NORTHERN CALIFORNIA PUBLIC BROADCASTING, INC.

SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Northern California Public Broadcasting, Inc.

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
NORTHERN CALIFORNIA PUBLIC BROADCASTING, INC.
San Francisco, California

We have audited the accompanying statements of financial position of **NORTHERN CALIFORNIA PUBLIC BROADCASTING, INC. (the Corporation)** as of September 30, 2009 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2008 financial statements, before they were adjusted for the matters discussed in Note 13 to the financial statements, and in our report dated December 2, 2008, we expressed an unqualified opinion on those financial statements.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, the Corporation changed its method of accounting for the revenue recognition of corporate underwriting contracts and adjusted the 2008 financial statements of the Corporation.

We also audited the adjustments described in Note 13 that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Hood & Strong LLP

December 18, 2009

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Northern California Public Broadcasting, Inc.

Statement of Financial Position

September 30, 2009 (with comparative totals for 2008)	2009	2008
		(as adjusted, see Note 13)
Assets		
Current Assets:		
Cash and cash equivalents	$ 10,683,668	$ 15,314,226
Restricted cash (see Note 1)	611,391	2,225,431
Accounts and pledges receivable, less allowance for doubtful accounts of $117,348 in 2009 and $578,763 in 2008, respectively	4,178,253	3,236,350
Grants receivable	2,522,467	2,081,630
Other current assets	767,449	796,400
Short-term investments (see Note 2)		1,969,290
	18,763,228	25,623,327
Campaign For the Future:		
Restricted cash	505,019	448,148
Receivable		406,000
Total Campaign for the Future	505,019	854,148
Total current assets	19,268,247	26,477,475
Grants Receivable, Long-Term		229,313
Charitable Gift Annuities and Trusts	4,902,610	6,246,998
Long Term Investments (see Note 2)	30,206,348	28,561,983
Bond Financing Costs	292,690	320,851
Intangible Assets, net (see Note 5)	2,858,156	2,943,951
Property and Equipment, net (see Note 4)	37,443,825	39,819,692
Total assets	$ 94,971,876	$ 104,600,263
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 5,171,806	$ 4,788,576
Accrued broadcast rights	1,162,028	1,147,134
Current portion of bonds payable (see Note 7)	390,000	9,390,000
Deferred production and underwriting revenues	475,974	1,907,550
Total current liabilities	7,199,808	17,233,260
Long Term Liabilities	2,081,860	2,224,528
Bonds Payable (see Note 7)	3,340,000	3,730,000
Total liabilities	12,621,668	23,187,788
Net Assets:		
Unrestricted	57,975,547	58,640,835
Temporarily restricted (see Note 8)	9,076,769	7,601,998
Permanently restricted	15,297,892	15,169,642
Total net assets	82,350,208	81,412,475
Total liabilities and net assets	$ 94,971,876	$ 104,600,263

The accompanying notes are an integral part of this statement.

Northern California Public Broadcasting, Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2009 (with comparative totals for 2008)

