	
Hedge funds	1,792,685
Real estate funds	793,956
Equity funds	<u>1,559,941</u>
Total investments at fair value	22,730,655
Other investments, at cost:	
Miscellaneous	<u>11,000</u>
Total investments	<u><u>\$ 22,741,655</u></u>

Alternative investments totaling \$5,974,522 and \$4,146,582 at June 30, 2011 and 2010, respectively, include investments in hedge funds and commingled funds with holdings that include real estate and equity funds. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Due to the risks associated with certain investments and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts reported in the statement of financial position and statement of activity.

During the year ended June 30, 2011, the Organization reclassified its investments to be more consistent with fund manager classifications. These reclassifications had no impact on total net assets or the change in net assets.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,861,540	\$ 2,861,540
Buildings and improvements	10,264,679	9,833,202
Equipment and computer software	<u>28,475,925</u>	<u>27,339,967</u>
Total property and equipment	41,602,144	40,034,709
Less accumulated depreciation and amortization	<u>(25,581,328)</u>	<u>(25,188,566)</u>
	16,020,816	14,846,143
Construction in progress	<u>564,485</u>	<u>361,357</u>
Property and equipment, net	<u><u>\$ 16,585,301</u></u>	<u><u>\$ 15,207,500</u></u>

Depreciation expense for the years ended June 30, 2011 and 2010, was \$2,166,569 and \$1,877,931, respectively.

**NOTE 7 - LINE OF CREDIT**

OPB has an unsecured revolving line of credit totaling \$1,000,000 with US Bank N.A. Borrowings under the line of credit are due on demand. Borrowings bear interest at the bank's prime rate (3.25% at June 30, 2011 and 2010, respectively). No balance was outstanding on the revolving line of credit as of June 30, 2011 and 2010. The line of credit expires December 31, 2011.

**NOTE 8 - NOTE PAYABLE**

OPB had a note payable with Umpqua Bank, payable in one installment, due February 19, 2010. Borrowings bore interest at 3.0% for the year ended June 30, 2010. The balance was paid in full during the year ended June 30, 2010 and interest expense for that year was \$4,538. No additional notes payable were entered into during the year ended June 30, 2011.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

**Operating leases** – OPB is committed under various noncancellable long-term leases for property and equipment expiring through 2025. The aggregate minimum rental commitments under the leases are as follows:

Years ending June 30, 2012	\$	25,020
2013		23,820
2014		21,234
2015		20,244
2016		20,244
Thereafter		<u>185,570</u>
	\$	<u>296,132</u>

Rental expense was \$149,564 and \$143,355 for the years ended June 30, 2011 and 2010, respectively.

**National Telecommunications Information Administration (NTIA)** – The federal government has a ten-year priority lien on any facility and equipment purchased with funds from the NTIA. The lien is to ensure that broadcasting facilities funded with federal monies will continue to be used to provide public broadcasting services to the public during the period of federal interest.

**Grant revenues** – The grant revenues reported in the accompanying statements of activities are subject to audit and adjustment by grantor agencies. Grant revenues relating to costs, which may be ultimately questioned or disallowed by the grantor agencies, may become a liability of OPB as a result of audit findings.

**Capital purchases** – At June 30, 2011 and 2010, outstanding purchase commitments were \$132,359 and \$78,161, respectively, for equipment and related costs.

**NOTE 10 – FAIR VALUE OF ASSETS**

Accounting literature defines fair value as 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. OPB determines fair value based on quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect OPB's market assumptions. These two types of inputs create the following hierarchy:

- Level I**            Quoted prices in active markets for identical assets.
  
- Level II**            Quoted prices for similar instruments in active markets, quoted prices for similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
  
- Level III**            Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. OPB's own data used to develop unobservable inputs is also adjusted for market consideration when reasonably available.

