

BATES TECHNICAL COLLEGE, KBTC-TV

Audited Financial Statements

June 30, 2011 and 2010

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Independent Auditor's Report

Board of Trustees
Bates Technical College, KBTC-TV
Tacoma, Washington

We have audited the accompanying statements of financial position of Bates Technical College, KBTC-TV as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Bates Technical College, KBTC-TV. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bates Technical College, KBTC-TV as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental financial information in accordance with auditing standards generally accepted in the United States of America which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

JOHNSON, STONE & PAGANO, P.S.

November 22, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Bates Technical College-KBTC-TV
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Introduction and Reporting Entity

Management's Discussion and Analysis (MD&A) is an overview of the financial position and activities of Bates Technical College-KBTC-TV ("KBTC") as of and for the year ended June 30, 2011 with comparative information for the year ended June 30, 2010.

Management of KBTC has prepared the following discussion. Readers should also review the Independent Auditor's Report along with the financial statements and related footnotes which follow this section to enhance their understanding of KBTC's performance

Bates Technical College, KBTC-TV is a public (not-for-profit) television station established to encourage and promote non-commercial educational and public television broadcasting in the Tacoma and Centralia areas of Washington State. In the Centralia area, KBTC operates as KCKA-TV ("KCKA"). KBTC is operated by and licensed under Bates Technical College (the "College") and accounted for as a fund by the College. The station has a significant commitment to local interest programming and local production and growing its educational and community engagement activities.

The signal of KBTC and KCKA reaches an estimated 1.8 million households in greater Western Washington, stretching from the northwestern border of Oregon to southwestern British Columbia, Canada. Contributing membership consists of approximately 105,000 households.

Overview of the Financial Statements

The KBTC financial report consists of a series of financial statements and notes to the statements. In its Statements No.'s 34, 37 and 38, the Governmental Accounting Standards Board (GASB) sets the presentation standards of audited financial statements and note disclosures for state and local governments, and their subsidiaries.

Public-Broadcasting-Entity-Wide Financial Statements

The public-broadcasting-entity-wide financial statements and the fund financial statements are the basic financial statements under the reporting standards of GASB. Financial information reported in the public-broadcasting-entity-wide financial statements uses the full-accrual method of accounting. Revenues are recognized when they are earned, and expenditures are recognized when they are incurred.

The public-broadcasting-entity-wide financial statements present the financial activity of KBTC (the primary government entity). KCKA, which broadcasts from Centralia Washington, has its financial activity included in the KBTC financial statements.

The financial statements presented below highlight the significant financial activities that occurred during the past year and describes changes in financial activity from the prior year.

The financial statements of KBTC consist of:

- **Statements of Financial Position:** This Statement presents the financial position of KBTC as of the end of the fiscal year. It classifies assets and liabilities as current or noncurrent. Generally, current liabilities are those that will be paid within one year of the date of the Statement.

Current assets are those that are available to satisfy current liabilities. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of KBTC, while the change in net assets is an indication of whether the overall financial condition improved or worsened during the year. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation and amortization.

- **Statements of Activities:** This Statement presents KBTC's results of operations for the years ending June 30, 2011 and 2010.
- **Statements of Functional Expenses:** This Statement presents the operating expenses incurred to vendors and employees for providing goods and services for the overall operations of KBTC. In addition, depreciation expense of \$738,019 and \$806,338 for 2011 and 2010, respectively, is shown.
- **Statements of Cash Flows:** This Statement presents the detailed information about the major sources and uses of cash. KBTC does not maintain a separate cash account; therefore, all of KBTC's cash receipts and disbursements are reflected in the accounts of Bates Technical College.
- **Notes to Financial Statements**

These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The adoption of Statement 34 had no significant effect on the financial statements. Statement 34 requires the classification of net assets into three categories invested in capital assets: net of related debt, restricted, and unrestricted.

