

RGV Educational Broadcasting, Inc.

Financial Statements
and
Independent Auditors' Report

*As of and for the Year Ended
June 30, 2010*

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KIRKLAND, THOMAS, WATSON & DYCHES, LLC
Consultants & Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
RGV Educational Broadcasting, Inc.

We have audited the accompanying statement of financial position of RGV Educational Broadcasting, Inc. (a not-for-profit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 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 audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which property and equipment and accumulated depreciation are recorded in the accompanying statement of financial position as of June 30, 2010 (stated at \$7,144,105 and \$4,469,231, respectively), or the amount of depreciation expense for the year the ended (stated at \$311,830).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had records concerning property and equipment and related accumulated depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the financial position of RGV Educational Broadcasting, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kirkland, Thomas, Watson & Dyches, LLC

January 26, 2011

Licensed in Texas

RGV Educational Broadcasting, Inc.
Statement of Financial Position
As of June 30, 2010

Assets:

Current Assets:

Cash	\$ 333,857
Accounts receivable, net of allowance of \$7,500	105,299
Pledges receivable, net of allowance of \$33,500	12,791
Other	394
Total current assets	<u>452,341</u>

Broadcasting licenses	177,481
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Property and equipment, net	<u>2,674,874</u>
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Total Assets	<u><u>\$ 3,304,696</u></u>
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Liabilities and Net Assets:

Current liabilities:

Accounts payable	\$ 601,957
Notes payable, current portion	107,522
Accrued expenses	46,979
Deferred revenues	90,426
Total current liabilities	<u>846,884</u>

Long-term liabilities:

Notes payable, less current portion	<u>591,794</u>
Total liabilities	<u>591,794</u>

Net assets:

Unrestricted net assets	<u>1,866,018</u>
Total net assets	<u>1,866,018</u>

Total Liabilities and Net Assets	<u><u>\$ 3,304,696</u></u>
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See independent auditors' report and accompanying notes

RGV Educational Broadcasting, Inc.
Statement of Activities
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support:				
Grants and projects	\$ 1,179,485	\$ -	\$ -	\$ 1,179,485
Membership contributions, net	94,836	-	-	94,836
Program underwriting	105,528	-	-	105,528
Production	134,825	-	-	134,825
Trade-out and in-kind	3,790	-	-	3,790
Rent	66,901	-	-	66,901
Interest	3,287	-	-	3,287
Miscellaneous	5,354	-	-	5,354
	<u>1,594,006</u>	<u>-</u>	<u>-</u>	<u>1,594,006</u>
Net assets released from restrictions	<u>1,066,131</u>	<u>(1,066,131)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>2,660,137</u>	<u>(1,066,131)</u>	<u>-</u>	<u>1,594,006</u>
Functional expenses:				
Program services	1,311,444	-	-	1,311,444
Fundraising	36,832	-	-	36,832
Supporting services:				
Management and general	<u>461,058</u>	<u>-</u>	<u>-</u>	<u>461,058</u>
Total functional expenses	<u>1,809,334</u>	<u>-</u>	<u>-</u>	<u>1,809,334</u>
Changes in net assets	850,803	(1,066,131)	-	(215,328)
Net assets, beginning of year	<u>1,015,215</u>	<u>1,066,131</u>	<u>-</u>	<u>2,081,346</u>
Net assets, end of year	<u>\$ 1,866,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,866,018</u>

See independent auditors' report and accompanying notes

RGV Educational Broadcasting, Inc.
Statement of Functional Expenses for the Year Ended June 30, 2010

	2010						
	Program Services						
	TV Program Services	FM Program Services	Broadcasting	Total Program Services	Fundraising	Management and General	Total
Salaries, payroll taxes, and employee benefits	\$ 142,115	\$ 46,932	\$ 143,342	\$ 332,389	\$ 10,740	\$ 143,293	\$ 486,422
Program rental	410,437	74,694	-	485,131	7,400	-	492,531
Depreciation	5,244	3,654	261,605	270,503	-	41,327	311,830
Building, equipment and land rental	-	-	5,837	5,837	-	25	5,862
Utilities	-	-	71,451	71,451	-	-	71,451
Professional services	463	-	23,145	23,608	2,718	93,314	119,640
Insurance	22,998	4,320	28,566	55,884	3,127	58,331	117,342
Advertising	-	-	-	-	3,250	-	3,250
Repairs and maintenance	-	-	29,369	29,369	228	1,637	31,234
Printing and publications	30	-	25	55	5,320	417	5,792
Interest	-	-	-	-	-	56,770	56,770
Telephone	108	-	2,663	2,771	-	11,442	14,213
Postage and shipping	1,169	-	554	1,723	2,780	4,424	8,927
General supplies	4,066	324	1,790	6,180	886	9,918	16,984
Bank and other fees	-	-	-	-	-	2,106	2,106
Auto and travel	5,108	-	11,136	16,244	78	9,370	25,692
Loss on disposal	-	-	2,700	2,700	-	-	2,700
Fixed asset impairment	-	-	5,368	5,368	-	-	5,368
Membership dues and subscriptions	-	-	1,784	1,784	305	10,117	12,206
Video tape	447	-	-	447	-	-	447
Bad debts	-	-	-	-	-	18,567	18,567
Total	<u>\$ 592,185</u>	<u>\$ 129,924</u>	<u>\$ 589,335</u>	<u>\$ 1,311,444</u>	<u>\$ 36,832</u>	<u>\$ 461,058</u>	<u>\$ 1,809,334</u>

