

KALW-FM RADIO
(A California Public Telecommunications Entity
Operated by the San Francisco Unified School District)

FINANCIAL STATEMENTS

For the Years Ended
June 30, 2007 and 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
San Francisco Unified School District
San Francisco, California

We have audited the accompanying statements of financial position of KALW-FM Radio (a California Public Telecommunications Entity Operated by the San Francisco Unified School District) as of June 30, 2007 and 2006 (as restated), and the related statements of activities and cash flows for the years ended June 30, 2007 and 2006 (as restated). These financial statements are the responsibility of the Station'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 and the standards required by the Corporation for Public Broadcasting, *Financial Reporting Guidelines*. 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 KALW-FM Radio as of June 30, 2007 and 2006 (as restated), and the changes in its net assets and its cash flows for the years ended June 30, 2007 and 2006 (as restated) in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Station is not a legally distinct entity but merely a division of the San Francisco Unified School District and is adopting a FASB nonprofit model for reporting purposes.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of functional expenses and schedule of nonfederal financial support are presented for the purposes of additional analysis and are not a required part of the basic financial statements of KALW-FM Radio. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bunker & Company

December 11, 2007

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 128,052	\$ 347,491
Grants receivable, current (Note 2)	50,000	50,000
Interest receivable	<u>1,787</u>	<u>2,737</u>
Total current assets	179,839	400,228
Grants receivable, net of current portion (Note 2)	50,000	100,000
Accounts receivable, SFUSD (Note 3)	-	120,000
Equipment, net of accumulated depreciation of \$204,966 in 2007 and \$178,068 in 2006 (Notes 1 and 4)	<u>141,509</u>	<u>108,846</u>
Total assets	<u>\$ 371,348</u>	<u>\$ 729,074</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 31,072</u>	<u>\$ 187,572</u>
Net assets:		
Unrestricted net assets	215,338	349,254
Temporarily restricted net assets (Note 5)	<u>124,938</u>	<u>192,248</u>
Total net assets	<u>340,276</u>	<u>541,502</u>
Total liabilities and net assets	<u>\$ 371,348</u>	<u>\$ 729,074</u>

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

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

STATEMENTS OF ACTIVITIES
For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Support:			
Subscriptions and membership dues	\$ 1,187,350	\$ -	\$ 1,187,350
Corporation for Public Broadcasting grant	166,157	-	166,157
Foundation and corporate grants	62,334	24,891	87,225
Donated facilities (Note 6)	155,988	-	155,988
Indirect administrative support (Note 6)	<u>82,257</u>	<u>-</u>	<u>82,257</u>
Total support	<u>1,654,086</u>	<u>24,891</u>	<u>1,678,977</u>
Revenue:			
Interest income	<u>3,204</u>	<u>-</u>	<u>3,204</u>
Temporarily restricted net assets released from restrictions (Note 7)	<u>92,201</u>	<u>(92,201)</u>	<u>-</u>
Total support, revenue, and transfers	<u>1,749,491</u>	<u>(67,310)</u>	<u>1,682,181</u>
EXPENSES			
Program services	1,277,055	-	1,277,055
General and administrative	375,375	-	375,375
Fundraising	<u>230,977</u>	<u>-</u>	<u>230,977</u>
Total expenses	<u>1,883,407</u>	<u>-</u>	<u>1,883,407</u>
Change in net assets	(133,916)	(67,310)	(201,226)
Net assets, beginning of year (as restated)	<u>349,254</u>	<u>192,248</u>	<u>541,502</u>
Net assets, end of year	<u>\$ 215,338</u>	<u>\$ 124,938</u>	<u>\$ 340,276</u>

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

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

STATEMENTS OF ACTIVITIES (Continued)
For the year ended June 30, 2006 (Restated)