The Statements of Financial Position includes Assets, Liabilities and Net Assets of KBTC as of June 30, 2011 and 2010. The statements list capital assets of broadcast equipment, building improvements, furniture and fixtures and automobiles; the balance is \$3,031,685 net of accumulated depreciation at June 30, 2011. Fixed assets are recorded at cost or, in the case of donated property, at their estimated fair market value at date of receipt. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Net assets represent the residual interest of KBTC's assets after liabilities are deducted. Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, the majority of the station's unrestricted net assets have been designated for programming, broadcasting, production and outreach projects. Overall station revenues decreased and expenses exceeded the operational revenues in 2011. Net assets decreased during 2011 from \$4,239,233 to \$3,886,934.

A review of net assets at June 30, 2011 and 2010 shows that KBTC continues to maintain a favorable financial foundation.

There were no major accounting changes that affected the financial statements.

The following chart depicts the breakdown of Assets, Liabilities and Net Assets for KBTC for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets:		
Current	\$ 960,789	\$ 1,135,505
Capital assets, net	<u>3,031,685</u>	<u>3,243,874</u>
TOTAL ASSETS	<u><u>\$ 3,992,474</u></u>	<u><u>\$ 4,379,379</u></u>
Liabilities:		
Current	\$ 105,540	\$ 140,146
Noncurrent	<u>-</u>	<u>-</u>
Total Liabilities	<u>105,540</u>	<u>140,146</u>
Net Assets:		
Unrestricted	1,176,108	1,894,641
Temporarily restricted	<u>2,710,826</u>	<u>2,344,592</u>
Total Net Assets	<u>3,886,934</u>	<u>4,239,233</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,992,474</u></u>	<u><u>\$ 4,379,379</u></u>

The Statements of Activities list expenses by function. Program revenues are listed by source. Grants and contributions not restricted to a specific program or function are included in Support and Revenues.

KBTC's main revenue sources are the Corporation for Public Broadcasting, Bates Technical College, individuals and corporate donors. The station has and will continue to pursue funding from all potential sources consistent with its mission.

In reviewing the statements of activities, it should be noted that total support and revenues in 2011 are down approximately \$18,000 in comparison to 2010. Instructional-related expenses from the College decreased approximately \$23,000. Indirect facility and administrative support from the College is down approximately \$64,000 in comparison with the prior year. In-kind contributions are up approximately \$19,000 in comparison to 2010. KBTC's CPB grant was down approximately \$22,000 from prior year based on applicable contributions of non-federal financial support. KBTC-TV increased membership income more than \$323,000 from the year prior and increased the number of donors by approximately 1,500.

	<u>2011</u>	<u>2010</u>
<u>Unrestricted Net Assets</u>		
Support and Revenues:		
Community service grant from Corporation for Public Broadcasting (CPB)	\$ 803,671	\$ 825,681
Donated support	3,390,511	3,135,055
Other income	391,270	462,953
Net assets released from restrictions	-	179,626
Total Support and Revenues	<u>\$ 4,585,452</u>	<u>\$ 4,603,315</u>
Expenses:		
Program services	\$ 3,060,354	\$ 3,003,029
Support services	2,243,631	2,358,507
Total Expenses	<u>\$ 5,303,985</u>	<u>\$ 5,361,536</u>
<u>Temporarily Restricted Net Assets</u>		
Grant revenues	\$ 366,234	\$ 284,237
Net assets released from restrictions	-	(179,626)
	<u>\$ 366,234</u>	<u>\$ 104,611</u>

The Statements of Functional Expenses identify the costs of providing the various programs and other activities on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received.

There were no significant variances from budget in 2011.

Overall expenses decreased approximately \$58,000 in 2011. Significant changes in expenses were a decrease of \$107,000 for programming and production salaries and a decrease of \$73,000 for fundraising salaries. Expenses for programming costs increased by \$86,000 and premium expenses rose by \$56,000. Other items fluctuated by less material amounts.

The Statements of Cash Flows identify the increases and decreases in cash from operating and investing activities. Net cash provided by operating activities increased in 2011 by \$93,000. For investing activities, there was an increase in cash generated from \$424,635 in 2010 to \$517,775 in 2011. This additional cash was utilized for the acquisition of equipment and support of digital grant activities.

