

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2014 AND 2013

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2014 and 2013

	Page
INDEPENDENT AUDITOR’S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 22

INDEPENDENT AUDITOR'S REPORT



To the Board of Trustees
KOCE - TV Foundation dba PBS SoCal
(A Nonprofit Organization)
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of KOCE - TV Foundation dba PBS SoCal ("The Foundation") which comprise the statements of financial position as of June 30, 2014 and 2013, the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees
KOCE - TV Foundation dba PBS SoCal
(A Nonprofit Organization)
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "SingerLewak LLP". The signature is written in a cursive, flowing style.

SingerLewak LLP

Irvine, California
October 27, 2014

KOCE - TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	\$ 2,104,215	\$ 1,347,135
Pledges receivable, current portion	102,820	437,412
Grants receivable	177,686	30,111
Accounts receivable	392,241	376,282
Prepaid expenses and other current assets	254,643	242,995
Total current assets	3,031,605	2,433,935
Pledges receivable , net of current portion	-	23,178
Investment in partnership	5,000	5,000
Broadcast license , net of accumulated amortization	13,939,575	13,939,575
Property and equipment , net of accumulated depreciation	2,411,768	3,016,504
Asset not in use	467,500	467,500
Restricted cash	500,312	-
Deposits	56,603	45,396
Total assets	\$ 20,412,363	\$ 19,931,088

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 952,928	\$ 659,391
Notes payable - financial institutions, current portion	287,289	275,561
Note payable - Coast Community College District, current portion	687,500	500,000
Advances, current portion	427,480	408,018
Total current liabilities	2,355,197	1,842,970
Line of credit	500,000	-
Notes payable - financial institutions , net of current portion	3,743,172	4,030,610
Note payable - Coast Community College District , net of current portion	8,919,068	9,138,145
Advances , net of current portion	-	50,000
Notes payable - Public Broadcasting Service	4,628,981	4,628,981
Total liabilities	20,146,418	19,690,706
Commitments and contingencies (Note 13)		
Net assets		
Unrestricted (deficit)	142,494	(243,369)
Temporarily restricted	123,451	483,751
Total net assets	265,945	240,382
Total liabilities and net assets	\$ 20,412,363	\$ 19,931,088

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

KOCE - TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES
For the Years Ended June 30,

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions, grants and contracts	\$ 12,987,561	\$ 716,643	\$ 13,704,204	\$ 12,231,541	\$ 337,814	\$ 12,569,355
Royalty revenue	19,549	-	19,549	17,682	-	17,682
Interest and dividends	26,293	-	26,293	50,507	-	50,507
Special events, net of expenses of \$399,217 and \$268,287, respectively	649,864	-	649,864	353,559	-	353,559
Educational programs	571,260	-	571,260	549,832	-	549,832
Miscellaneous	345,623	-	345,623	273,041	-	273,041
Net assets released from restrictions	<u>1,076,943</u>	<u>(1,076,943)</u>	<u>-</u>	<u>684,441</u>	<u>(684,441)</u>	<u>-</u>
Total support and revenue	<u>15,677,093</u>	<u>(360,300)</u>	<u>15,316,793</u>	<u>14,160,603</u>	<u>(346,627)</u>	<u>13,813,976</u>
Functional expenses						
Program services						
Programming and production	6,409,302	-	6,409,302	6,058,842	-	6,058,842
Broadcasting	3,091,751	-	3,091,751	6,062,604	-	6,062,604
Underwriting and grant solicitation	<u>762,011</u>	<u>-</u>	<u>762,011</u>	<u>662,068</u>	<u>-</u>	<u>662,068</u>
Total program services	<u>10,263,064</u>	<u>-</u>	<u>10,263,064</u>	<u>12,783,514</u>	<u>-</u>	<u>12,783,514</u>
Supporting services						
Fundraising and development	2,551,967	-	2,551,967	1,190,876	-	1,190,876
General and administrative	<u>2,476,199</u>	<u>-</u>	<u>2,476,199</u>	<u>2,119,286</u>	<u>-</u>	<u>2,119,286</u>
Total functional expenses	<u>15,291,230</u>	<u>-</u>	<u>15,291,230</u>	<u>16,093,676</u>	<u>-</u>	<u>16,093,676</u>
Change in net assets	<u>385,863</u>	<u>(360,300)</u>	<u>25,563</u>	<u>(1,933,073)</u>	<u>(346,627)</u>	<u>(2,279,700)</u>
Net assets, beginning of year	<u>(243,369)</u>	<u>483,751</u>	<u>240,382</u>	<u>1,689,704</u>	<u>830,378</u>	<u>2,520,082</u>
Net assets (deficit), end of year	<u>\$ 142,494</u>	<u>\$ 123,451</u>	<u>\$ 265,945</u>	<u>\$ (243,369)</u>	<u>\$ 483,751</u>	<u>\$ 240,382</u>