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Support:			
Subscriptions and membership dues	\$ 1,061,422	\$ -	\$ 1,061,422
Corporation for Public Broadcasting grant	141,681	-	141,681
Foundation and corporate grants	24,153	41,847	66,000
Donated facilities (Note 6)	155,988	-	155,988
Indirect administrative support (Note 6)	<u>83,815</u>	<u>-</u>	<u>83,815</u>
Total support	<u>1,467,059</u>	<u>41,847</u>	<u>1,508,906</u>
Revenue:			
Interest income	<u>19,637</u>	<u>-</u>	<u>19,637</u>
Temporarily restricted net assets released from restrictions (Note 7)	<u>104,599</u>	<u>(104,599)</u>	<u>-</u>
Total support, revenue, and transfers	<u>1,591,295</u>	<u>(62,752)</u>	<u>1,528,543</u>
EXPENSES			
Program services	1,161,956	-	1,161,956
General and administrative	560,586	-	560,586
Fundraising	<u>194,118</u>	<u>-</u>	<u>194,118</u>
Total expenses	<u>1,916,660</u>	<u>-</u>	<u>1,916,660</u>
Change in net assets	(325,365)	(62,752)	(388,117)
Net assets, beginning of year	674,619	105,000	779,619
Prior period adjustment (Notes 2 and 8)	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Net assets, end of year	<u>\$ 349,254</u>	<u>\$ 192,248</u>	<u>\$ 541,502</u>

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

KALW-FM RADIO
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STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	2007	2006 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (201,226)	\$ (238,117)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	26,898	18,818
Changes in assets and liabilities:		
Grants receivable	50,000	(150,000)
Accounts receivable, SFUSD	120,000	(120,000)
Prepaid expenses	-	6,556
Interest receivable	950	(649)
Accounts payable and accrued expenses	<u>(156,500)</u>	<u>158,294</u>
Total adjustments	<u>41,348</u>	<u>(86,981)</u>
Net cash used by operating activities	(159,878)	(325,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	<u>(59,561)</u>	<u>(8,538)</u>
Net decrease in cash and cash equivalents	(219,439)	(333,636)
Cash and cash equivalents, beginning of year	<u>347,491</u>	<u>681,127</u>
Cash and cash equivalents, end of year	<u>\$ 128,052</u>	<u>\$ 347,491</u>

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

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - KALW-FM Radio (the Station) is a noncommercial public broadcasting radio station owned and operated by the San Francisco Unified School District. As a result, it is subject to the laws and regulations of the State of California and the policies of the San Francisco Board of Education. The Station's major source of revenue is from subscriptions and memberships.

Reporting Entity and Financial Statement Model - The Station is not an entity legally distinct from the San Francisco Unified School District. KALW is governed by the School District, which holds the FCC broadcast license and provides the in-kind use of School District facilities as well as other administrative assistance. Substantially, all supportive revenue is raised by the station and is provided by the general public and the Corporation for Public Broadcasting.

Because the majority of funding comes from the general public and the Corporation for Public Broadcasting and not the School District, the Station has adopted the FASB nonprofit model as described in SFAS 117.

Method of Accounting - The financial statements of the Station are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Station is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Station pursuant to those stipulations, (b) from other asset enhancements and diminishment that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Station pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Station is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Station, (b) from other asset enhancements and diminishment that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no permanently restricted net assets as of June 30, 2007 or 2006.

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

A portion of the cash balances of the Station are included in a commingled account held by the Treasurer of the City and County of San Francisco to the credit of the San Francisco Unified School District.

Equipment - The Station records equipment at cost of acquisition, or, if donated, the fair market value at the date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets, which is five to ten years. The Station capitalizes all property and equipment with a cost in excess of the capitalization threshold of \$1,000.

Contributions - Contributions are recognized when the donor makes a promise to give to the Station that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Station is exempt from federal and state taxes under the exemption granted to the San Francisco Unified School District.

NOTE 2 GRANT RECEIVABLE

The Station was awarded a multi-year \$150,000 grant from the William and Flora Hewlett Foundation, which is receivable as follows:

Year-ended June 30, 2008	\$ 50,000
Year-ended June 30, 2009	<u>50,000</u>
	<u>\$ 100,000</u>

Management believes this grant is highly likely to be collected in full, and any present value discount on the long-term portion is not significant. Therefore, there are no allowances offsetting the grant receivable.