	2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total (as adjusted)
Revenues, Support and Other Changes:					
Contributions and membership fees	$ 32,684,606			$ 32,684,606	$ 34,011,414
Underwriting and general grants	9,385,071	$ 354,970		9,740,041	8,548,705
Project grants		5,240,027		5,240,027	5,676,478
Community service grants	4,876,085			4,876,085	4,783,767
Bequests and trusts	1,685,766			1,685,766	2,509,640
Investment income transferred from Endowments (see Note 2)	377,446	1,141,759		1,519,205	1,452,614
Other	3,615,864	496,883		4,112,747	3,603,100
Net assets released from restrictions	8,520,146	(8,520,146)		-	-
Subtotal	61,144,984	(1,286,507)		59,858,477	60,585,718
Trade and In-kind donations	2,440,525			2,440,525	2,185,378
Total revenues, support and other changes	63,585,509	(1,286,507)		62,299,002	62,771,096
Expenses:					
Program services:					
Television:					
Programming and production	16,638,417			16,638,417	15,933,477
Broadcast services	5,543,177			5,543,177	5,757,474
Radio:					
Programming and production	7,329,556			7,329,556	7,598,757
Broadcast services	1,777,847			1,777,847	1,837,573
Education network	1,318,862			1,318,862	1,478,659
Program promotion	2,603,112			2,603,112	2,747,163
Interactive	1,891,503			1,891,503	1,748,286
Total program services	37,102,474			37,102,474	37,101,389
Support services:					
Marketing and development	13,520,363			13,520,363	14,642,313
General and administrative	7,300,393			7,300,393	6,979,609
Total support services	20,820,756			20,820,756	21,621,922
Subtotal	57,923,230			57,923,230	58,723,311
Trade and In-kind expenses	2,387,201			2,387,201	1,938,642
Total expenses	60,310,431			60,310,431	60,661,953
Increase (Decrease) in Net Assets Before Endowment and Campaign for the Future	3,275,078	(1,286,507)		1,988,571	2,109,143
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		48,513	15,000	63,513	422,572
Change in Value - Charitable Gift Annuities and Trusts		92,556	(70,252)	22,304	(732,615)
Net Investment Income (Loss) on Endowments (see Note 2)	38,173	(863,940)		(825,767)	(6,789,675)
Campaign for the Future:					
Support					15,785
Net assets released from restrictions	349,129	(349,129)			
Total Campaign for the Future revenue, support and other changes	349,129	(349,129)			15,785
Production expenses	(310,888)			(310,888)	(1,839,564)
Fundraising expenses					16,916
Total Campaign expenses	(310,888)			(310,888)	(1,822,648)
Increase (decrease) in net assets from Campaign for the Future	38,241	(349,129)		(310,888)	(1,806,863)
Increase (Decrease) in Net Assets	3,351,492	(2,358,507)	(55,252)	937,733	(6,797,438)
Net Assets, beginning of year, as adjusted (Note 13)	58,640,835	7,601,998	15,169,642	81,412,475	88,209,913
Net Asset Reclassification Based on Change of Law (Note 9)	(4,016,780)	3,833,278	183,502		
Net Assets, end of year	$ 57,975,547	$ 9,076,769	$ 15,297,892	$ 82,350,208	$ 81,412,475

Northern California Public Broadcasting, Inc.

Statement of Cash Flows

Year Ended September 30, 2009 (with comparative totals for 2008)	2009	2008
		(as adjusted)
Operating Activities:		
Increase (decrease) in net assets	$ 937,733	$ (6,797,438)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,980,505	4,300,032
Amortization of bond financing costs	28,161	342,712
Bad debt expense and cancelled contracts	(321,544)	543,304
Net realized and unrealized losses (gains) on investments	(10,940)	6,104,223
Permanent endowment contributions	(15,000)	(63,293)
Net effect of changes in:		
Accounts and pledges receivable	488,897	895,488
Grants and Campaign for the Future receivable	194,476	(7,112)
Charitable gift annuities and trusts	470,734	(762,019)
Other current assets	28,950	(102,237)
Accounts payable, accrued expenses and other liabilities	62,228	(407,887)
Deferred production and underwriting revenues	(1,431,576)	(191,825)
Net cash provided by operating activities	4,412,624	3,853,948
Investing Activities:		
Purchases of investments	(3,718,479)	(8,369,642)
Proceeds from sales of investments	3,818,744	8,522,631
Loss on disposal of equipment	92,307	984
Purchases of equipment	(1,417,923)	(2,058,592)
Net cash used by investing activities	(1,225,351)	(1,904,619)
Financing Activities:		
Payment on bonds	(9,390,000)	(690,000)
Permanent endowment contribution	15,000	63,293
Net cash used by financing activities	(9,375,000)	(626,707)
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(6,187,727)	1,322,622
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	17,987,805	16,665,183
End of year	$ 11,800,078	$ 17,987,805
Supplemental Data:		
Interest paid	$ 108,695	$ 409,577
Non-Cash Transactions:		
Equipment purchased with a payable at year end	$ 419,751	$ 446,129

The accompanying notes are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies:

a. <u>Organization</u>

Northern California Public Broadcasting, Inc. (the Corporation) is a nonprofit corporation which operates three noncommercial public television stations ("KQED", “KTEH”, “KQET”) in San Francisco, San Jose and Monterey, and two noncommercial public radio stations ("KQED-FM") in San Francisco and ("KQEI-FM") in North Highlands. On October 26, 2006, the membership of the organization voted to change the name of the organization from KQED, Inc. to Northern California Public Broadcasting, Inc. to reflect an expanded coverage area in the state of California resulting from the acquisition of assets and liabilities of KTEH Foundation.