	<u>2011</u>	<u>2010</u>
<u>Cash flows from operating activities:</u>		
Decrease in net assets	\$ (352,299)	\$ (653,610)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	<u>870,074</u>	<u>1,078,245</u>
Net Cash Provided by Operating Activities	517,775	424,635
 <u>Cash Flows Used in Investing Activities:</u>		
Purchase of equipment	<u>(517,775)</u>	<u>(424,635)</u>
Change in cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
 CASH AT END OF YEAR	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>

The Notes to Financial Statements provide an overview of the organization, significant accounting policies and important events.

Net assets subject to donor-imposed stipulations that may or will be met either by actions of KBTC or the passage of time are Temporarily Restricted Net Assets. At June 30, 2011 and 2010, KBTC had temporarily restricted net assets of \$2,710,826 and \$2,344,592. Increases to the funds were generated by DDF12B grant activity listed in the notes as separate Digital Distribution Funds. The grant requires Bates Technical College/KBTC maintain the equipment without modification for a period of 10 years. If the equipment is not retained for the required 10 year period, the full amount of the grant maybe required to be repaid to the grantor.

Current Factors Having Plausible Future Financial Implication

The current recession is a concern for the station. While direct support from the State of Washington to KBTC is not a factor, deep budgetary challenges at the State level are an impact for the station's licensee, Bates Technical College.

In anticipation of a continuing decline in the State's revenue forecast, and an unknown timeline for recession recovery, KBTC is focused on new revenue streams by obtaining grant funding from Federal grant programs, private and local sources and unique funding opportunities with state and county agencies.

KBTC recognizes the competition for television audiences created by the expanding world of multi-channel and media platform options. While the total number of viewers has remained stable, the television choices have reduced the number of viewers watching the networks, including PBS. KBTC will continue to broadcast high quality, commercial free programs that educate, entertain and inspire, and are locally relevant. It is essential that the station's program choices reflect the diverse values and perspectives of greater Western Washington communities and that viewers can obtain a quality, digital signal.

Expanding community outreach projects and continuing local broadcast production will add visibility to the station and attract more viewers who can see the value in having a local broadcasting station that responds to lifelong learning. As an active member of the community, KBTC chooses to engage, entertain and inform our viewers as citizens, not as consumers.

Unlike much of the rest of the nation, KBTC's membership has experienced vibrant, healthy increases over the past two years. Individuals in our communities have exhibited powerful support with contributions that mirror or sometimes exceed pre-recession levels.

KBTC will continue its solid financial management and demonstrate prudent use of its public broadcasting support. Station management and staff are focused on the mission and values of KBTC Public Television and will actively meet economic uncertainties to maintain a favorable financial position.

AUDITED FINANCIAL STATEMENTS

BATES TECHNICAL COLLEGE, KBTC-TV**STATEMENTS OF FINANCIAL POSITION**

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
KBTC fund balance held by Bates Technical College	\$ 934,066	\$ 1,034,951
Accounts, grants and contributions receivable	<u>26,723</u>	<u>100,554</u>
Total Current Assets	960,789	1,135,505
PROPERTY, PLANT AND EQUIPMENT		
Broadcast equipment	15,759,577	15,195,962
Building improvements	538,610	538,610
Furniture and fixtures	795,180	794,036
Automobiles	<u>94,099</u>	<u>94,099</u>
	17,187,466	16,622,707
Less accumulated depreciation	<u>14,155,781</u>	<u>13,417,762</u>
	3,031,685	3,204,945
Construction in progress	<u> </u>	<u>38,929</u>
Total Property, Plant and Equipment	<u>3,031,685</u>	<u>3,243,874</u>
TOTAL ASSETS	<u>\$ 3,992,474</u>	<u>\$ 4,379,379</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>105,540</u>	\$ <u>140,146</u>
Total Current Liabilities	105,540	140,146
NET ASSETS		
Unrestricted	1,176,108	1,894,641
Temporarily restricted	<u>2,710,826</u>	<u>2,344,592</u>
	<u>3,886,934</u>	<u>4,239,233</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,992,474</u>	<u>\$ 4,379,379</u>