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

KOCE - TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 25,563	\$ (2,279,700)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Depreciation and amortization of property and equipment	671,901	653,888
Amortization of discount on note payable - CCCD	468,423	469,927
(Increase) decrease in		
Pledges receivable	357,770	361,588
Grants receivable	(147,575)	114,889
Accounts receivable	(15,959)	(117,501)
Prepaid expenses and other current assets	(11,648)	22,326
Deposits	(11,207)	(5,000)
Increase (decrease) in		
Accounts payable and accrued expenses	293,537	15,747
Advances	(30,538)	7,053
Net cash flows provided by (used in) operating activities	1,600,267	(756,783)
Cash flows from investing activities		
Purchase of property and equipment	(67,165)	(112,955)
Proceeds on sale of investments	-	15,303
Investment in partnership	-	(5,000)
Increase in restricted cash	(500,312)	-
Net cash flows used in investing activities	(567,477)	(102,652)
Cash flows from financing activities		
Net principal borrowings (payments) on line of credit	500,000	(500,000)
Principal payments on notes payable - financial institutions	(275,710)	(170,302)
Principal payments on note payable - CCCD	(500,000)	(500,000)
Principal borrowings on notes payable - Public Broadcasting Service	-	2,390,157
Net cash flows (used in) provided by financing activities	(275,710)	1,219,855
Net change in cash	757,080	360,420
Cash and cash equivalents, beginning of year	1,347,135	986,715
Cash and cash equivalents, end of year	\$ 2,104,215	\$ 1,347,135
Supplemental disclosure for cash flows information		
Interest paid	\$ 272,514	\$ 317,105
Supplemental schedule of non-cash investing and financing activities		
Prior year Public Broadcasting Service dues outstanding as of June 30, 2012 transferred to note payable during the year ended June 30, 2013	\$ -	\$ 2,238,824

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

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - GENERAL

The KOCE – TV Foundation dba PBS SoCal (the “Foundation”) is a nonprofit organization that holds the broadcast license for KOCE, broadcast channel 50. The Foundation reaches 15.9 million people in 6 counties covering Santa Barbara, Greater Los Angeles including Orange County and the Inland Empire along with the desert cities of the Coachella Valley. The Foundation engages in operational and fundraising support and provides the complete line up of PBS content to the region. The Foundation acquired the broadcast license from the Coast Community College District on November 1, 2004. On January 1, 2011, the Foundation assumed the primary PBS station role for Southern California with the departure of KCET from the PBS family and began operating under the trade name PBS SoCal.

As the region’s largest Classroom, Stage for the Arts and most-trusted provider of information, the Foundation is a critical part of the education and arts communities locally. The Foundation’s primary source of revenue is grants and contributions from individuals, corporations, foundations and the Corporation for Public Broadcasting (“CPB”).

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include statements of financial position that present amounts for each of the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These net assets are classified based on the existence or absence of donor-imposed restrictions and statements of activities that reflect the changes in those categories of net assets.

Unrestricted net assets are either not restricted by donors or the donor-imposed restrictions have expired. Temporarily restricted net assets include those assets whose use by the Foundation has been limited by donors to later periods of time or for specified purposes. Permanently restricted net assets include those net assets that must be maintained in perpetuity; the investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, for purposes approved by the board of trustees. The Foundation had no permanently restricted net assets as of June 30, 2014 and 2013.

