

LYNN CANAL BROADCASTING

FINANCIAL REPORT

JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lynn Canal Broadcasting
Haines, Alaska

We have audited the accompanying statements of financial position of Lynn Canal Broadcasting as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Lynn Canal Broadcasting'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. 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 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 Lynn Canal Broadcasting at 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.

Peterson Sullivan LLP

December 5, 2012

LYNN CANAL BROADCASTING
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

ASSETS	2012	2011
Current Assets		
Cash	\$ 96,977	\$ 62,214
Receivable from Corporation for Public Broadcasting		34,937
Other receivables	1,700	12,103
	98,677	109,254
Property and Equipment		
Broadcasting and technical equipment	207,577	308,725
Furniture and fixtures	35,289	41,865
Building and leasehold improvements	24,951	24,951
	267,817	375,541
Less accumulated depreciation and amortization	230,712	326,358
	37,105	49,183
Total assets	\$ 135,782	\$ 158,437
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	\$ 9,523	\$ 32,465
Unrestricted Net Assets	126,259	125,972
Total liabilities and net assets	\$ 135,782	\$ 158,437

See Notes to Financial Statements

LYNN CANAL BROADCASTING

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenue		
State of Alaska Public Broadcasting Commission		
Grant	\$ 131,615	\$ 129,628
Corporation for Public Broadcasting	119,764	130,722
Other grants	36,535	16,028
Memberships	79,339	43,029
Underwriting	40,616	31,419
In-kind contributions	78,829	72,175
Property management	15,196	14,753
Other income	19,587	16,969
Total operating revenue	521,481	454,723
Expenses		
Program services		
Programming and production	226,284	198,130
Technical services	94,444	68,135
	320,728	266,265
Supporting services		
Development	4,540	5,279
General and administrative	195,926	173,733
	200,466	179,012
Total expenses	521,194	445,277
Change in net assets	287	9,446
Net Assets, beginning of year	125,972	116,526
Net Assets, end of year	\$ 126,259	\$ 125,972

See Notes to Financial Statements

LYNN CANAL BROADCASTING

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

	Programming and Production	Technical Services	Total Program Services	Development	General and Administrative	Total Support Services	Total
Salaries and employee benefits	\$ 150,706	\$ 1,200	\$ 151,906	\$ -	\$ 94,865	\$ 94,865	\$ 246,771
Equipment maintenance		25,404	25,404				25,404
Occupancy	5,071	16,579	21,650		13,836	13,836	35,486
Network affiliation	40,526		40,526				40,526
Supplies				2,689	6,882	9,571	9,571
Professional services		13,168	13,168		6,058	6,058	19,226
Travel					1,953	1,953	1,953
Donated rent	14,120	14,120	28,240		28,240	28,240	56,480
Donated radio services		16,895	16,895		20,650	20,650	37,545
Depreciation and amortization	14,156	7,078	21,234		7,077	7,077	28,311
Loss on disposal of assets					13,430	13,430	13,430
Other	1,705		1,705	1,851	2,935	4,786	6,491
	<u>\$ 226,284</u>	<u>\$ 94,444</u>	<u>\$ 320,728</u>	<u>\$ 4,540</u>	<u>\$ 195,926</u>	<u>\$ 200,466</u>	<u>\$ 521,194</u>

See Notes to Financial Statements

LYNN CANAL BROADCASTING

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

	Programming and Production	Technical Services	Total Program Services	Development	General and Administrative	Total Support Services	Total
Salaries and employee benefits	\$ 125,802	\$ 191	\$ 125,993	\$ 3,161	\$ 80,427	\$ 83,588	\$ 209,581
Equipment maintenance	1,020	22,383	23,403		1,257	1,257	24,660
Occupancy	2,604	10,237	12,841	1,028	22,024	23,052	35,893
Network affiliation	40,280		40,280	250	72	322	40,602
Supplies	2,240		2,240	528	449	977	3,217
Professional services					12,319	12,319	12,319
Travel	285		285		1,145	1,145	1,430
Donated rent	13,000	13,000	26,000		26,000	26,000	52,000
Donated radio services		15,718	15,718		19,211	19,211	34,929
Depreciation and amortization	12,587	6,294	18,881		6,293	6,293	25,174
Other	312	312	624	312	4,536	4,848	5,472
	<u>\$ 198,130</u>	<u>\$ 68,135</u>	<u>\$ 266,265</u>	<u>\$ 5,279</u>	<u>\$ 173,733</u>	<u>\$ 179,012</u>	<u>\$ 445,277</u>