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

BATES TECHNICAL COLLEGE, KBTC-TV**STATEMENTS OF ACTIVITIES**

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
SUPPORT AND REVENUES		
Operating and capital appropriations from Bates Technical College	\$ 595,201	\$ 617,986
Donated facilities and administrative support from Bates Technical College	981,679	1,045,325
Subscription and membership income	1,693,423	1,370,075
Telecasting, production and broadcast services	390,976	462,291
Community service grant from Corporation for Public Broadcasting (CPB)	803,671	825,681
Interest	294	662
In-kind contributions	120,208	101,669
Net assets released from restrictions		<u>179,626</u>
Total Support and Revenues	4,585,452	4,603,315
EXPENSES		
Program services		
Programming and production	1,103,894	1,087,689
Broadcasting	1,783,293	1,744,195
Program information	173,167	171,145
	<u>3,060,354</u>	<u>3,003,029</u>
Supporting services		
Management and general	1,076,499	1,126,686
Fundraising	1,167,132	1,231,821
	<u>2,243,631</u>	<u>2,358,507</u>
Total Expenses	<u>5,303,985</u>	<u>5,361,536</u>
Decrease in Unrestricted Net Assets	(718,533)	(758,221)
TEMPORARILY RESTRICTED NET ASSETS		
Grant revenues	366,234	284,237
Net assets released from restrictions		<u>(179,626)</u>
Increase in Temporarily Restricted Net Assets	<u>366,234</u>	<u>104,611</u>
NET DECREASE IN NET ASSETS	(352,299)	(653,610)
Net Assets at Beginning of Year	<u>4,239,233</u>	<u>4,892,843</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,886,934</u>	<u>\$ 4,239,233</u>

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

BATES TECHNICAL COLLEGE, KBTC-TV

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2011 and 2010

	Program Services								Supporting Services				Total Expenses			
	Programming and Production		Broadcasting		Program Information		Total Program Services		Management and General		Fundraising		Total Supporting Services			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Salaries, payroll taxes and employee benefits	\$ 417,977	\$ 525,132	\$ 715,016	\$ 713,845	\$ 111,741	\$ 105,278	\$ 1,244,734	\$ 1,344,255	\$ 788,509	\$ 837,534	\$ 434,326	\$ 507,371	\$ 1,222,835	\$ 1,344,905	\$ 2,467,569	\$ 2,689,160
Equipment rental and maintenance	9,507	8,541	44,759	21,990			54,266	30,531			10,511	18,864	10,511	18,864	64,777	49,395
Professional services	54,695	17,020	21,634	6,795			76,329	23,815	27,123	28,780	79,903	121,994	107,026	150,774	183,355	174,589
Dues and fees	9,548	5,140		820	185	185	9,733	6,145	3,811	24,045	63,190	65,184	67,001	89,229	76,734	95,374
Office supplies	6,351	30,968	62,451	61,413	762	427	69,564	92,808	7,777	8,566	22,995	19,771	30,772	28,337	100,336	121,145
Utilities	32,772	23,769	104,809	67,646	4,794	3,339	142,375	94,754	30,297	23,222	112,357	129,682	142,654	152,904	285,029	247,658
Advertising	54,685	41,315			29,129	35,375	83,814	76,690	342	1,820	27,545	76	27,887	1,896	111,701	78,586
Occupancy	38,622	19,036	43,325	39,409			81,947	58,445	27,424	12,810	6,816	3,771	34,240	16,581	116,187	75,026
Postage and shipping	2,771	292	1,194	8,600	17,300	16,000	21,265	24,892	53	55	67,137	62,962	67,190	63,017	88,455	87,909
Ground care, security and maintenance of plant	30,919	35,722	49,948	57,283	4,850	5,621	85,717	98,626	30,151	37,003	32,690	40,456	62,841	77,459	148,558	176,085
Travel	44	3,300	977	41			1,021	3,341		7,478	3,047	3,205	3,047	10,683	4,068	14,024
Station supplies (broadcasting)	224	9,071	35,064	22,208			35,288	31,279							35,288	31,279
Other indirect allocated supplies and services	28,087	31,271	45,373	50,146	4,406	4,920	77,866	86,337	27,390	32,392	29,696	35,415	57,086	67,807	134,952	154,144
Program acquisition	417,592	331,036					417,592	331,036							417,592	331,036
Premiums											266,395	209,938	266,395	209,938	266,395	209,938
Miscellaneous	100	6,076		74			100	6,150	54,346	568	10,524	13,132	64,870	13,700	64,970	19,850
Depreciation			658,743	693,925			658,743	693,925	79,276	112,413			79,276	112,413	738,019	806,338
	<u>\$ 1,103,894</u>	<u>\$ 1,087,689</u>	<u>\$ 1,783,293</u>	<u>\$ 1,744,195</u>	<u>\$ 173,167</u>	<u>\$ 171,145</u>	<u>\$ 3,060,354</u>	<u>\$ 3,003,029</u>	<u>\$ 1,076,499</u>	<u>\$ 1,126,686</u>	<u>\$ 1,167,132</u>	<u>\$ 1,231,821</u>	<u>\$ 2,243,631</u>	<u>\$ 2,358,507</u>	<u>\$ 5,303,985</u>	<u>\$ 5,361,536</u>