See independent auditors' report and accompanying notes

RGV Educational Broadcasting, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2010

Cash Flows From Operating Activities	
Change in net assets	\$ (215,328)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation	311,830
Bad debts	18,567
Loss on disposal of equipment	2,700
Fixed asset impairment	5,368
Decrease (increase) in operating assets:	
Accounts receivable	2,027
Pledges receivable	(14,316)
Grants receivable	427,666
Increase (decrease) in operating liabilities:	
Accounts payable	(235,436)
Accrued expenses	15,462
Deferred revenues	<u>(138,299)</u>
 Net Cash Provided by Operating Activities	 <u>180,241</u>
 Cash Flows From Investing Activities	
Purchase of equipment	<u>(15,278)</u>
 Net Cash Used by Investing Activities	 <u>(15,278)</u>
 Cash Flows From Financing Activities	
Repayments on notes payable	<u>(146,073)</u>
 Net Cash Used by Financing Activities	 <u>(146,073)</u>
 Net Increase in Cash	 18,890
 Cash, beginning of year	 <u>314,967</u>
 Cash, end of year	 <u><u>\$ 333,857</u></u>
 Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest	<u><u>\$ 57,109</u></u>

See independent auditors' report and accompanying notes

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 1 – Summary of Significant Accounting Policies

Organization

RGV Educational Broadcasting, Inc. (the “Organization”) is a not-for-profit entity, founded in 1983 in Brownsville, Texas, under the auspices of the Roman Catholic Diocese of Brownsville (the “Diocese”) to serve the communities of the Valley of the Rio Grande with educational TV and radio programming. The Bishop or the Administrator of the Diocese have certain control over the Organization and the Organization is in part economically dependent on the Diocese. Also see Notes 4 and 7 regarding amounts owed to the Diocese. The Organization operates a public television station (KMBH-TV) and two public radio stations (KMBH FM and KHID FM).

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. No net assets were reported as temporarily or permanently restricted as of June 30, 2010.

Management changed its policy in fiscal 2010 and presents net assets previously reported in prior fiscal years as investment in property and equipment and as temporarily restricted (specifically in reference to certain equipment acquired via certain grants) as part of the unrestricted net assets. Management does not anticipate that any property and equipment will revert back to another entity’s control.

Management has considered subsequent events through January 26, 2011, which is the date the financial statements were available to be issued.

Accounts and Pledges Receivable

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 1 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost, except for donated assets which are recorded at estimated fair value at date of donation. Repairs and maintenance which do not extend the useful life of an asset are expensed as incurred.

Depreciation is provided using the straight-line method over the following useful lives of the assets:

Buildings and improvements	7 to 50 years
Towers and improvements	15 to 30 years
Transmitting equipment	1 to 15 years
Studio equipment	5 years
Office furniture and equipment	5 years
Vehicles	7 years

Property and equipment are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also see Note 10.

Broadcast Licenses

Capitalized broadcast licenses consist of costs incurred in obtaining the initial broadcasting licenses for the television and radio stations and are periodically evaluated for impairment. Fair value of the licenses is based upon management's estimated fair value of the licenses.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an entity that is not a private foundation. Therefore, no provision for income taxes is included in the accompanying financial statements.

Advertising

The Organization uses advertising to promote its programs and mission. The costs of advertising are expensed as incurred.

Deferred Revenue

Revenue from certain sources is deferred and recognized over the years to which the revenues relate.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions revenue is recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor-imposed restrictions limiting the use of the donated asset are reported as temporarily restricted or permanently restricted support depending upon the nature of the restriction.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying Statement of Activities as net assets released from restrictions.

Underwriting and educational services revenues are recognized over the respective contract periods.

