



Report of Independent Auditors
and Financial Statements for

Oregon Public Broadcasting

June 30, 2012 and 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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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, 2012 and 2011, 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, 2012 and 2011, 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 16, 2012

**OREGON PUBLIC BROADCASTING
STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,395,120	\$ 5,389,854
Underwriting and other accounts receivable, net	3,057,832	2,668,475
Contributions and bequests receivable, net	338,305	1,781,142
Investments	27,770,177	23,510,613
Investments in LLCs	2,425,882	2,366,714
Investments for charitable trusts and gift annuities	1,678,159	1,776,889
Prepays and other assets	1,129,864	1,358,493
Property and equipment, net	16,038,843	16,585,301
Total assets	\$ 54,834,182	\$ 55,437,481
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,711,748	\$ 2,637,260
Accrued liabilities	641,332	592,865
Deferred revenue	610,526	565,470
Actuarial liability for charitable trusts and gift annuities	948,841	910,605
Total liabilities	3,912,447	4,706,200
NET ASSETS		
Unrestricted	27,932,964	27,563,828
Board-designated	18,508,008	17,193,762
Total unrestricted	46,440,972	44,757,590
Temporarily restricted	1,729,365	3,474,090
Permanently restricted	2,751,398	2,499,601
Total net assets	50,921,735	50,731,281
Total liabilities and net assets	\$ 54,834,182	\$ 55,437,481

OREGON PUBLIC BROADCASTING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 15,015,374	\$ 65,125	\$ 254,425	\$ 15,334,924
Content creation grants and contracts	1,206,660	4,405,401	-	5,612,061
Other grants and contracts	3,641,981	2,558,921	-	6,200,902
Sales and services	1,801,594	-	-	1,801,594
Donated services and materials	256,217	-	-	256,217
Investment income:				
Interest and dividends	498,844	76,306	-	575,150
Realized gains on investments	392,921	61,969	-	454,890
Net unrealized losses on investments	(897,729)	(142,964)	-	(1,040,693)
Gain on investments in LLCs	52,571	-	-	52,571
Loss on charitable trusts and gift annuities	(32,372)	(27,238)	(2,628)	(62,238)
Net assets released from restrictions and transfers	8,742,245	(8,742,245)	-	-
 Total revenues, gains, and other support	 30,678,306	 (1,744,725)	 251,797	 29,185,378
EXPENSES				
Programming and content creation	13,373,919	-	-	13,373,919
Broadcasting	5,792,364	-	-	5,792,364
Marketing	1,023,476	-	-	1,023,476
Management and general	4,486,845	-	-	4,486,845
Development and fund-raising	4,318,320	-	-	4,318,320
 Total expenses	 28,994,924	 -	 -	 28,994,924
 INCREASE (DECREASE) IN NET ASSETS	 1,683,382	 (1,744,725)	 251,797	 190,454
 NET ASSETS, beginning of year	 44,757,590	 3,474,090	 2,499,601	 50,731,281
 NET ASSETS, end of year	 \$ 46,440,972	 \$ 1,729,365	 \$ 2,751,398	 \$ 50,921,735

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
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)	-	-
Total revenues, gains, and other support	34,529,385	(339,377)	261,292	34,451,300
EXPENSES				
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
Total expenses	29,710,627	-	-	29,710,627
INCREASE (DECREASE) IN NET ASSETS	4,818,758	(339,377)	261,292	4,740,673
NET ASSETS, beginning of year	39,938,832	3,813,467	2,238,309	45,990,608
NET ASSETS, end of year	\$ 44,757,590	\$ 3,474,090	\$ 2,499,601	\$ 50,731,281

OREGON PUBLIC BROADCASTING
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 190,454	\$ 4,740,673
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	2,488,029	2,291,493
Adjustment in value of broadcast license	95,000	55,000
Realized and unrealized (gains) losses on investments	585,803	(2,718,379)
(Gain) loss on charitable trusts and gift annuities	62,238	(214,188)
Contributions of charitable trusts and gift annuities	(108,039)	(58,361)
Loss on disposal of property and equipment	6,745	6,958
Gain on investments in LLCs	(52,571)	(12,055)
Changes in operating assets and liabilities:		
Underwriting and other accounts receivable	(389,357)	(380,368)
Contributions and bequests receivable	1,442,837	(376,698)
Prepays and other assets	8,705	93,789
Accounts payable	(925,512)	301,882
Accrued liabilities	48,467	(566,510)
Deferred revenue	45,056	382,211
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	(47,481)	(2,104,622)
Net cash from operating activities	<u>3,450,374</u>	<u>1,440,825</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(24,133,099)	(18,175,579)
Proceeds from sale of investments	19,287,732	20,125,000
Purchase of property and equipment	(1,823,392)	(3,551,328)
Purchase of broadcast license	-	(75,000)
Capital contribution to LLC	(6,597)	(9,461)
Net cash from investing activities	<u>(6,675,356)</u>	<u>(1,686,368)</u>