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

BATES TECHNICAL COLLEGE, KBTC-TV

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (352,299)	\$ (653,610)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation	738,019	806,338
Donated equipment	(8,055)	(36,702)
Decrease in assets		
KBTC fund balance held by Bates Technical College	100,885	43,270
Accounts, grants and contributions receivable	73,831	227,519
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	<u>(34,606)</u>	<u>37,820</u>
Net Cash Provided by Operating Activities	517,775	424,635
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of equipment	<u>(517,775)</u>	<u>(424,635)</u>
Net Cash Used by Investing Activities	<u>(517,775)</u>	<u>(424,635)</u>
INCREASE IN CASH		
Cash at Beginning of Year	<u> </u>	<u> </u>
CASH AT END OF YEAR	\$ <u><u> </u></u>	\$ <u><u> </u></u>

OTHER CASH FLOW INFORMATION

Refer to Note 1 of the financial statements for further explanation of KBTC's cash.

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

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Bates Technical College, KBTC-TV (“KBTC”) is a public (not-for-profit) television station established to encourage and promote noncommercial educational and public television broadcasting in the Tacoma and Centralia areas of Washington State. In the Centralia area, KBTC operates as KCKA-TV. KBTC is operated by and licensed under Bates Technical College (the “College”) and accounted for as a fund by the College. The College, an agency of the State of Washington, follows generally accepted accounting principles for governmental fund accounting. A fund, as defined by the Government Accounting Standards Board, is a fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources together with all related liabilities and residual equities and changes therein are recorded and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As an agency of the State of Washington, the College is subject to audit by the State Auditor's Office to evaluate internal controls and financial activities information and for compliance with state and federal laws.

The financial statements of KBTC have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. KBTC implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Cash

For purposes of the statements of cash flows, KBTC considers cash to be cash on hand.

KBTC Fund Balance Held by Bates Technical College

Amounts held by Bates Technical College represent cash forwarded to the College by KBTC which are commingled with the College for the purposes of banking and investment.

Accounts, Grants and Contributions Receivable

Receivables are recorded when invoices are issued or when amounts on underwriting agreements have been earned, but not yet received or a promise to give has been made as of the statements of financial position date. Receivables are written off when they are determined to be uncollectible. An allowance for doubtful accounts has not been established as management believes that essentially all receivables are collectible at June 30, 2011 and 2010 and are all current, less than 90 days.

Property, Plant and Equipment

Fixed assets are recorded at cost or, in the case of donated property, at their estimated fair market value at date of receipt. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, ranging between 3 and 30 years. Certain assets have restrictions on their use. See Note 3.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Accounts Payable

Accounts payable includes trade payables and accrued vacations.

Deferred Revenue

Contract revenues received in advance are recorded as deferred revenue, then recognized as revenue earned in the period in which the contract terms are met by KBTC.

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations are considered unrestricted.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of KBTC or the passage of time are considered temporarily restricted. At June 30, 2011 and 2010, KBTC had temporarily restricted net assets of \$2,710,826 and \$2,344,592, respectively.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by KBTC are included in permanently restricted net assets. At June 30, 2011 and 2010, there were no permanently restricted net assets.