OPB used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

*Investments and investments for charitable trusts and gift annuities* – Investments are comprised of marketable equity and debt securities as well as alternative investments. Marketable equity security fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Alternative investments are valued at fair value using significant unobservable inputs. The value of these investments are determined by fund managers and valuation experts, using relevant market data, and are subject to regular review by OPB's management.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 – FAIR VALUE OF ASSETS – (continued)**

The following is a summary categorization as of June 30, 2011 of OPB’s assets based on the level of inputs utilized in determining the value of such investments:

	Level I	Level II	Level III	Total
Equity securities:				
Mutual fund – fixed income	\$ 3,701,633	\$ -	\$ -	\$ 3,701,633
Mutual funds – international equities	3,517,038	-	-	3,517,038
Mutual funds – U.S. equities focused	2,406,968	-	-	2,406,968
Mutual fund – real return	1,830,262	-	-	1,830,262
Exchange traded fund - public real estate	940,024	-	-	940,024
Debt securities:				
U.S. government agency notes	4,129,731	-	-	4,129,731
Commercial paper	-	999,435	-	999,435
Alternative investments:				
Hedge funds	-	2,226,738	-	2,226,738
Real estate funds	-	-	934,754	934,754
Equity funds	-	-	2,813,030	2,813,030
Assets held in charitable trusts:				
Mutual funds – equities	1,071,460	-	-	1,071,460
Mutual funds – fixed income	551,609	-	-	551,609
Beneficial interest in trust assets	-	-	153,820	153,820
	<u>\$ 18,148,725</u>	<u>\$ 3,226,173</u>	<u>\$ 3,901,604</u>	<u>\$ 25,276,502</u>

The following is a summary categorization as of June 30, 2010 of OPB’s assets based on the level of inputs utilized in determining the value of such investments:

	Level I	Level II	Level III	Total
Marketable securities:				
Mutual funds – equity investments	\$ 5,972,442	\$ -	\$ -	\$ 5,972,442
Mutual funds – fixed income securities	4,758,442	-	-	4,758,442
U.S. government agency notes	7,853,189	-	-	7,853,189
Alternative investments:				
Hedge funds	-	1,792,685	-	1,792,685
Real estate funds	-	-	793,956	793,956
Equity funds	-	-	1,559,941	1,559,941
Charitable trusts and gift annuities:				
Mutual funds – equity investments	900,051	-	-	900,051
Mutual funds – fixed income securities	596,823	-	-	596,823
Beneficial interest in trust assets	-	-	154,405	154,405
	<u>\$ 20,080,947</u>	<u>\$ 1,792,685</u>	<u>\$ 2,508,302</u>	<u>\$ 24,381,934</u>

**OREGON PUBLIC BROADCASTING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – FAIR VALUE OF ASSETS – (continued)**

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level III) on a recurring basis during the year ended June 30, 2011:

	<u>Alternative Investments</u>		Beneficial Interest in Trust Assets	Level III Instruments
	<u>Real Estate Funds</u>	<u>Equity Funds</u>		
Balance at July 1, 2010	\$ 793,956	\$ 1,559,941	\$ 154,405	\$ 2,508,302
Net purchases/sales	-	650,000	-	650,000
Net realized/unrealized gains (losses)	<u>140,798</u>	<u>603,089</u>	<u>(585)</u>	<u>743,302</u>
Balance at June 30, 2011	<u>\$ 934,754</u>	<u>\$ 2,813,030</u>	<u>\$ 153,820</u>	<u>\$ 3,901,604</u>

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level III) on a recurring basis during the year ended June 30, 2010:

	<u>Alternative Investments</u>			Beneficial Interest in Trust Assets	Level III Instruments
	<u>Hedge Funds</u>	<u>Real Estate Funds</u>	<u>Equity Funds</u>		
Balance at July 1, 2009	\$ 1,491,009	\$ 871,492	\$ 1,352,618	\$ 639,610	\$ 4,354,729
Net purchases/sales	150,000	-	-	-	150,000
Net payments/receipts	-	-	-	(7,713)	(7,713)
Net realized/unrealized gains (losses)	151,676	(77,536)	207,323	9,492	290,955
Transfers from Level III	<u>(1,792,685) (a)</u>	<u>-</u>	<u>-</u>	<u>(486,984) (a)</u>	<u>(2,279,669)</u>
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ 793,956</u>	<u>\$ 1,559,941</u>	<u>\$ 154,405</u>	<u>\$ 2,508,302</u>

(a) Transferred to Level II because of an increase in observable market data due to an increase in market activity for those investments.