If, subsequent to the period, a restricted gift is made or a donor withdraws previously imposed restrictions, the related net assets are reclassified into the appropriate net asset category. Such reclassifications are reflected in net assets released from restrictions in the accompanying statements of activities when the restrictions are withdrawn.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers cash deposited with banks and all short-term, highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash consists of an “Earmarked Fund Account-Money Market” (“EFA”) with a foundation of philanthropic funds and is related to the Foundation’s line of credit arrangement. Funds may be withdrawn up to three times per month or deposited up to two times per month, as defined.

Contributions, Pledges Receivable and Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional contributions are recorded as support in the period the condition is met. Such contributions are required to be reported as temporarily restricted support and are reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent. Pledges for future contributions are recognized and recorded as receivables at their estimated realizable value in the year for which they are promised to the Foundation.

The Foundation recognizes unconditional promises to give in the period received at net present value. There were no new pledges that required discounting for the years ended June 30, 2014 and 2013, respectively.

Conditional promises to give that are conditional upon future events or future matching are not recorded until the condition has been satisfied. If funds are received from such gifts, they are recorded as refundable advances until the condition is satisfied. When the condition has been satisfied, the gift is recognized as either unrestricted or temporarily restricted revenue depending on the intent of the donor.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based on quoted market prices. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statements of activities.

Dividend and interest income are accrued when earned. Interest and investment income and dividends are presented net of related investment expenses.

The Foundation's investments consist of equity securities. The Foundation's equity securities are generally publicly traded on national securities exchanges and have readily quoted market values. Such investments are recorded at market value. Purchases and sales of securities are reflected on the trade dates.

Income earned from investments in all net asset classifications is recorded as unrestricted.

Investment in Partnership

In August 2012, the Company made a \$5,000 capital contribution to Public Television Major Market Group, LLC representing less than a 1% equity ownership in Public Television Major Market Group, LLC. The Company's investment in this entity was less than 20% of the total outstanding equity; therefore in accordance with Accounting Standards Codification Topic No. 325, the Company adopted the "cost method" of accounting for this investment. Certain factors may indicate that a decrease in value of the investment has occurred which is other than temporary, which then should be recognized. Management has determined that no such conditions existed at June 30, 2014 and 2013.

Intangible Asset – Broadcast License

The Foundation's intangible assets consist of a public broadcasting license which was acquired on November 1, 2004 and stated at fair market value at the date of acquisition. Management has determined that the public broadcasting license has an indefinite life. As of June 30, 2014 and 2013, the broadcast license, net of purchase price allocation discounts of \$10,261,660, amounted to \$16,238,339, respectively. As of June 30, 2014 and 2013, the accumulated amortization of the broadcast license amounted to \$2,298,764, respectively.

Effective for reporting periods beginning after December 31, 2009, intangible assets with indefinite lives should be evaluated annually for indicators of impairment and no longer amortized, in accordance with revised accounting standards. Management has evaluated all intangible assets and note no indicators of impairment existed during the years ended June 30, 2014 and 2013.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the donation, less accumulated depreciation. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the various classes of assets as follows:

Office furniture, fixtures, studio equipment and automobiles	5 to 10 years
Antenna, transmitter and other broadcasting equipment	5 to 20 years
Leasehold improvements	Lesser of useful life or term of lease

Contributions received that are temporarily restricted for capital projects are classified as temporarily restricted net assets; those restrictions expire when the capital projects are placed in service by the Foundation.

The carrying value of permanently idle assets that are not a part of the Foundation's long-term operating assets are segregated and presented in the other assets section of the accompanying statements of financial position. Such assets are not depreciated, but are evaluated for impairment to determine if the carrying value is recoverable.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the change in net assets.

Impairment of Long-Lived Assets

Impairment losses are recorded on long-lived assets and intangible assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management has determined that no indicators of impairment have occurred during the years ended June 30, 2014 and 2013.