The Corporation provides the people of Northern California with consistently high quality non-commercial media that inform, educate and entertain and engage – from a Northern California perspective. Through the creation and acquisition of programs, the leveraging of our multiple media assets, and strategic partnerships, the Corporation delivers television, radio and internet content that makes people think, feel and explore new ideas. The Corporation’s programming and services reflect the value it places on human dignity, lifelong learning and the power of ideas, and on the importance of community service and civic participation.

b. <u>Basis of Presentation</u>

The Corporation's financial statements are presented on the accrual basis of accounting and have been presented showing unrestricted, temporarily restricted, and permanently restricted net assets and are prepared in accordance with accounting principles generally accepted in the United States of America.

c. <u>Cash and Cash Equivalents</u>

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents which include certain money market funds held as investments. Restricted cash includes funds restricted by various funders for specific projects and operating periods.

d. <u>Accounts and Pledges Receivable</u>

The Corporation’s accounts and pledges receivable consist primarily of amounts due from members and advertising trades. The Corporation uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts is based on historical experience, present market conditions and an evaluation of the outstanding receivables at the end of the year. Pledges receivable represent amounts that are non-Campaign for the Future pledges, which are included in the total accounts and pledges receivable balance. As of September 30, 2009 and 2008, pledges receivable were approximately $3,031,000 and $2,739,000, respectively.

e. Broadcast Rights

The Corporation purchases and capitalizes broadcast rights for certain programs from the Public Broadcasting Service and other sources. These costs are expensed over the period of expected telecasts or the term of the agreement, whichever is shorter.

f. Campaign for the Future

Campaign for the Future represents a multi-year campaign to generate contributions for conversion of the Corporation's programming and production equipment to a digital format, information systems purchases, certain operating and production expenses, and for programming. Such amounts are considered temporarily restricted and are presented separately within the statements of financial position, activities and changes in net assets.

g. Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at the estimated fair value at the date of donation. Depreciation and amortization are computed using the straight-line method based upon estimated useful lives of the assets ranging from 3 to 55 years. The carrying amount of long-lived assets is evaluated periodically to determine if adjustments to the useful life of the undepreciated balance are warranted.

h. Investments and Endowments

Investments and endowments are carried at estimated fair value based on quoted market prices. Investments received through gifts and endowments are recorded at estimated fair market value at the date of donation. Unrealized gains and losses resulting from changes in fair value are recognized in the period in which such fluctuations occur. Income is recorded in accordance with donor stipulations.

i. Grants Receivables, Long-Term

Grants receivables long term represents amounts committed by donors and not expected to be collected within one year after the statement of financial position date.

j. Charitable Gift Annuities and Trusts

Charitable gift annuities and trusts are established by gifts that require payments to be made to the donor or the donor's designee(s) from assets of the trust and which name the Corporation as the beneficiary of the assets remaining at the termination of the trust. Charitable gift annuities and trusts are recorded as contribution income at the fair value of the assets in the trust less an annuity reserve, computed using actuarial methods, for the present value of the estimated payouts under the agreement. The income is temporarily restricted during the life of the donor unless the donor has permanently restricted the use of the interest. An annual adjustment is made for the actuarial gain or loss on annuity obligations representing differences between assumed and actual experience as to earnings, payouts, and life expectancies used in the computation of the liability for distribution.

As of September 30, 2009 and 2008, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled approximately $1,798,000 and $1,994,000, respectively. This amount is included in long term liabilities on the accompanying Statement of Financial Position.

