

MOSSES ADAMS

OREGON PUBLIC BROADCASTING

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

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

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, 2009 and 2008, 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, 2009 and 2008, 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 13, 2009

**OREGON PUBLIC BROADCASTING
STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 10,008,363	\$ 5,917,104
Underwriting and other accounts receivable, net	2,181,798	5,104,012
Contributions and bequests receivable, net	663,897	559,962
Investments	12,216,911	14,346,447
Investments in LLCs	2,484,356	2,518,014
Investments for charitable trusts and gift annuities	1,871,215	2,443,721
Prepays and other assets	1,719,398	1,744,510
Property and equipment, net	13,873,029	15,133,361
TOTAL ASSETS	\$ 45,018,967	\$ 47,767,131
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,371,902	\$ 3,772,009
Accrued liabilities	1,157,889	541,088
Deferred revenue	561,844	313,460
Note payable	225,000	475,000
Actuarial liability for charitable trusts and gift annuities	1,239,913	1,354,920
Total liabilities	4,556,548	6,456,477
NET ASSETS		
Unrestricted	23,448,315	24,004,439
Board-designated	10,583,473	13,306,058
Total unrestricted	34,031,788	37,310,497
Temporarily restricted	4,453,032	2,262,377
Permanently restricted	1,977,599	1,737,780
Total net assets	40,462,419	41,310,654
TOTAL LIABILITIES AND NET ASSETS	\$ 45,018,967	\$ 47,767,131

See accompanying notes.

OREGON PUBLIC BROADCASTING
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 12,812,500	\$ 127,000	\$ 251,000	\$ 13,190,500
Production grants and contracts	792,336	6,965,083	-	7,757,419
Other grants and contracts	3,277,185	5,721,009	-	8,998,194
Sales and services	1,662,030	-	-	1,662,030
Donated services and materials	267,639	-	-	267,639
Investment income:				
Interest and dividends	554,875	71,143	-	626,018
Realized losses on investments	(69,981)	-	-	(69,981)
Net unrealized losses on investments	(2,607,112)	(79,393)	-	(2,686,505)
Loss on investments in LLCs	(41,043)	-	-	(41,043)
Loss on charitable trusts and gift annuities	(482,181)	(16,026)	(11,181)	(509,388)
Net assets released from restrictions and transfers	10,598,161	(10,598,161)	-	-
	<u>26,764,409</u>	<u>2,190,655</u>	<u>239,819</u>	<u>29,194,883</u>
EXPENSES				
Programming and production	14,545,005	-	-	14,545,005
Broadcasting	5,131,057	-	-	5,131,057
Marketing	1,419,603	-	-	1,419,603
Management and general	4,332,913	-	-	4,332,913
Development and fund-raising	4,614,540	-	-	4,614,540
	<u>30,043,118</u>	<u>-</u>	<u>-</u>	<u>30,043,118</u>
INCREASE (DECREASE) IN NET ASSET	(3,278,709)	2,190,655	239,819	(848,235)
NET ASSETS, beginning of year	<u>37,310,497</u>	<u>2,262,377</u>	<u>1,737,780</u>	<u>41,310,654</u>
NET ASSETS, end of year	<u>\$ 34,031,788</u>	<u>\$ 4,453,032</u>	<u>\$ 1,977,599</u>	<u>\$ 40,462,419</u>