Net realized/unrealized gains and losses from Level III investments and investments for beneficial interest in trust assets shown in the tables above are reported in the Statement of Activities within net unrealized gains on investments and gains (losses) on charitable trusts and gift annuities, respectively. Total unrealized gains from Level III investments held by the Organization at June 30, 2011 was \$743,302.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 – FAIR VALUE OF ASSETS – (continued)**

OPB uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles or have the attributes of an investment company. The following table lists investments in other investment companies by major category:

	Fair Value at Year End	Unfunded Commitments	Remaining Life	Timing to Draw Down Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Hedge funds (a)	\$ 2,226,738	\$ -	N/A	N/A	Quarterly	90 days notice	None
Real estate funds (b)	934,754	-	N/A	N/A	N/A	N/A	None
Equity funds (c)	2,813,030	-	N/A	N/A	N/A	N/A	None
	<u>\$ 5,974,522</u>	<u>\$ -</u>					

(a) Funds-of-funds pursuing a variety of investment strategies.

(b) Real estate and natural resources, primarily in the U.S.

(c) Multi-cap investment strategy, in the U.S. and international.

**NOTE 11 – DONATED SERVICES, MATERIALS AND EQUIPMENT**

Donated programming, equipment, and other services by functional classification are as follows:

	2011	2010
Programming and content creation	\$ 6,795	\$ 4,938
Broadcasting	62,895	169,928
Marketing	66,495	46,426
Management and general	58,195	58,945
Development and fund-raising	53,286	70,800
Equipment	-	1,545,725
	<u>\$ 247,666</u>	<u>\$ 1,896,762</u>

The valuation of the services and materials was determined by the donors. A substantial number of volunteers donate significant amounts of their time in OPB's program services. These donated hours are a necessary part of OPB's activities since its services could not be sustained at the current level without such support. The services contributed do not enhance nonfinancial assets or require specialized skills. Therefore, no dollar amounts have been reflected in the accompanying financial statements for these services.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 12 – RETIREMENT PLANS**

OPB has a defined contribution plan which is open to all OPB employees who have completed one year of service. OPB’s contributions are based on a percentage of eligible compensation and benefits are fully vested. Contributions totaled \$532,944 and \$535,355 during the years ended June 30, 2011 and 2010, respectively.

**NOTE 13 – INVESTMENT IN LLC**

OPB has a 50% investment in an LLC which was formed to construct and operate a transmission tower and facilities which holds both radio and television antennas. OPB and the other LLC member contribute on an equal basis the capital necessary to operate this tower. For the years ended June 30, 2011 and 2010, OPB made no contributions. Summarized financial information for the LLC, which is accounted for under the equity method due to OPB’s 50% investment (which approximates 57% and 56% at June 30, 2011 and 2010, respectively, as a result of depreciation allocations based on assets owned), consisted of the following at June 30:

	2011 <u>(Unaudited)</u>	2010 <u>(Unaudited)</u>
Current assets	\$ 605,296	\$ 431,365
Noncurrent assets	<u>3,426,915</u>	<u>3,652,754</u>
Total assets	<u>\$ 4,032,211</u>	<u>\$ 4,084,119</u>
Current liabilities	\$ 91,542	\$ 167,600
Noncurrent liabilities	<u>15,208</u>	<u>27,228</u>
Total liabilities	<u>106,750</u>	<u>194,828</u>
Equity, beginning of year	3,889,291	4,154,819
Gain (loss) from continuing operations	<u>36,170</u>	<u>(265,528)</u>
Equity, end of year	<u>3,925,461</u>	<u>3,889,291</u>
Total liabilities and equity	<u>\$ 4,032,211</u>	<u>\$ 4,084,119</u>

**NOTE 14 – CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject OPB to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and other investments, and unsecured accounts receivable. OPB places substantially all of its cash and liquid investments with financial institutions; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by an investment manager. To date, OPB has not experienced losses at these institutions.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 15 – NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets relating to restricted contributions and grants are released from the temporarily restricted net assets to unrestricted net assets when OPB incurs expenses satisfying the restricted purposes or when other events specified by donors occur.