In June 2009, the Foundation converted to digital broadcasting in accordance with federal regulations and is not currently utilizing the analog transmitter, which has been reclassified as an asset not in use in the statement of financial position. Management recorded an impairment loss of \$50,000 on the transmitter for the estimated costs of modifying the analog transmitter to accept digital transmissions as of June 30, 2009. Management has determined that no further impairment has occurred during the year ended June 30, 2014 and 2013.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advances

Amounts collected in advance of services to be provided by the Foundation are reflected as advances in the accompanying statements of financial position.

Production Costs and Grants

Production costs are expensed as incurred. Direct production costs are funded by grants from individuals, corporations and federal, state and other governmental agencies. Amounts received under governmental grants related to production are recorded as advances and recognized as revenue as the related costs are incurred. Grants from individuals and corporations are recorded as contributions and are accounted for as described above.

Amounts received under these arrangements are reported in the accompanying statements of activities as contributions, grants and contracts, along with other contributions received by the Foundation.

Contributed Goods and Services

Contributed goods, services and other non-cash contributions are reflected in the accompanying statements at their estimated fair market value in the period received. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by individuals possessing those skills. Other volunteer services that do not meet the criteria are not recognized in the financial statements, as there is no objective basis of deriving their value. For the year ended June 30, 2014 and 2013, the amount of contributed goods and services reported in the accompanying statements of activities amounted to \$59,300 and \$59,000, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Advertising Costs

The Foundation expenses advertising and promotional costs as incurred. Advertising expenses for the years ended June 30, 2014 and 2013 totaled approximately \$0 and \$500, respectively.

Income Taxes

The Foundation is a not-for-profit organization that is generally exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Foundation has adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic No. 740, *Income Taxes* (“ASC 740”) (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*). ASC 740 clarifies the accounting for uncertainty in income taxes. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. ASC 740 also provides guidance related to derecognition, classification, interest and penalties, accounting in interim periods and disclosure. As of and for the year ended June 30, 2014, the Foundation had no material unrecognized/derecognized tax benefits or tax penalties or interest.

The following table summarizes the open tax years for each major jurisdiction:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2010-2013
State	2009-2013

Fair Value of Financial Instruments

As defined in FASB Accounting Standards Codification Topic No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”), fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses the market or income approach. Based on this approach, the Foundation utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace
- Level 3 – Unobservable inputs which are supported by little or no market activity

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal years ending June 30, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Financial instruments included in the Foundation's statement of financial position include cash and cash equivalents, investments, pledges receivable, contributions receivable, grants receivable, accounts receivable, accounts payable and accrued expenses, line of credit, other current liabilities and notes payable.

The carrying values for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value due to the short maturity of these instruments. The carrying values of investments are reflected at estimated fair value. The estimated fair value of the Foundation's line of credit and notes payable approximate the carrying values of these liabilities, as these bear interest commensurate with their risks.

Recently Adopted Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-04, Technical Corrections and Improvements, to clarify the Codification, correct unintended application of guidance or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, the amendments will make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. The amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. The adoption of these rules did not have a material effect on the Foundation's financial statements.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

In October 2012, the FASB issued ASU No. 2012-05, “Statement of Cash Flows (Topic 230).” This amendment provides guidance on how not-for-profit entities should consistently classify cash receipts on the Statement of Cash Flows as they relate to the sale of certain donated financial assets. The changes are effective prospectively for the fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption for the beginning of the fiscal year of adoption is permitted. The Foundation is in the process of assessing the effect that the guidance will have on its financial statements. The adoption of these rules did not have a material effect on the Foundation’s financial statements.

In January 2013, the FASB issued guidance clarifying the scope of disclosures about offsetting assets and liabilities. The guidance limits the scope of balance sheet offsetting disclosures to derivative instruments, including bifurcated embedded derivatives, repurchase agreements and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement of similar agreement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. Entities are required to provide the new disclosures retrospectively for all comparative periods. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of these rules did not have a material effect on the Foundation’s financial statements.

Recently Issued Accounting Pronouncements

In April 2013, the FASB issued ASU No. 2013-06, “Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2013-06”). Amendments within this Update specify how not-for-profit entities should recognize and measure services received from personnel of an affiliate. ASU 2013-06 is effective prospectively for fiscal years beginning after June 15, 2014. The Foundation’s management does not believe the adoption of this guidance will have a material impact on the financial statements.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, and is to be applied retrospectively, with early application permitted with the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. The Foundation's management is in the process of assessing the effect that the guidance will have on its financial statements.