**OREGON PUBLIC BROADCASTING
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to annuitants and trust beneficiaries	\$ (130,725)	\$ (142,548)
Proceeds from matured annuities and trusts	175,277	136,409
Proceeds from distributions of trusts	7,490	11,677
Proceeds from gifted annuities and trusts	240,000	130,072
Changes in present value of charitable trusts	(109,275)	12,475
Contributions, restricted grants, and other income:		
Equipment – digital conversion and other	47,481	2,104,622
Net cash from financing activities	230,248	2,252,707
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,994,734)	2,007,164
CASH AND CASH EQUIVALENTS, beginning of year	5,389,854	3,382,690
CASH AND CASH EQUIVALENTS, end of year	\$ 2,395,120	\$ 5,389,854

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 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.

OREGON PUBLIC BROADCASTING NOTES TO FINANCIAL STATEMENTS

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 or temporarily restricted 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 30th 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.

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 of 3% 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 \$66,580 and \$72,972 for the years ended June 30, 2012 and 2011, 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, 2012 or 2011. No interest and penalties were accrued for the year ended June 30, 2012 or 2011. 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 2008 for its federal and state filings.

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

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 16, 2012, which is the date the financial statements were issued.

Reclassifications – Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no impact on total net assets or the change in net assets.

Note 3 – Underwriting and Other Accounts Receivable

Underwriting and other accounts receivable consist of the following:

	<u>2012</u>	<u>2011</u>
Underwriting	\$ 1,089,534	\$ 1,390,803
Content creation	1,743,598	1,207,068
Other	<u>326,307</u>	<u>191,671</u>
Total underwriting and other accounts receivable	3,159,439	2,789,542
Less reserve for uncollectible underwriting and other accounts receivable	<u>(101,607)</u>	<u>(121,067)</u>
Underwriting and other accounts receivable, net	<u><u>\$ 3,057,832</u></u>	<u><u>\$ 2,668,475</u></u>

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

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, 2012 and 2011, which was approximately 5%. The annual payments are scheduled to be received as follows:

	<u>2012</u>	<u>2011</u>
Contributions and bequests receivable due in less than one year	\$ 294,030	\$ 1,698,152
Contributions and bequests receivable due in one to five years	<u>50,000</u>	<u>95,000</u>
	344,030	1,793,152
Less unamortized discount	<u>(5,725)</u>	<u>(12,010)</u>
Contributions and bequests receivable, net	<u>\$ 338,305</u>	<u>\$ 1,781,142</u>

At June 30, 2012 and 2011, no contributions or bequests receivable amounts were past due. Allowances for doubtful accounts are established based on prior collection history and current economic factors. Based on the timeliness of payments received, no allowance has been established at June 30, 2012 and 2011.

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 at June 30:

	2012	2011
Investments, at fair value:		
Certificates of deposit	\$ 988,203	\$ -
Equity securities		
Mutual funds – fixed income	4,112,032	3,701,633
Mutual funds – international equities	4,065,799	3,517,038
Mutual funds – U.S. equities focused	2,949,435	2,406,968
Mutual fund – real return	2,103,811	1,830,262
Exchange traded funds – public real estate	1,132,070	940,024
Debt securities		
U.S. government agency notes	4,509,603	4,129,731
Commercial paper	999,482	999,435
Alternative investments		
Hedge funds	2,526,134	2,226,738
Real estate funds	975,338	934,754
Equity funds	3,397,270	2,813,030
Total investments at fair value	27,759,177	23,499,613
Other investments, at cost:		
Miscellaneous	11,000	11,000
Total investments	\$ 27,770,177	\$ 23,510,613

Alternative investments totaling \$6,898,742 and \$5,974,522 at June 30, 2012 and 2011, 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.