Concentration of Grants

The Organization receives approximately 52% of its total revenue from the Corporation for Public Broadcasting.

In-kind Contributions and Donated Services

The Organization receives a significant amount of donated materials, supplies, equipment and services. In-kind contributions are recorded at their estimated fair value at the date of receipt. Donated services included services provided by unpaid volunteers who assist in pledge drives, special events, broadcasting, and professional, clerical, and other services. Donated services that meet the criteria for recognition under accounting guidance are recorded at the estimated fair value of the services received.

In-kind contributions totaled Approximately \$3,800 for the year ended June 30, 2010. None of the services donated met the criteria for recognition in the accompanying financial statements for fiscal 2010.

Membership Contributions

Membership contributions are presented in the accompanying Statement of Activities net of premiums totaling approximately \$4,900 for the year ended June 30, 2010.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 1 – Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with U.S. 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.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) released the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“the Codification”), effective for financial statements issued for periods ending after September 15, 2009. The Codification does not change U.S. Generally Accepted Accounting Principles (“GAAP”), but does significantly change the way in which the accounting literature is organized, combining all authoritative standards in a comprehensive, topically organized database. All existing accounting standards documents were superseded and all other accounting literature not included in the Codification is considered nonauthoritative, other than guidance issued by the Securities and Exchange Commission. The Organization adopted the provisions of this guidance for the year ended June 30, 2010, which had no impact on the accompanying financial statements.

Note 2 – Fair Value Measurements

The accounting guidance related to fair value defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and provides for disclosures regarding fair value measurements for financial assets and liabilities measured on a recurring basis. This guidance applies whenever other accounting guidance requires or permits fair value measurements for assets and liabilities. Fair value for financial reporting is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of the financial assets utilized assumptions categorized as observable inputs. Observable inputs are assumptions based on independent market data sources.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 2 – Fair Value Measurements (continued)

The following table sets forth information regarding the fair value measurements of the financial assets as of June 30, 2010:

Description	Fair Value Measurements as of Reporting Date Using			
	As of June 30, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Broadcasting licenses	\$ -	\$ -	\$ -	\$ 177,481

Fair value for broadcasting licenses, categorized as Level 3, is based upon management's estimated value of these licenses. The fair value of these licenses remained the same as in fiscal 2009.

The carrying amounts for cash, accounts receivable, pledges receivable, other, notes payable, accounts payable, accrued expenses, and deferred revenues approximate fair value because of the nature of, terms of and/or immediate or short-term maturity of these financial instruments.

Note 3 – Property and Equipment

Property and equipment and accumulated depreciation as of June 30, 2010 are summarized as follows:

Buildings and improvements	\$ 523,069
Towers and improvements	1,250,595
Transmitting equipment	3,881,039
Studio equipment	1,166,009
Office furniture and equipment	121,144
Vehicles	65,900
Land	136,349
	7,144,105
Less: accumulated depreciation	(4,469,231)
Property and equipment, net	\$ 2,674,874

The U.S. Department of Commerce retains a priority reversionary interest in all equipment acquired under Federal grant award projects. This reversionary interest extends from the initial receipt of the equipment through a ten year period following completion of the related project.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 3 – Property and Equipment (continued)

During fiscal 2010, the conversion to digital transmission from analog transmission was completed and the analog equipment was fully depreciated as of June 30, 2010. Also see Note 10.

Note 4 – Notes Payable

The Organization obtained a \$700,000 term note payable from a financial institution in 2007. The note is secured by essentially all of the Organization’s assets and is guaranteed by the Diocese. The note requires monthly payments of \$3,889 plus interest at a variable rate based upon the prime rate as published in the Wall Street Journal (3.25% as of June 30, 2010).

The Organization obtained a \$300,000 note payable from the Diocese in 2009. The note is payable in monthly payments of \$5,661 including interest at a fixed rate of 5.00%. The remaining principal and accrued interest is due at maturity, October 2012. The Organization is delinquent on payments of principal and interest. The Diocese has not demanded payment.

Principal payments due on notes payable as of June 30, 2010 are as follows:

Fiscal Years	Financial Institution	Diocese	Total
2011	\$ 46,667	\$ 60,855	\$ 107,522
2012	484,828	64,235	549,063
2013	-	42,731	42,731
Total	<u>531,495</u>	<u>167,821</u>	<u>699,316</u>
Less: current maturities	<u>(46,667)</u>	<u>(60,855)</u>	<u>(107,522)</u>
Notes payable, long-term	<u><u>\$ 484,828</u></u>	<u><u>\$ 106,966</u></u>	<u><u>\$ 591,794</u></u>

Note 5 – Operating Leases

The Organization leases office equipment such as a copier.