NOTE 3 - CONCENTRATIONS OF RISK

Concentration of Credit Risk

Certain financial instruments held by the Foundation potentially subject the Foundation to concentrations of credit risk. Financial instruments which potentially subject the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents and contribution revenues.

Cash and Cash Equivalents

The Foundation maintains its cash and cash equivalent balances in several financial institutions that, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category and the combined total insured up to at least \$250,000. As of June 30, 2014 and 2013, the Foundation had \$2,484,587 and \$1,118,895 in excess of the federally insured amounts, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contribution Revenue

The Foundation receives grants from individuals, corporations and federal, state and local governmental agencies. The Foundation has developed long-term relationships with many of its grantors and continually evaluates their financial position to determine the risk of uncollectible grants. In recent history, uncollectible grants have not been significant to the financial position of the Foundation.

For the years ended June 30, 2014 and 2013, there was one donor that accounted for 18% and 12% of contribution revenues, respectively.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30:

	2014	2013
Less than one year	\$ 116,500	\$ 473,750
One to five years	-	24,750
	116,500	498,500
Less discounts to present value	13,680	37,910
Total	\$ 102,820	\$ 460,590
Current portion, net	\$ 102,820	\$ 437,412
Noncurrent portion, net	-	23,178
Total	\$ 102,820	\$ 460,590

The present value of pledges receivable from Board members as of June 30, 2014 and 2013 was \$45,241 and \$138,244, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, property and equipment consisted of the following:

	2014	2013
Office furniture, fixtures, studio equipment and automobiles	\$ 4,250,361	\$ 4,567,176
Antenna, transmitter and other broadcasting equipment	1,694,005	1,723,573
Leasehold improvements	1,187,492	1,187,492
	7,131,858	7,478,241
Less accumulated depreciation and amortization	4,720,090	4,461,737
Total	\$ 2,411,768	\$ 3,016,504

For the years ended June 30, 2014 and 2013, depreciation and amortization expenses amounted to \$671,901 and \$653,888, respectively.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, accounts payable and accrued expenses consisted of the following:

	2014	2013
Accounts payable	\$ 630,726	\$ 362,118
Accrued vacation	182,951	170,381
Deferred rent	92,418	69,668
Accrued interest	20,418	21,385
Accrued commissions	-	18,602
Other accrued expenses	26,415	17,237
Total	\$ 952,928	\$ 659,391

NOTE 7 - LINE OF CREDIT

On July 25, 2013, the Foundation entered into a new line of credit agreement with an unrelated third party that allows the Foundation to borrow up to a maximum of \$500,000. On August 1, 2013, the Foundation drew down \$500,000 on this line of credit and deposited the funds into a restricted EFA (see Note 2). As of June 30, 2014, the unused portion of the line of credit was \$0. Borrowings bear interest at prime (3.25% as of June 30, 2014) plus 3% on the used portion of the line of credit when the borrowings are not held in the restricted EFA. Per the terms of the agreement, as long as the funds remain in the restricted EFA, the interest expense is equal to the interest income earned on the restricted EFA. The line of credit matures on July 31, 2016. The line of credit is secured by UCC filings on substantially all assets of the Foundation. As of June 30, 2014, the Foundation was in compliance with their covenants.

Interest expense for this line of credit for the year ended June 30, 2014 was \$436.

NOTE 8 - EQUIPMENT LINE OF CREDIT

On October 24, 2011, the Foundation entered into an equipment line of credit agreement with a financial institution that allows the Foundation to borrow up to a maximum of \$50,000. As of June 30, 2014, the unused portion of the equipment line of credit was \$50,000. Interest on the equipment line of credit is 27.99%. The equipment line of credit matures on October 24, 2016. The line of credit is secured by UCC filings on substantially all assets of the Foundation.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 9 - NOTES PAYABLE - FINANCIAL INSTITUTIONS

On December 15, 2010, the Foundation entered into two term loans with two financial institutions. The first term loan in the amount of \$2,027,305 bears interest at prime (3.25% as of June 30, 2014) plus 3% and required interest only payments until January 1, 2013 and principal installments of \$8,000 plus interest payments for the remaining two years. The note matures on December 14, 2015. As of June 30, 2014 and 2013, the first term loan had an outstanding balance of \$1,891,305 and \$1,987,305, respectively.