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

Note 6 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,861,540	\$ 2,861,540
Buildings and improvements	10,434,539	10,264,679
Equipment and computer software	<u>29,789,696</u>	<u>28,475,925</u>
Total property and equipment	43,085,775	41,602,144
Less accumulated depreciation and amortization	<u>(27,392,763)</u>	<u>(25,581,328)</u>
Construction in progress	15,693,012	16,020,816
	<u>345,831</u>	<u>564,485</u>
Property and equipment, net	<u>\$ 16,038,843</u>	<u>\$ 16,585,301</u>

Depreciation expense for the years ended June 30, 2012 and 2011, was \$2,363,105 and \$2,166,569, respectively.

Note 7 - Line of Credit

OPB had an unsecured revolving line of credit totaling \$1,000,000 with US Bank N.A. Borrowings under the line of credit were due on demand. Borrowings bore interest at the bank's prime rate (3.25% at June 30, 2011). No balance was outstanding on the revolving line of credit as of June 30, 2011. The line of credit expired December 31, 2011 and was not renewed.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

Note 8 - 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, 2013	\$	23,820
2014		21,234
2015		20,244
2016		20,244
2017		20,244
Thereafter		<u>165,326</u>
	<u>\$</u>	<u>271,112</u>

Rental expense was \$163,802 and \$149,564 for the years ended June 30, 2012 and 2011, 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, outstanding purchase commitments were \$132,359 for equipment and related costs. There were no outstanding purchase commitments at June 30, 2012.

OREGON PUBLIC BROADCASTING

NOTES TO FINANCIAL STATEMENTS

Note 9 – 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 and debt 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 values 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

Note 9 - 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, 2012 and 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, 2011	\$ 934,754	\$ 2,813,030	\$ 153,820	\$ 3,901,604
Purchases	-	530,000	-	530,000
Net realized/unrealized gains (losses)	40,584	54,240	(22,834)	71,990
Balance at June 30, 2012	<u>\$ 975,338</u>	<u>\$ 3,397,270</u>	<u>\$ 130,986</u>	<u>\$ 4,503,594</u>

	<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)	140,798	603,089	(585)	743,302
Balance at June 30, 2011	<u>\$ 934,754</u>	<u>\$ 2,813,030</u>	<u>\$ 153,820</u>	<u>\$ 3,901,604</u>

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 losses on investments and loss on charitable trusts and gift annuities, respectively. Total unrealized gains from Level III investments held by the Organization at June 30, 2012 and 2011 were \$71,990 and \$743,302, respectively.

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

Note 9 – 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 June 30, 2012	Unfunded Commitments	Remaining Life	Timing to Draw Down Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Hedge funds (a)	\$ 2,526,134	\$ -	N/A	N/A	Quarterly	90 days notice	None
Real estate funds (b)	975,338	-	N/A	N/A	N/A	N/A	None
Equity funds (c)	<u>3,397,270</u>	<u>-</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>None</u>
	<u>\$ 6,898,742</u>	<u>\$ -</u>					

(a) Funds-of-funds pursuing a variety of investment strategies, generally with fixed income and equity orientations.

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

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

Note 10 – Donated Services, Materials, and Equipment

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

	<u>2012</u>	<u>2011</u>
Programming and content creation	\$ 2,422	\$ 6,795
Broadcasting	109,169	62,895
Marketing	41,805	66,495
Management and general	57,076	58,195
Development and fund-raising	<u>45,745</u>	<u>53,286</u>
	<u>\$ 256,217</u>	<u>\$ 247,666</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

Note 11 - 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 \$552,586 and \$532,944 during the years ended June 30, 2012 and 2011, respectively.

Note 12 - 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, 2012 and 2011, 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% and 57% at June 30, 2012 and 2011, respectively, as a result of depreciation allocations based on assets owned), consisted of the following at June 30:

	2012 <u>(Unaudited)</u>	2011 <u>(Unaudited)</u>
Current assets	\$ 943,362	\$ 605,296
Noncurrent assets	<u>3,139,955</u>	<u>3,426,915</u>
Total assets	<u>\$ 4,083,317</u>	<u>\$ 4,032,211</u>
Current liabilities	\$ 22,754	\$ 91,542
Noncurrent liabilities	<u>2,255</u>	<u>15,208</u>
Total liabilities	<u>25,009</u>	<u>106,750</u>
Equity, beginning of year	3,925,461	3,889,291
Gain from continuing operations	<u>132,847</u>	<u>36,170</u>
Equity, end of year	<u>4,058,308</u>	<u>3,925,461</u>
Total liabilities and equity	<u>\$ 4,083,317</u>	<u>\$ 4,032,211</u>

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

Note 13 - 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.