Support, Revenue Recognition and Expenses

Underwriting revenues are recognized in the period earned and are included in telecasting, production and broadcast services.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as support and revenues for unrestricted net assets.

KBTC treats temporarily restricted revenues as unrestricted if the donor restriction expires during the fiscal year the gift is received.

Contributions, including unconditional promises to give, are recognized as revenues in the same period received. Promises to give that are scheduled to be received after the statements of financial position date are shown as increases in accounts receivable and unrestricted net assets. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at the appropriate discount rate.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Support, Revenue Recognition and Expenses (Continued)

Certain support and expenses are provided for in the financial statements as allowed under guidelines provided by the Corporation for Public Broadcasting and include donated facilities and administrative support from the College.

Eligible employees of KBTC are also deemed to be employees of the College and are therefore provided benefits including retirement benefits in the same manner as the College provides to all of its eligible employees.

Donated Volunteer Services

No amounts have been recorded in the financial statements for donated volunteer services because such services do not meet the criteria for such recognition.

In-Kind Contributions

In-kind contributions consist of donated professional services, equipment and facilities recorded at their estimated fair market value. The amounts of the contributions are recorded as support when earned and capitalized or expensed as deemed appropriate.

Income Taxes

No provision is made for federal income taxes as KBTC is tax-exempt under provision of the Internal Revenue Code.

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 and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received.

Advertising

Advertising costs are expensed as incurred.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

KBTC evaluated for subsequent events through November 22, 2011, the date the statements were available to be issued. No such events were identified.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Grant from Department of Community, Trade & Economic Development (until 2014)	\$ 115,208	\$ 115,208
Grant from Corporation for Public Broadcasting Digital Distribution Fund 7 (until February 2015)	249,042	249,042
Grant from Corporation for Public Broadcasting Digital Distribution Fund 6 (until October 2015)	991,461	991,461
Grant from Corporation for Public Broadcasting Digital Distribution Fund 8 (until February 2016)	128,846	128,846
Grant from Corporation for Public Broadcasting Digital Nielsen Encoder Program (until June 2017)	8,220	8,220
Grant from Corporation for Public Broadcasting Digital Distribution Fund 11 (until March 2018)	63,179	63,179
Grant from Department of Community, Trade & Economic Development (until June 2018)	227,866	227,866
Grant from Department of Community, Trade & Economic Development (until June 2019)	227,866	227,866
Grant from Corporation for Public Broadcasting Digital Television Transition Grants (until June 2012)	48,667	48,667
Grant from Corporation for Public Broadcasting Digital Television Transition Grants (until June 2019)	245,308	245,308
Grant from Corporation for Public Broadcasting Digital Television Transition Grants (until June 2019)	<u>405,163</u>	<u>38,929</u>
	<u>\$ 2,710,826</u>	<u>\$ 2,344,592</u>

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 3 - CONTINGENCIES, COMMITMENTS AND CONCENTRATIONS

The Federal Communications Commission required all television stations in the United States must cease analog transmission by 2009. All non-commercial stations were required to begin digital transmission on new channel assignments not later than May 2003. KBTC's primary transmission facility was converted to digital and began broadcasting by the federally imposed deadline. KBTC's satellite facility located in Centralia received a six-month extension and met the November 1, 2003 deadline with a low-power upgrade. This site was later upgraded and went on the air with full power operation beginning October 27, 2005. During the year ended June 30, 2007, KBTC completed the process of updating the master control operation and studio facilities to remain current with the industry and to realize the full benefit of digital technologies. As of June 30, 2009, KBTC had completed its conversion from analog to digital transmissions as required.

KBTC received grants of \$115,208 from the Washington State Department of Community, Trade and Economic Development. This grant provided support for the digital conversion (low power alternative) to the KCKA transmitter in Centralia, Washington. The grants specify that KBTC maintain the equipment without modification for a period of 10 years.

KBTC was awarded a Digital Distribution Fund 7 grant of \$249,042 to upgrade KCKA's transmission facility to full power. This grant requires KBTC to maintain the equipment without modification for a period of 10 years.