The second term loan in the amount of \$2,000,000 bears interest at 6.75% through November 30, 2013 at which time the rate re-sets to the greater of prime plus 3%, or 6.75%, and requires interest only payments until January 1, 2013 and principal plus interest payments for the remaining two years based on a fifteen year amortization schedule. The note matures on December 14, 2015. As of June 30, 2014 and 2013, the second term loan had a balance of \$1,878,588 and \$1,961,138, respectively.

These term loans require Excess Pledge Proceeds, as defined in the agreement, to be deposited and held in a reserve account with the financial institutions. The term loans are secured by UCC filings on substantially all assets of the Foundation.

On October 24, 2011, the Foundation entered into a new note payable agreement with an unrelated third party for \$500,000. This note payable required principal and interest payments (at 6.00%) of \$9,687 beginning on November 24, 2011. The note matures on October 24, 2016. This note payable agreement is secured by UCC filings on the fixed assets purchased by the Foundation using this note. As of June 30, 2014 and 2013, the note payable had a balance of \$260,567 and \$357,728, respectively.

Interest expense for these notes for the years ended June 30, 2014 and 2013 was \$271,111 and \$288,391, respectively.

As of June 30, 2014, the Foundation was in compliance with their covenants. As of June 30, 2013, the Foundation was not in compliance with certain financial covenants and their non-financial covenant and had obtained waivers from the banks.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 9 - NOTES PAYABLE - FINANCIAL INSTITUTIONS (Continued)

Future minimum annual payments required under these notes payable are as follows:

Year Ending June 30,	
2015	\$ 287,289
2016	3,695,957
2017	47,215
Total future payments	4,030,461
Less current portion	287,289
Long-term portion	<u>\$ 3,743,172</u>

NOTE 10 - NOTE PAYABLE - COAST COMMUNITY COLLEGE DISTRICT

In connection with the purchase of the KOCE Station’s broadcasting license and related equipment in November 2004, the Foundation paid \$1,300,000 in cash and acquired financing from a financial institution for \$6,700,000. The remaining balance was financed by CCCD through a secured, non-interest bearing note payable in the amount of \$20,000,000. Imputed interest on the note payable amounts to \$10,261,660 based on the equivalent financing rate available to the Foundation at the time of acquisition of LIBOR (2.02% on November 1, 2004) plus 2.75%. For the years ended June 30, 2014 and 2013, the Foundation had amortized \$468,423 and \$469,927 of the discount to interest expense, respectively.

The note is payable in quarterly cash payments of \$125,000 beginning November 1, 2009 for six years and will increase to \$187,500 beginning on November 1, 2014 until the note is paid off on August 1, 2034. In addition, during the first seven years of the note payable term, the Foundation made principal payments of \$357,143 annually starting on November 1, 2005 or provided programming airtime at a specified rate in lieu of the cash payment.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 10 - NOTE PAYABLE - COAST COMMUNITY COLLEGE DISTRICT (Continued)

Future minimum annual payments under this note payable are as follows:

Year Ending June 30,		
2015	\$	687,500
2016		750,000
2017		750,000
2018		750,000
2019		750,000
Thereafter		<u>11,438,500</u>
Total future payments		15,126,000
Less discount on note payable		<u>5,519,432</u>
Total		9,606,568
Less current portion		<u>687,500</u>
Long-term portion		<u>\$ 8,919,068</u>

NOTE 11 - NOTES PAYABLE - PUBLIC BROADCASTING SERVICE

On January 30, 2014, the Foundation entered into a new note payable agreement with the Public Broadcasting Service for \$4,628,981. The note payable does not require payments until July 1, 2015. The note payable will require monthly principal and interest payments of \$207,776 beginning on July 1, 2015. Interest is calculated at prime (3.25% as of June 30, 2013) plus 4%. The note matures on June 30, 2017. This note payable agreement is secured by UCC filings on substantially all assets of the Foundation. This note payable agreement is subordinated to the line of credit and notes payable.