KALW-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 3 LICENSE RENEWAL

The Station had been subject to a license challenge, resulting in the delay of the renewal of the Station's license with the Federal Communication Commission (FCC). As a part of the challenge, allegations had been made against the Station, including failure to maintain the Station's public file in accordance with FCC's rules. As of June 30, 2006, the license challenge was settled, and the license was renewed for two years. The Station was levied a fine of \$10,000 for the public inspection violations alleged in the challenges, which has been accrued as of June 30, 2006 and is due in March 2008. In 2006, the Station advanced to SFUSD \$120,000 relating to attorney fees for the license challenge and renewal. This amount was repaid during the year-ended June 30, 2007.

NOTE 4 EQUIPMENT

Equipment consisted of the following at June 30, 2007 and 2006:

<u>Equipment, at cost</u>	
Balance, June 30, 2005	\$ 278,376
Additions	<u>8,538</u>
Balance, June 30, 2006	286,914
Additions	<u>59,561</u>
Balance, June 30, 2007	<u>346,475</u>
<u>Accumulated depreciation</u>	
Balance, June 30, 2005	159,250
Depreciation expense	<u>18,818</u>
Balance, June 30, 2006	178,068
Depreciation expense	<u>26,898</u>
Balance, June 30, 2007	<u>204,966</u>
Equipment, net	<u>\$ 141,509</u>

KALW-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

The Station was awarded grants which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at June 30, 2007 and 2006, were restricted to the following uses:

	2007	2006
Understanding Wealth and Poverty Series	\$ 47	\$ 25,000
Performing Arts Reporting	100,000	-
Public Interest Radio Project	1,233	401
Public Service Reporting Project	23,658	16,847
	\$ 124,938	\$ 42,248

NOTE 6 IN-KIND CONTRIBUTIONS

Donated facilities include a transmitter and antenna site contributed by the City and County of San Francisco. This donation was recorded in both revenue and expense at estimated fair rental value. Donated facilities also include office, production and broadcasting space contributed by the San Francisco Unified School District. For the years ended June 30, 2007 and 2006, KALW-FM Radio recorded the value of the donated studio and office space as revenues and expense based upon the appraised value of the building and improvements to the San Francisco Unified School District. The value of the donated transmitter site was \$96,000 and the value of the office space was \$59,988 for each year.

In accordance with the Corporation for Public Broadcasting *Financial Reporting Guidelines*, KALW-FM Radio records as revenues and expenditures the value of donated volunteer services only when they create or enhance a nonfinancial asset and: 1) would typically need to be purchased by the Station if they had not been donated, and 2) require specialized skills and are provided by individuals with those skills who ordinarily charge fees for the same type of service donated.

Indirect administrative support from the San Francisco Unified School District consisted of an allocation of financial, accounting and certain other costs that benefitted the Station. During the years ended June 30, 2007 and 2006, the value of indirect administrative support was \$82,257 and \$83,815, respectively.

KALW-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTION

The Station fulfilled the use and/or time restrictions for the following temporarily restricted items and they were released to unrestricted net assets during the years ended June 30, 2007 and 2006, as follows:

	2007	2006
Understanding Wealth and Poverty Series	\$ 24,953	\$ 25,000
Performing Arts Reporting	50,000	50,000
Public Interest Radio Project	401	29,599
Public Service Reporting Project	16,847	-
	\$ 92,201	\$ 104,599

NOTE 8 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2007, the Station determined that the three-year grant from the William and Flora Hewlett Foundation (see Note 2) was actually awarded during the fiscal year ended June 30, 2006, but was not recorded at that time. As a result, the grant was recorded as a prior period adjustment to increase temporarily restricted net assets by \$150,000 and the June 30, 2006, financial statement information has been restated.

NOTE 9 EMPLOYEE RETIREMENT SYSTEMS

All permanent employees of the Station are eligible to participate in the employee retirement systems offered by the San Francisco Unified School District. The types of plans offered vary based on the employee's status and the eligibility of each plan. The employer-funded portion of contributions made to the employee retirement systems on behalf of KALW employees was \$63,608 and \$64,852 for the years ended June 30, 2007 and 2006, respectively.