**OREGON PUBLIC BROADCASTING
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 13,238,050	\$ 90,465	\$ 288,950	\$ 13,617,465
Production grants and contracts	912,681	7,257,220	-	8,169,901
Other grants and contracts	3,829,216	2,939,111	-	6,768,327
Sales and services	1,936,610	-	-	1,936,610
Donated services and materials	992,905	-	-	992,905
Investment income:				
Interest and dividends	1,251,954	12,171	-	1,264,125
Realized gains on investments	217,141	-	-	217,141
Net unrealized losses on investments	(1,357,143)	(20)	-	(1,357,163)
Gain on investments in LLCs	80,804	-	-	80,804
Loss on charitable trusts and gift annuities	(315,229)	(16,026)	(4,520)	(335,775)
Net assets released from restrictions and transfers	10,875,064	(10,875,064)	-	-
	<u>31,662,053</u>	<u>(592,143)</u>	<u>284,430</u>	<u>31,354,340</u>
Total revenues, gains, and other support				
EXPENSES				
Programming and production	15,669,221	-	-	15,669,221
Broadcasting	4,398,913	-	-	4,398,913
Marketing	1,576,370	-	-	1,576,370
Management and general	4,667,867	-	-	4,667,867
Development and fund-raising	4,627,752	-	-	4,627,752
	<u>30,940,123</u>	<u>-</u>	<u>-</u>	<u>30,940,123</u>
Total expenses				
INCREASE (DECREASE) IN NET ASSETS	721,930	(592,143)	284,430	414,217
NET ASSETS, beginning of year	<u>36,739,278</u>	<u>2,703,809</u>	<u>1,453,350</u>	<u>40,896,437</u>
NET ASSETS, end of year before adjustment	37,461,208	2,111,666	1,737,780	41,310,654
Adjustment due to UPMIFA reclassification	(150,711)	150,711	-	-
NET ASSETS, end of year after adjustment	<u>\$ 37,310,497</u>	<u>\$ 2,262,377</u>	<u>\$ 1,737,780</u>	<u>\$ 41,310,654</u>

See accompanying notes.

OREGON PUBLIC BROADCASTING
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ (848,235)	\$ 414,217
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,900,403	1,972,056
Realized and unrealized losses on investments	2,756,486	1,140,022
Loss on charitable trusts and gift annuities	509,388	335,775
Contributions of charitable trusts and gift annuities	(36,690)	(136,306)
(Gain) loss on disposal of property and equipment	(7,694)	573
(Gain) loss on investments in LLCs	41,043	(80,804)
Contributed land and buildings	-	(705,000)
Changes in operating assets and liabilities:		
Underwriting and other accounts receivable	2,922,214	(2,145,121)
Contributions and bequests receivable	(103,935)	(49,851)
Prepays and other assets	25,112	(308,874)
Accounts payable	(2,400,107)	2,330,060
Accrued liabilities	616,801	38,384
Deferred revenue	248,384	(694,006)
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	(3,097,504)	(476,951)
Net cash from operating activities	<u>2,525,666</u>	<u>1,634,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,806,122)	(7,796,772)
Proceeds from sale of investments	4,179,172	5,175,560
Purchase of property and equipment	(703,577)	(1,553,255)
Proceeds from sale of property and equipment	71,200	850
Capital contribution to LLC	(7,385)	(6,000)
Net cash from investing activities	<u>(1,266,712)</u>	<u>(4,179,617)</u>

**OREGON PUBLIC BROADCASTING
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	\$ -	\$ 475,000
Payments on note payable	(250,000)	(2,367,566)
Proceeds from gifted annuities and trusts	20,000	332,351
Changes in value of charitable trusts	(35,199)	(331,199)
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	3,097,504	476,951
	<u>2,832,305</u>	<u>(1,414,463)</u>
Net cash from financing activities		
	<u>4,091,259</u>	<u>(3,959,906)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	4,091,259	(3,959,906)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,917,104</u>	<u>9,877,010</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,008,363</u>	<u>\$ 5,917,104</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 15,108</u>	<u>\$ 203,876</u>

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

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 four 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 program production 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.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

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

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.

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 Finance and Investment Committee.

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.

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

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

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 and miscellaneous prepaid expenses. Prepaid leases are amortized over the lease term of 10 to 20 years using the straight-line method.

Deferred revenue – Deferred revenue is primarily production 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 \$39,333 and \$135,347 for the years ended June 30, 2009 and 2008, 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 Statement of Financial Position No. 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund-Raising*.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

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

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.

Pursuant to FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, management has elected to defer the application of Financial Accounting Standards Board (FASB) Interpretations No. 48, *Accounting for Uncertainty in Income Taxes*, to fiscal years beginning after December 31, 2008. OPB evaluates uncertain tax positions in accordance with FASB Statement No. 5, *Accounting for Uncertainties*, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2009 and 2008, OPB had no uncertain tax positions requiring accrual.

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 13, 2009 which is the date the financial statements are issued.

Reclassifications – Certain reclassifications have been made to the 2008 financial statements to conform to current year presentations. These reclassifications had no effect on total net assets or changes in net assets.