California Insurance Code (the Code) requires that organizations maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2009, the Corporation had sufficient funds in its reserve fund to meet the California Insurance Code requirements and those funds were invested in accordance with the Code.

k. Bond Financing Costs

Bond financing costs represent costs incurred in connection with the issuance and refinancing of bonds payable in September 1996, August 2003 and October 2003, which are being amortized on a straight-line basis over the life of the bonds. In September 2008, management decided to repay the ABAG Finance Authority Variable Rate Demand Notes related to KTEH in advance. As a result, $295,000 of bond expense was written off in September 2008. The remaining bond financing cost on the Statement of Financial Position pertains exclusively to the KQED bond debt.

l. Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are limited in use by the Corporation in accordance with donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by activities conducted by the Corporation pursuant to those stipulations.

m. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the original donor. The income from these funds is generally available for current use.

n. Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Membership fees are recognized as unrestricted revenue when committed as they relate to current year’s operations. Premium costs offered to members as thank-you gifts or appreciation are recorded as marketing and development expenses in the statement of activities and approximated $2,198,000 and $2,482,000 in the years ended September 30, 2009 and 2008, respectively, which includes the value of deminimus premium items.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction.

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

o. In-Kind Contributions

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations approximated $32,000 and $964,000 for the year ended September 30, 2009, respectively, and $16,000 and $615,000, respectively, for the year ended September 30, 2008, and is reflected in the accompanying 2008 Statement of Activities and Changes in Net Assets. Donated personal services of volunteers are not reflected in the accompanying financial statements, because such services do not require the specialized skills stipulated under *FASB ASC 958-605 Accounting for Contributions Received and Contributions Made.* The estimated fair value of such donated volunteer services is based upon standard valuation rates and job classifications and amounted to approximately $188,000 and $151,000 for the years ended September 30, 2009 and 2008, respectively.

p. Nonmonetary Transactions

The Corporation has transactions involving the exchange of sponsorship rights for goods and services, including capital assets. These transactions are recorded based on the fair value of the goods and services received. For the years ended September 30, 2009 and 2008, sponsorship barter transactions resulted in the recognition of approximately $1,444,000 and $1,554,000, respectively, in revenues and approximately $1,391,000 and $1,308,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

q. Income Taxes

The Corporation's principal activities are exempt from federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701(d) of the California Tax Code.

In 2009, the Corporation adopted FASB issued *ASC 740-10-25 Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax position. The Corporation determined that *ASC 740-10-25* does not have a material impact on its financial position or results of operations.

r. Functional Expense Allocations

Certain expenses, such as depreciation and interest are allocated among program services and supporting services based primarily on equipment usage or space occupied and on estimates made by the Corporation's management.

s. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk include cash, cash equivalents, restricted cash, investments, and accounts, pledges, grants and contributions receivables. The Corporation attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside investment managers to place the Corporation's investments with highly rated corporate and financial institutions. The Corporation's receivables result primarily from donor pledges, membership drives and underwriting sponsorships. These receivables are from donors, members and sponsors located primarily in the San Francisco Bay Area. The Corporation routinely assesses the financial strength of these various parties. Management does not believe significant risk exists in connection with the Corporation's concentrations of credit at September 30, 2009.

t. Collective Bargaining Agreements

The Corporation has three collective bargaining union agreements, NABET, AFTRA-TV and AFTRA-KQED FM, with approximately 32% of its employees being covered by such agreements. The agreements expire in October 2010, December 2010, and September 2011, respectively.

u. 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

v. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2008 presented in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended September 30, 2008, as adjusted, from which the summarized financial information was derived. Certain reclassifications have been made to the 2008 amounts, as adjusted, to conform to the 2009 presentation.