KBTC was awarded a Digital Distribution Fund 6 grant of \$1,003,456 to upgrade the master control operation and studio facilities to full digital technology. The total grant amount was adjusted to \$991,461 to reflect actual expenditures related to this portion of the digital upgrade. This grant requires KBTC to maintain the equipment without modification for a period of 10 years.

KBTC was awarded a Digital Distribution Fund 8 grant of \$184,075 to upgrade the master control operation and studio facilities to full digital technology. The total grant amount was adjusted to \$128,846 to reflect actual expenditures related to this portion of the digital upgrade. This grant requires KBTC to maintain the equipment without modification for a period of 10 years.

KBTC was awarded a Digital Nielsen Encoder Program grant of \$8,220 to upgrade the Nielsen encoders to full digital technology. This grant requires KBTC to maintain the equipment without modification for a period of 10 years.

KBTC was awarded a Digital Distribution Fund 11 grant of \$94,018 to upgrade the DTV Encoder to full digital technology. The total grant amount was adjusted to \$63,179 to reflect actual expenditures related to this portion of the digital upgrade. This grant requires KBTC to maintain the equipment without modification for a period of 10 years.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 3 - CONTINGENCIES, COMMITMENTS AND CONCENTRATIONS

(Continued)

KBTC received grants of \$227,866 each in two years for total \$455,732 from the Washington State Department of Community, Trade and Economic Development. These grants provide support for the digital conversion. These grants specify that KBTC maintain the equipment without modification for a period of 10 years.

KBTC was awarded a grant from the Corporation of Public Broadcasting of \$48,667 for digital television transition. The grant specifies that KBTC must maintain the equipment and related records for a period of three years after execution of the grant.

KBTC has been awarded a grant from the Corporation of Public Broadcasting of \$245,308 to upgrade the station's video service to full digital technology. The grant specifies that KBTC must maintain the equipment without modification for a period of 10 years.

KBTC has been awarded a grant from the Corporation of Public Broadcasting of \$500,000 for the maximization of the station's transmitters. The total amount of the grant was adjusted to reflect actual expenditures related to this grant to \$405,163 which was received as of June 30, 2011. The grant specifies that KBTC must maintain the equipment without modification for a period of 10 years.

KBTC was awarded a grant from the Corporation of Public Broadcasting of \$199,626 for development of "Thrive by Five," Early Childhood Education programming. The total grant amount was adjusted to \$195,902 to reflect actual expenditures related to this grant. The entire amount of \$179,626 was reclassified to unrestricted net assets as of June 30, 2010 as KBTC had met all restrictions.

KBTC has been awarded a grant from the U.S. Department of Agriculture of \$33,000 to support digital transition servicing rural areas. As this grant supports ongoing activities of KBTC, the grant was recognized as unrestricted revenue.

NOTE 4 - OPERATING LEASE

Future operating lease commitments are not material; total rental and lease expense for 2011 and 2010 is less than two percent of revenues.

BATES TECHNICAL COLLEGE, KBTC-TV

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 5 - RETIREMENT PLANS

KBTC's employees are eligible to participate in retirement plans facilitated by the College. A 401(a) plan is available for both full and part time employees who carry at least a 50% full time load. Employer matching is provided at various rates based on the age of the participating employee. During the years ended June 30, 2011 and 2010, KBTC contributed \$70,419 and \$75,737, respectively, under this plan. Employees are also eligible to participate in a 403(b) tax-deferred annuity plan; there is no employer match under this plan.

NOTE 6 - FUTURE SICK TIME AND SABBATICAL OBLIGATIONS

Under terms of employment with exempt employees and employees covered by a collective bargaining agreement, if certain conditions are met, current employees may elect to receive a monetary payment for accrued sick time on a four-for-one basis. If all of KBTC's accrued sick time was converted at June 30, 2011, the cost would be \$43,290.

Bates Technical College offers its administrative and exempt employees a sabbatical leave benefit after seven years of full-time employment. The sabbatical cost, including cost of replacement personnel, cannot exceed 150% of an employee's salary and benefits. Since sabbaticals require the approval of the College president, can be supplemented by outside funding and must be in compliance with RCW 25B.10.650, the value of this obligation at June 30, 2011 cannot be determined. As of June 30, 2011, no employees are on an approved sabbatical leave.