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – UNDERWRITING AND OTHER ACCOUNTS RECEIVABLE

Underwriting and other accounts receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Underwriting	\$ 1,266,732	\$ 1,789,452
Production	891,563	3,070,926
Other	<u>155,651</u>	<u>286,066</u>
Total underwriting and other accounts receivable	2,313,946	5,146,444
Less reserve for uncollectible underwriting and other accounts receivable	<u>(132,148)</u>	<u>(42,432)</u>
Underwriting and other accounts receivable, net	<u><u>\$ 2,181,798</u></u>	<u><u>\$ 5,104,012</u></u>

NOTE 4 – CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Contributions receivable after one year were discounted using a risk free interest rate commensurate with the period over which the contribution will be received for the year ended June 30, 2008. Contributions 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 year ended June 30, 2009. The rates were approximately 5%. The annual payments are scheduled to be received as follows:

	<u>2009</u>	<u>2008</u>
Contributions and bequests receivable due in less than one year	\$ 508,917	\$ 456,862
Contributions and bequests receivable due in one to five years	136,330	84,450
Contributions and bequests receivable due in six to ten years	<u>18,650</u>	<u>18,650</u>
Contributions and bequests receivable, net	<u><u>\$ 663,897</u></u>	<u><u>\$ 559,962</u></u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

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:

	<u>2009</u>	<u>2008</u>
Marketable securities, at fair value:		
Mutual funds - equity investments	\$ 4,764,560	\$ 5,297,260
Mutual funds - fixed income securities	3,726,232	4,517,925
Alternative investments:		
Hedge funds	1,491,009	1,804,435
Other non-investable	<u>2,224,110</u>	<u>2,699,565</u>
Total investments at fair value	12,205,911	14,319,185
Other investments, at cost:		
Miscellaneous	<u>11,000</u>	<u>27,262</u>
Total investments	<u>\$ 12,216,911</u>	<u>\$ 14,346,447</u>

Alternative investments totaling \$3,715,119 and \$4,504,000 at June 30, 2009 and 2008, respectively, include investments in hedge funds and commingled funds with holdings that include real estate and equity investments. 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.

OREGON PUBLIC BROADCASTING NOTES TO FINANCIAL STATEMENTS

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,861,540	\$ 2,861,540
Buildings and improvements	9,833,202	9,918,053
Equipment and computer software	<u>24,196,790</u>	<u>25,250,026</u>
Total property and equipment	36,891,532	38,029,619
Less accumulated depreciation and amortization	<u>(23,889,064)</u>	<u>(23,394,938)</u>
	13,002,468	14,634,681
Construction in progress	<u>870,561</u>	<u>498,680</u>
Property and equipment, net	<u>\$ 13,873,029</u>	<u>\$ 15,133,361</u>

Depreciation and amortization expense for the years ended June 30, 2009 and 2008, was \$1,900,403 and \$1,972,056, 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. Effective January 1, 2009, borrowings bear interest at the bank's prime rate (3.25% at June 30, 2009). Prior borrowings bore interest at the bank's prime rate less 0.25% (4.75% at June 30, 2008). No balance was outstanding on the revolving line of credit as of June 30, 2009 and 2008. The line of credit expires December 31, 2009.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – NOTE PAYABLE

The note payable is as follows:

	<u>2009</u>	<u>2008</u>
Note payable to bank, payable in one installment, due February 19, 2010. Interest at 3.0% and 4.75%, respectively, due monthly.	<u>\$ 225,000</u>	<u>\$ 475,000</u>
Years ending June 30, 2010	<u>\$ 225,000</u>	<u>\$ 475,000</u>

Interest expense for the years ending June 30, 2009 and 2008, was \$15,108 and \$203,876, respectively.

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, 2010	\$ 23,956
2011	22,644
2012	22,644
2013	21,444
2014	20,244
Thereafter	<u>226,058</u>
	<u>\$ 336,990</u>

Rental expense was \$109,209 and \$92,024 for the years ended June 30, 2009 and 2008, respectively.

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued)

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, 2009 and 2008, outstanding purchase commitments were \$115,582 and \$247,629, respectively, for equipment and related costs.

NOTE 10 – FAIR VALUE OF ASSETS

Effective July 1, 2008, OPB adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require (or permit) assets to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS No. 157 has been applied prospectively as of the beginning of the year.

SFAS No. 157 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. OPB determines fair value based upon 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 fair value hierarchy:

Level I – Quoted prices in active markets for identical assets.