Note 14 - 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>2012</u>	<u>2011</u>
Restricted purposes accomplished:		
Content creation	\$ 4,472,180	\$ 6,261,357
Programming and promotion	2,367,332	2,466,195
Equipment	1,442,886	2,041,895
Broadcasting	241,071	242,856
Trust maturities	153,991	70,608
Endowment earnings	55,900	54,500
Internships	8,885	10,890
	<u>\$ 8,742,245</u>	<u>\$ 11,148,301</u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
The portion of endowment funds subject to a time or purpose restriction under UPMIFA:		
Internships	\$ 24,531	\$ 31,707
Programming	96,298	143,151
Endowment cumulative earnings	<u>37,402</u>	<u>78,898</u>
Total endowments	158,231	253,756
Equipment	685,467	2,198,309
Programming	584,295	575,418
Charitable trust agreements	174,847	356,076
Internships	71,525	75,531
Expansion	<u>55,000</u>	<u>15,000</u>
Total temporarily restricted net assets	<u>\$ 1,729,365</u>	<u>\$ 3,474,090</u>

Note 16 - Permanently Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:		
General operations	\$ 839,014	\$ 834,589
Programming	1,626,420	1,376,420
Internships	179,975	179,975
Capital improvements	<u>43,000</u>	<u>43,000</u>
Total endowments	2,688,409	2,433,984
Trusts held for endowment	<u>62,989</u>	<u>65,617</u>
Total permanently restricted net assets	<u>\$ 2,751,398</u>	<u>\$ 2,499,601</u>

OREGON PUBLIC BROADCASTING NOTES TO FINANCIAL STATEMENTS

Note 17 - 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 may withdraw all or any part of the Board-designated endowment funds upon the affirmative vote of at least 80 percent of the Board of Directors.

OPB applies the Uniform Prudent Management of Institutional Funds Act (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.

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

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

Note 17 - Endowments (continued)

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 \$1,144 as of June 30, 2012. There were no such deficiencies reported in unrestricted net assets as of June 30, 2011. This deficiency during the year ended June 30, 2012 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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,144)	\$ 158,231	\$ 2,688,409	\$ 2,845,496
Board-designated endowment funds	<u>18,017,671</u>	<u>-</u>	<u>-</u>	<u>18,017,671</u>
Total funds	<u>\$ 18,016,527</u>	<u>\$ 158,231</u>	<u>\$ 2,688,409</u>	<u>\$ 20,863,167</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 253,756	\$ 2,433,984	\$ 2,687,740
Board-designated endowment funds	<u>16,749,172</u>	<u>-</u>	<u>-</u>	<u>16,749,172</u>
Total funds	<u>\$ 16,749,172</u>	<u>\$ 253,756</u>	<u>\$ 2,433,984</u>	<u>\$ 19,436,912</u>

**OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS**

Note 17 - Endowments (continued)

Changes in the endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 16,749,172	\$ 253,756	\$ 2,433,984	\$ 19,436,912
Investment return				
Investment income	489,204	73,731	-	562,935
Net depreciation (realized and unrealized)	<u>(504,329)</u>	<u>(78,483)</u>	<u>-</u>	<u>(582,812)</u>
Total investment return	(15,125)	(4,752)	-	(19,877)
Contributions	1,751,428	-	254,425	2,005,853
Matured annuities and other transfers	182,767	-	-	182,767
Appropriation of endowment assets for expenditure	(650,571)	(91,917)	-	(742,488)
Change in underwater endowments	<u>(1,144)</u>	<u>1,144</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year June 30, 2012	<u>\$ 18,016,527</u>	<u>\$ 158,231</u>	<u>\$ 2,688,409</u>	<u>\$ 20,863,167</u>

OREGON PUBLIC BROADCASTING
NOTES TO FINANCIAL STATEMENTS

Note 17 - 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	\$ 13,363	\$ 2,178,484	\$ 16,097,060
Investment return				
Investment income	380,328	58,236	-	438,564
Net appreciation (realized and unrealized)	<u>2,348,461</u>	<u>358,477</u>	<u>-</u>	<u>2,706,938</u>
Total investment return	2,728,789	416,713	-	3,145,502
Contributions	501,369	-	255,500	756,869
Matured annuities and other transfers	136,409	-	-	136,409
Appropriation of endowment assets for expenditure	(628,579)	(70,349)	-	(698,928)
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>\$ 16,749,172</u>	<u>\$ 253,756</u>	<u>\$ 2,433,984</u>	<u>\$ 19,436,912</u>