NOTE 10 OPERATING LEASE

The Station entered into an operating lease for a photocopier on January 1, 2004. The lease term is 60 months. The lease expense was \$3,607 in 2007 and \$3,307 in 2006.

Future estimated minimum lease payments for the current and succeeding years are as follows:

<u>June 30,</u>	
2008	\$ 3,608
2009	1,503
	\$ 5,111

KALW-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2007 and 2006

NOTE 11 JOINT COSTS

During the years ended June 30, 2007 and 2006, the costs of activities include \$23,419 and \$25,529, respectively, of joint costs that are not directly attributable to the program, fundraising, or management and general component of the activities. These joint costs were allocated as follows:

2007:	<u>Program</u>	<u>Fundraising</u>	<u>Total</u>
Quarterly Program Guide Publication	<u>\$ 21,077</u>	<u>\$ 2,342</u>	<u>\$ 23,419</u>
2006:	<u>Program</u>	<u>Fundraising</u>	<u>Total</u>
Quarterly Program Guide Publication	<u>\$ 22,976</u>	<u>\$ 2,553</u>	<u>\$ 25,529</u>

SUPPLEMENTARY INFORMATION

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007

	Program Services	Management and General	Fundraising	Total
Salaries and employee benefits	\$ 329,723	\$ 184,513	\$ -	\$ 514,236
Membership fees	271,666	92	2,553	274,311
Office and other supplies	187,642	7,955	105,794	301,391
Donated transmitter site	96,000	-	-	96,000
Administrative support	-	82,257	-	82,257
Annual rental value	-	59,988	-	59,988
Contracted services	345,176	11,330	118,088	474,594
Telephone	16,760	23,354	-	40,114
Repairs and maintenance	1,916	3,607	1,988	7,511
Depreciation expense	25,553	1,345	-	26,898
Travel and conferences	1,389	934	2,554	4,877
Insurance	1,230	-	-	1,230
Total expenses	<u>\$ 1,277,055</u>	<u>\$ 375,375</u>	<u>\$ 230,977</u>	<u>\$ 1,883,407</u>

KALW-FM RADIO
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SCHEDULES OF FUNCTIONAL EXPENSES (Continued)
For the year ended June 30, 2006

	Program Services	Management and General	Fundraising	Total
Salaries and employee benefits	\$ 286,554	\$ 185,270	\$ 22,045	\$ 493,869
Membership fees	266,220	4,345	2,303	272,868
Office and other supplies	196,919	19,492	79,666	296,077
Equipment	1,844	8,881	-	10,725
Donated transmitter site	96,000	-	-	96,000
Administrative support	-	83,815	-	83,815
Annual rental value	-	59,988	-	59,988
Contracted services	250,127	113,124	77,491	440,742
Telephone	44,588	11,147	-	55,735
Repairs and maintenance	643	3,006	2,854	6,503
Fines / penalties	-	10,000	-	10,000
Other services	1,265	59,266	6,493	67,024
Depreciation expense	17,796	1,022	-	18,818
Travel and conferences	-	-	3,266	3,266
Insurance	-	1,230	-	1,230
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,161,956</u>	<u>\$ 560,586</u>	<u>\$ 194,118</u>	<u>\$ 1,916,660</u>

KALW-FM RADIO
(A California Public Telecommunications Entity Operated by the San Francisco Unified School District)

SCHEDULE OF NONFEDERAL FINANCIAL SUPPORT
For the year ended June 30, 2007

SUMMARY OF NONFEDERAL FINANCIAL SUPPORT:

Total Revenue (including in-kind contributions)	\$ 1,682,181
Less:	
Corporation for Public Broadcasting	166,157
Indirect Administrative Support	142,245
In-Kind Contributions:	
City and County of San Francisco: Transmitter Site	<u>96,000</u>
Total Nonfederal Financial Support	<u>\$ 1,277,779</u>