Based on the refinancing done prior to the issuance of the financial statements, the existing balance due to the Public Broadcasting Service as of June 30, 2014 has been classified as long-term.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 11 - NOTES PAYABLE - PUBLIC BROADCASTING SERVICE (Continued)

Future minimum annual payments required under this note payable are as follows:

Year Ending June 30,	
2015	\$ -
2016	2,230,879
2017	<u>2,398,102</u>
Total future payments	4,628,981
Less current portion	<u>-</u>
Long-term portion	<u>\$ 4,628,981</u>

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 were available for the following:

	Available June 30, 2013	New Revenues	Released from Restriction	Available June 30, 2014
One Community Campaign	\$ 460,590	\$ -	\$ (357,770)	\$ 102,820
CPB Financial Analysis	18,161	3,280	(21,441)	-
CPB Board Development/COO	5,000	-	(5,000)	-
CPB Full Service Station Phase III	-	550,000	(550,000)	-
CPB American Graduate	-	62,000	(62,000)	-
CPB Full Service Station Phase IV	-	48,000	(27,369)	20,631
CPB Ready to Learn	-	31,363	(31,363)	-
CPB American Graduate Town Hall	-	22,000	(22,000)	-
Total	<u>\$ 483,751</u>	<u>\$ 716,643</u>	<u>\$(1,076,943)</u>	<u>\$ 123,451</u>

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Foundation leases certain transmitters, equipment and facilities under non-cancelable lease agreements. The leases expire on various dates through March 2023 and require minimum monthly payments of \$75,091.

Future minimum payments under non-cancelable leases with initial terms of one year or more at June 30, 2014 were as follows:

<u>Year Ending June 30,</u>	<u>Transmitter Leases</u>	<u>Equipment Leases</u>	<u>Facilities Leases</u>	<u>Total</u>
2015	\$ 76,000	\$ 266,584	\$ 565,900	\$ 908,484
2016	-	257,800	579,034	836,834
2017	-	254,591	593,067	847,658
2018	-	264,775	600,757	865,532
2019	-	275,366	607,773	883,139
Thereafter	-	<u>1,108,725</u>	<u>706,804</u>	<u>1,815,529</u>
Total	<u>\$ 76,000</u>	<u>\$ 2,427,841</u>	<u>\$ 3,653,335</u>	<u>\$ 6,157,176</u>

For the years ended June 30, 2014 and 2013, total transmitter, equipment and facilities and equipment rent expense amounted to \$1,013,161 and \$988,382, respectively.

Reimbursement of Shared Costs

The Foundation subleases bandwidth from their broadcasting license to an unrelated third party. The Foundation is reimbursed by the third party for all direct and certain indirect costs incurred for the use of the bandwidth. During the years ended June 30, 2014 and 2013, the Foundation received \$151,179 and \$150,587, respectively, in reimbursed costs, which are recorded as an offset to broadcasting expenses in the accompanying statements of activities.

Litigation

The Foundation, from time to time, is involved in certain legal matters which arise in the normal course of operations. Management believes that the resolution of such matters will not have a material adverse effect on the financial position of the Foundation.

KOCE – TV FOUNDATION
dba PBS SoCal
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 - RETIREMENT PLAN

The Foundation has a 401(k) plan (the “Plan”) that covers all eligible employees, as defined in the Plan agreement. The Foundation’s contribution to the Plan is based on a certain percentage of the active participants’ compensation and is paid bi-weekly through payroll. For the years ended June 30, 2014 and 2013, the Foundation’s contribution expenses amounted to \$96,901 and \$88,632, respectively. For the years ended June 30, 2014 and 2013, the Foundation’s administrative expenses amounted to \$5,523 and \$4,772, respectively.

NOTE 15 - SUBSEQUENT EVENTS

Management evaluated all activity through October 27, 2014 (the issue date of the financial statements) and concluded that other than described above, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.