Level II – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – FAIR VALUE OF ASSETS – (continued)

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 securities and alternative investments. Marketable 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.

The following is a summary categorization as of June 30, 2009, of OPB’s assets based on the level of inputs utilized in determining the value of such investments:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments	\$ 8,490,792	\$ -	\$ 3,715,119	\$ 12,205,911
Investments for charitable trusts and gift annuities	<u>1,231,605</u>	<u>-</u>	<u>639,610</u>	<u>1,871,215</u>
Total	<u>\$ 9,722,397</u>	<u>\$ -</u>	<u>\$ 4,354,729</u>	<u>\$ 14,077,126</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, 2009:

	<u>Investments</u>	<u>Investments for charitable trusts and gift annuities</u>	<u>Level III Instruments</u>
Balance at July 1, 2008	\$ 4,524,860	\$ 810,865	\$ 5,335,725
Net purchases/sales	230,000	-	230,000
Net payments/receipts	-	(69,338)	(69,338)
Net realized/unrealized losses	<u>(1,039,741)</u>	<u>(101,917)</u>	<u>(1,141,658)</u>
Balance at June 30, 2009	<u>\$ 3,715,119</u>	<u>\$ 639,610</u>	<u>\$ 4,354,729</u>

Net realized/unrealized losses from Level III investments and investments for charitable trusts and gift annuities shown in the table above are reported in the Statement of Activities within net unrealized losses on investments and loss on charitable trusts and gift annuities, respectively. These amounts also represent total unrealized losses for Level III investments and investments for charitable trusts and gift annuities still held by OPB at June 30, 2009.

As of June 30, 2009, OPB does not have any liabilities that are required to be measured in accordance with SFAS No. 157.

NOTE 11 – DONATED SERVICES AND MATERIALS

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

	<u>2009</u>	<u>2008</u>
Programming and production	\$ 58,699	\$ 57,625
Broadcasting	7,399	9,025
Marketing	75,359	92,939
Management and general	67,899	67,805
Development and fund-raising	58,283	49,511
Land and buildings	-	716,000
	<u>\$ 267,639</u>	<u>\$ 992,905</u>

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 – DONATED SERVICES AND MATERIALS – (continued)

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.

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 \$803,497 and \$748,346 during the years ended June 30, 2009 and 2008, respectively.

NOTE 13 – INVESTMENT IN LLC

OPB has a 50% investment in an LLC that was formed to construct and operate a transmission tower which holds both analog and digital 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, 2009 and 2008, 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 58% at June 30, 2009 and 2008 as a result of depreciation allocations based on assets owned), consisted of the following at June 30:

	2009 <u>(Unaudited)</u>	2008 <u>(Unaudited)</u>
Current assets	\$ 494,096	\$ 397,245
Noncurrent assets	<u>4,037,752</u>	<u>4,367,072</u>
Total assets	<u><u>\$ 4,531,848</u></u>	<u><u>\$ 4,764,317</u></u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – INVESTMENT IN LLC – (continued)

	2009 <u>(Unaudited)</u>	2008 <u>(Unaudited)</u>
Current liabilities	\$ 204,007	\$ 185,156
Noncurrent liabilities	<u>173,022</u>	<u>367,157</u>
Total liabilities	<u>\$ 377,029</u>	<u>\$ 552,313</u>
Equity, beginning of year	\$ 4,212,004	\$ 4,108,410
Gain (loss) from continuing operations	(57,185)	103,594
Equity, end of year	<u>4,154,819</u>	<u>4,212,004</u>
Total liabilities and equity	<u>\$ 4,531,848</u>	<u>\$ 4,764,317</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, unsecured accounts receivable, and notes 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**

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>2009</u>	<u>2008</u>
Restricted purposes accomplished:		
Production	\$ 7,115,794	\$ 7,884,032
Programming and promotion	2,609,372	2,185,579
Equipment	871,495	751,461
Educational outreach	1,500	53,992
	<u>\$ 10,598,161</u>	<u>\$ 10,875,064</u>