The Organization entered into a lease agreement in September 2010 for the use of a radio broadcast tower facility as a temporary replacement for a destroyed tower. See Note 10 below. The tower facility lease agreement has an initial term of one year and is renewable for three additional one year periods. Lease terms for the initial year are \$12,000 for an annual license fee and \$500 for a site inspection fee. These amounts increase five percent each year under the renewal terms. The Organization is required to, among other things, maintain a prescribed amount of insurance and pay related taxes.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 5 – Operating Leases (continued)

The Organization leases broadcasting tower space to other nonaffiliated entities under lease agreements with original terms ranging from one to five years. Certain of these lease agreements have renewal options. Revenues from these leases totaled \$66,901 for the year ended June 30, 2010.

Future minimum revenues on these leases are approximately as follows for the fiscal years ending June 30:

2011	\$	53,680
2012		31,900
2013		31,200
2014		31,200
2015		<u>10,400</u>
Total	\$	<u><u>158,380</u></u>

Note 6 – Financial Instruments

Concentrations of Credit Risk Arising from Cash Deposits

The Organization maintains cash balances at two financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation for up to \$250,000.

Concentrations of Credit Risk Due to Pledges Receivable

Concentrations of credit risk with respect to pledges receivable are limited due to the large number of contributors comprising the Organization's contributor base and their dispersion across different industries and sources of revenue.

Note 7 – Related Parties

The Organization participates in health care, casualty, and liability plans via the Diocese and in fiscal 2010 the Diocese assessed the Organization approximately \$90,500 and \$46,900 for health care and the other insurance coverage, respectively. Accounts payable as of June 30, 2010 included approximately \$545,000 owed to the Diocese. The amounts owed the Diocese are past due. The Diocese has not demanded payment and represents that the Diocese will continue providing the Organization insurance coverage.

The Diocese generally grants the Organization funds for general operations. The Organization received approximately \$215,000 in such grant funds in fiscal 2010. Also see Note 4 concerning notes payable.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 8 – Employee Benefit Plan

The Diocese established a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code for all related entities beginning in 2000. All full-time employees are eligible to participate. Participants can contribute the maximum amount under the limits set by the applicable Internal Revenue Code. Vesting begins after the first year of participation and participants are fully vested after five years. The Organization contributed approximately \$13,800 to the annuity plan for the year ended June 30, 2010.

Note 9 – Uncertain Tax Positions

The accounting guidance related to uncertainty in income taxes specifies the accounting for uncertainty in income taxes recognized in financial statements. This guidance details how uncertain tax positions should be recognized, measured, presented, and disclosed that have been or are expected to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts.

Management evaluates all significant tax positions as required by generally accepted accounting principles in the United States. The Organization paid penalties and interest totaling approximately \$7,400 to the Internal Revenue Service ("IRS") in January 2011 for failure to file the Form 990 income tax return timely. The accompanying financial statements include an accrual for this liability. The Organization's Form 990 for fiscal 2010 has not been filed and an extension was not filed until January 2011. No liability has been recorded for penalties or interest that may be assessed by the IRS.

The Organization's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of June 30, 2010, the Organization's tax returns generally remain open for the last three years.

Note 10 – Subsequent Events

One of the Organization's radio broadcasting towers was destroyed in early fiscal 2011 by a hurricane. The tower had a net book value of \$5,368 and this amount was charged to expense in fiscal 2011 as an impairment. An appraisal of the damages to the radio tower declared the tower to be a total loss and replacement is estimated to cost over \$100,000. The Organization's insurance coverage was limited to approximately \$33,000. The accompanying Statement of Financial Position does not include any accrued liabilities for costs to erect a replacement tower. Management entered into a lease agreement for a tower facility in September 2010. See Note 5 above. Cost incurred in fiscal 2011 to demolish the damaged tower and to ready for a leased tower totaled approximately \$45,000.

Management implemented a campaign in mid-fiscal 2011 to obtain donations totaling approximately \$90,000 to be used in the replacement of the destroyed radio tower.

RGV Educational Broadcasting, Inc.
Notes to the Financial Statements
For the Year Ended June 30, 2010

Note 11 – Commitments

The Organization entered into a contract with the National Educational Telecommunications Association (“NETA”) in September 2010 whereby NETA will provide the Organization certain accounting and consulting services over a three-year period for an annual fee of \$47,000.

Note 12 – Risks and Uncertainties

The Organization is exposed to various risks of loss arising from litigation and claims in the normal course of business. The Organization maintains insurance coverage to provide for risks of loss.