See Notes to Financial Statements

LYNN CANAL BROADCASTING

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Grants received	\$ 322,851	\$ 253,866
Memberships and other contributions received	79,339	38,924
Underwriting received	51,019	30,537
Other receipts	19,587	16,969
Cash paid to suppliers	(161,588)	(100,803)
Cash paid to employees and related taxes	(246,782)	(204,036)
	64,426	35,457
Cash Flow from Investing Activity		
Purchase of property and equipment	(29,663)	(10,675)
	34,763	24,782
Cash Balance, beginning of year	62,214	37,432
Cash Balance, end of year	\$ 96,977	\$ 62,214
Reconciliation of Change in Net Assets to Cash Flows from Operating Activities		
Change in Net Assets	\$ 287	\$ 9,446
Adjustments		
Depreciation and amortization	28,311	25,174
Loss on disposal of assets	13,430	
Change in operating assets and liabilities		
Receivable from Corporation for Public Broadcasting	34,937	(14,462)
Other receivables	10,403	(8,932)
Prepaid expenses		2,222
Deferred membership revenue		(4,105)
Accounts payable and accrued expenses	(22,942)	26,114
	\$ 64,426	\$ 35,457

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Operations and Significant Accounting Policies

Organization

Lynn Canal Broadcasting ("KHNS" or "the Station") is a public radio station located in Haines, Alaska, and is a non-profit Alaska corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The Station is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Station has no temporarily or permanently restricted net assets, so these classes of net assets are not shown on the financial statements.

Contributions

Contributions, including underwriting, restricted by time or program are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets when the restrictions are met.

Temporarily Restricted Net Assets

Temporarily restricted net assets are transferred to unrestricted net assets in the period the restrictions are met. If the Station receives a temporarily restricted contribution and it meets the restrictions in the same year the contribution is received, then it records the contribution as unrestricted revenue. Contributions restricted for the purchase of property and equipment are reclassified to unrestricted net assets when the assets are acquired.

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.

In-Kind Contributions

Donated services are recognized in the financial statements at the estimated fair value of the services received. These services are recognized only if the services received require specialized skills that are provided by individuals possessing those skills and would need to be purchased if not provided by donation.

In-kind contributions also include contributed equipment, rents, radio services, utilities, and supplies. These contributions are recognized at their estimated fair value in the financial statements and amounted to \$94,025 and \$86,928 for the years ended June 30, 2012 and 2011, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks at the Station, but these services do not meet the criteria for recognition as contributed services. The estimated value of these services was approximately \$38,000 and \$33,000 for the years ended June 30, 2012 and 2011, respectively. These services are not recognized in these financial statements.

Cash

Cash includes cash held in a bank.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at the estimated fair market value at the date of donation. Leasehold improvements are amortized over the shorter of their estimated useful life or the anticipated lease term. Depreciation and amortization are calculated by the straight-line method over the estimated useful lives of the assets. Donated assets are considered unrestricted property unless specifically restricted by the donor. The Station's policy is to capitalize items with a cost greater than \$500 and a useful life of greater than two years.

Membership Revenue

Membership revenue is recognized in the period when the service is provided. Receipts for memberships for a future membership period are recorded as deferred membership revenue.

Grant Revenue

Grant revenue from the Corporation for Public Broadcasting and Alaska Public Broadcasting Commission represents funding used to support general operations. Other grants represent funding obtained from other organizations and local municipal governments. All grant revenue is recognized as revenue when it is granted.

Income Taxes

KHNS is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Its Federal returns are open to examination for the years ended June 30, 2009 to 2012.

Subsequent Events

The Station has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

Note 2. Property Management and Office Rent

The Station leases its office and studio space under a month-to-month operating lease agreement. However, the Station has entered into a property management agreement with the lessor under which Station employees will provide certain property management functions for the lessor. No lease payments are required as long as the property management services are performed. The property management agreement is automatically renewed annually unless either party provides written notice of termination.

Values related to this agreement as determined by the lessor for the years ending June 30 were as follows:

	<u>2012</u>	<u>2011</u>
Fair value of leased space	\$ 45,126	\$ 42,846
Cost of property management services	<u>15,196</u>	<u>14,753</u>
Other in-kind contributions	<u>\$ 29,930</u>	<u>\$ 28,093</u>

Other donated broadcasting space amounted to \$11,354 and \$9,154 for the years ended June 30, 2012 and 2011, respectively.

Note 3. Secured Property

The granting agency retains a security interest in the equipment purchased under the Public Telecommunication Facilities Grant. The cost of this equipment was \$76,645. This security interest will expire on December 31, 2014.