	<u>2011</u>	<u>2010</u>
Restricted purposes accomplished:		
Content creation	\$ 6,261,357	\$ 6,769,688
Programming and promotion	2,466,195	2,789,198
Equipment	2,041,895	1,075,425
Broadcasting	242,856	443,668
Trust maturities	70,608	-
Endowment earnings	54,500	55,000
Internships	10,890	7,590
	<u>\$ 11,148,301</u>	<u>\$ 11,140,569</u>

**NOTE 16 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes:

The portion of endowment funds subject to a time or purpose restriction under UPMIFA:		
Internships	\$ 107,238	\$ 79,419
Programming	106,047	-
Endowment cumulative earnings	<u>116,001</u>	<u>1,349</u>
Total endowments	329,286	80,768
Equipment	2,198,310	3,276,624
Programming	575,418	-
Charitable trust agreements	356,076	402,657
Expansion	15,000	-
Content creation	<u>-</u>	<u>53,418</u>
Total temporarily restricted net assets	<u>\$ 3,474,090</u>	<u>\$ 3,813,467</u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 17 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of amounts restricted for the following purposes:

	2011	2010
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:		
General operations	\$ 834,589	\$ 857,347
Programming	1,376,420	1,098,162
Internships	179,975	179,975
Capital improvements	43,000	43,000
Total endowments	2,433,984	2,178,484
Trusts held for endowment	65,617	59,825
Total permanently restricted net assets	\$ 2,499,601	\$ 2,238,309

**NOTE 18 – ENDOWMENTS**

OPB’s endowment consists of approximately 22 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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.

OPB invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. OPB uses a spending rate set annually by the Board of Directors, and absent substantial changes in market or other economic conditions, the rate will be 5% of the average fair value of the fund. The average fair value is based on the fair value of the prior twelve quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned.

OPB applies the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA or the Act.) The Board of Directors of OPB has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, OPB classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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.

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 18 – ENDOWMENTS – (continued)**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by OPB in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, OPB considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Periodically, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires OPB to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$105,971 as of June 30, 2010. There were no such deficiencies reported in unrestricted net assets as of June 30, 2011. This deficiency during the year ended June 30, 2010 resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Endowment net assets consist of the following at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 329,286	\$ 2,433,984	\$ 2,763,270
Board-designated endowment funds	16,749,172	-	-	16,749,172
Total funds	<u>\$ 16,749,172</u>	<u>\$ 329,286</u>	<u>\$ 2,433,984</u>	<u>\$ 19,512,442</u>

Endowment net assets consist of the following at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (105,971)	\$ 80,768	\$ 2,178,484	\$ 2,153,281
Board-designated endowment funds	14,011,184	-	-	14,011,184
Total funds	<u>\$ 13,905,213</u>	<u>\$ 80,768</u>	<u>\$ 2,178,484</u>	<u>\$ 16,164,465</u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 18 – ENDOWMENTS – (continued)**

Changes in the endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 13,905,213	\$ 80,768	\$ 2,178,484	\$ 16,164,465
Investment return				
Investment income	380,328	60,061	-	440,389
Net appreciation (realized and unrealized)	<u>2,348,461</u>	<u>370,447</u>	<u>-</u>	<u>2,718,908</u>
Total investment return	2,728,789	430,508	-	3,159,297
Contributions	501,369	-	255,500	756,869
Matured annuities and other transfers	136,409	-	-	136,409
Appropriation of endowment assets for expenditure	(628,579)	(76,019)	-	(704,598)
Change in underwater endowments	<u>105,971</u>	<u>(105,971)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year June 30, 2011	<u><u>\$ 16,749,172</u></u>	<u><u>\$ 329,286</u></u>	<u><u>\$ 2,433,984</u></u>	<u><u>\$ 19,512,442</u></u>

**OREGON PUBLIC BROADCASTING**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 18 - ENDOWMENTS - (continued)**

Changes in the endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 10,405,162	\$ 69,905	\$ 1,922,134	\$ 12,397,201
Investment return				
Investment income	389,106	60,305	-	449,411
Net depreciation (realized and unrealized)	<u>911,305</u>	<u>134,807</u>	<u>-</u>	<u>1,046,112</u>
Total investment return	1,300,411	195,112	-	1,495,523
Contributions	2,199,234	-	256,350	2,455,584
Matured annuities and other transfers	418,826	-	-	418,826
Appropriation of endowment assets for expenditure	(532,393)	(70,276)	-	(602,669)
Change in underwater endowments	<u>113,973</u>	<u>(113,973)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year June 30, 2010	<u>\$ 13,905,213</u>	<u>\$ 80,768</u>	<u>\$ 2,178,484</u>	<u>\$ 16,164,465</u>