NOTE 16 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	<u>2009</u>	<u>2008</u>
The portion of endowment funds subject to a time or purpose restriction under UPMIFA:		
Internships	\$ 69,905	\$ 80,148
Endowment cumulative earnings	-	70,563
Total endowments	<u>69,905</u>	<u>150,711</u>
Equipment	3,985,602	1,618,405
Programming	-	5,000
Charitable trust agreements	<u>397,525</u>	<u>488,261</u>
Total temporarily restricted net assets	<u>\$ 4,453,032</u>	<u>\$ 2,262,377</u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 17 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2009</u>	<u>2008</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:		
General operations	\$ 850,997	\$ 850,997
Programming	848,162	598,162
Internships	179,975	178,975
Capital improvements	43,000	43,000
Total endowments	<u>1,922,134</u>	<u>1,671,134</u>
Trusts held for endowment	<u>55,465</u>	<u>66,646</u>
Total permanently restricted net assets	<u><u>\$ 1,977,599</u></u>	<u><u>\$ 1,737,780</u></u>

NOTE 18 – ENDOWMENTS

OPB’s endowment consists of approximately 21 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 of 5.0% of the endowment market value on a predetermined date in the previous fiscal year.

Effective January 1, 2008, the State of Oregon enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), the provisions of which apply to endowment funds existing on or established after that date. 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**

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 \$219,944 as of June 30, 2009. This deficiency 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. There were no deficiencies of this nature as of June 30, 2008.

In order to address the requirements of UPMIFA, FASB Staff Position No. FSP 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued in August 2008. A key component of this pronouncement is an interpretation by the FASB that there is a requirement to classify the portion of a donor-restricted endowment fund that are not classified as permanently restricted net assets as temporarily restricted net assets until these funds have been appropriated for expenditure. The Organization has reviewed its net asset accounts to identify the cumulative amount of unspent endowment earnings that had not yet been appropriated for expenditure as of June 30, 2008. As such, management has adjusted the financial statements to reflect a reclassification of net assets from unrestricted to temporarily restricted of \$150,711 as of June 30, 2008.

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 18 – ENDOWMENTS – (continued)

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (219,944)	\$ 69,905	\$ 1,922,134	\$ 1,772,095
Board-designated endowment funds	<u>10,625,106</u>	<u>-</u>	<u>-</u>	<u>10,625,106</u>
Total funds	<u>\$ 10,405,162</u>	<u>\$ 69,905</u>	<u>\$ 1,922,134</u>	<u>\$ 12,397,201</u>

Endowment net assets consist of the following at June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 150,711	\$ 1,671,134	\$ 1,821,845
Board-designated endowment funds	<u>12,717,163</u>	<u>-</u>	<u>-</u>	<u>12,717,163</u>
Total funds	<u>\$ 12,717,163</u>	<u>\$ 150,711</u>	<u>\$ 1,671,134</u>	<u>\$ 14,539,008</u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 18 – ENDOWMENTS – (continued)

Changes in the endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 12,717,163	\$ 150,711	\$ 1,671,134	\$ 14,539,008
Investment return				
Investment income	392,805	61,292	-	454,097
Net depreciation (realized and unrealized)	<u>(2,673,066)</u>	<u>(76,963)</u>	-	<u>(2,750,029)</u>
Total investment return	<u>(2,280,261)</u>	<u>(15,671)</u>	-	<u>(2,295,932)</u>
Contributions	601,397	-	251,000	852,397
Appropriation of endowment assets for expenditure	<u>(633,137)</u>	<u>(65,135)</u>	-	<u>(698,272)</u>
Endowment net assets, end of year June 30, 2009	<u>\$ 10,405,162</u>	<u>\$ 69,905</u>	<u>\$ 1,922,134</u>	<u>\$ 12,397,201</u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

NOTE 18 – ENDOWMENTS – (continued)

Changes in the endowment net assets for the year ended June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ 13,014,788	\$ -	\$ 1,382,184	\$ 14,396,972
Investment return				
Investment income	901,935	66,233	-	968,168
Net depreciation (realized and unrealized)	<u>(1,139,614)</u>	<u>-</u>	<u>-</u>	<u>(1,139,614)</u>
Total investment return	(237,679)	66,233	-	(171,446)
Contributions	724,277	-	288,950	1,013,227
Appropriation of endowment assets for expenditure	(633,512)	(66,233)	-	(699,745)
UPMIFA Reclassification	<u>(150,711)</u>	<u>150,711</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year June 30, 2008	<u>\$ 12,717,163</u>	<u>\$ 150,711</u>	<u>\$ 1,671,134</u>	<u>\$ 14,539,008</u>