Note 2 - Investments:

The Corporation's long term investments were composed of the following at September 30, 2009:

	Endowment	Board Designated	Other	Total
Long-term investments:				
Mutual funds - equity securities	$ 13,892,645	$ 7,002,674		$ 20,895,319
Mutual funds - bonds	5,324,064	2,794,022		8,118,086
Cash and money market funds	34,263	1,158,680		1,192,943
Total	$ 19,250,972	$ 10,955,376		$ 30,206,348

The Corporation's short-term and long term investments were composed of the following at September 30, 2008:

	Endowment	Board Designated	Other	Total
Short-term investments:				
Bonds - commercial			$ 1,969,290	$ 1,969,290
Total short-term investments			1,969,290	1,969,290
Long-term investments:				
Mutual funds - equity securities	$ 13,577,691	$ 5,180,379		18,758,070
Mutual funds - bonds	6,504,644	2,293,429		8,798,073
Cash and money market funds	17,577	988,263		1,005,840
Total long-term investments	20,099,912	8,462,071		28,561,983
Total	$ 20,099,912	$ 8,462,071	$ 1,969,290	$ 30,531,273

The Corporation's endowment and Board designated contributions and net income on investments consist of the following components:

October 1, 2008 – September 30, 2009	Endowment	Board Designated	Total
Contributions invested	$ 15,000	$ 2,455,133	$ 2,470,133
Interest and dividends	$ 568,296	$ 253,316	$ 821,612
Realized and unrealized net gains	(193,760)	204,700	10,940
Service fees	(96,717)	(42,397)	(139,114)
Total investment return	277,819	415,619	693,438
Income transferred to operations	(1,141,759)	(377,446)	(1,519,205)
Total investment income (loss), net	$ (863,940)	$ 38,173	$ (825,767)

October 1, 2007 – September 30, 2008	Endowment	Board Designated	Total
Contributions invested	$ 63,293	$ 1,517,637	$ 1,580,930
Interest and dividends	$ 691,324	$ 244,922	$ 936,246
Realized and unrealized net gains	(4,483,263)	(1,620,960)	(6,104,223)
Service fees	(124,581)	(44,503)	(169,084)
Total investment return	(3,916,520)	(1,420,541)	(5,337,061)
Income transferred to operations	(1,108,018)	(344,596)	(1,452,614)
Total investment income (loss), net	$ (5,024,538)	$ (1,765,137)	$ (6,789,675)

Under its spending policy, the Corporation may withdraw funds annually provided that such withdrawals may not exceed 5% of the endowments' market value averaged over the prior three years. During the years ended September 30, 2009 and 2008, the Corporation withdrew a total of $1,519,205 and $1,452,614, respectively, which is included as investment income transferred from Endowments on the accompanying Statement of Activities and Changes in Net Assets.

Note 3 - Fair Value of Financial Instruments:

Effective October 1, 2008, the Corporation adopted *FASB ASC 820, Fair Value Measurements* (ASC 820) which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 has been applied prospectively as of the beginning of the year.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also established a fair value hierarchy with three levels of inputs that may be used to measure fair value. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Level 1 - Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs that are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs that are unobservable for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The table below presents the balances of assets measured at fair value at September 30, 2009 on a recurring basis.

	Level 1	Level 2	Level 3	Total
Long-term investments				
Mutual funds – equity securities	$ 20,895,319			$ 20,895,319
Mutual funds – bonds	8,118,086			8,118,086
Cash and money market funds	1,192,943			1,192,943
Total long-term investments	30,206,348			30,206,348
Charitable gift annuities and trusts				
Mutual funds – equity securities	1,764,040			1,764,040
Mutual funds – bonds	449,128			449,128
Fixed income securities	714,596			714,596
Cash and money market funds	56,328			56,328
Split interest investment (non-trustee)			$ 1,918,518	1,918,518
Total charitable gift annuities and trusts	2,984,092		1,918,518	4,902,610
Total	$ 33,190,440		$ 1,918,518	$ 35,108,958

The following is a rollforward of the Level 3 assets:

	Split interest investment (non-trustee)	Total
Fair value at September 30, 2008	$ 1,774,640	$ 1,774,640
Additional gifts	40,000	40,000
Change in value	103,878	103,878
Fair value at September 30, 2009	$ 1,918,518	$ 1,918,518

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2009 but not required to be measured at fair value, consist of cash and cash equivalents, receivables, accounts payable, and long-term liabilities. Their carrying amounts, including the present value of future cash flows, represent a reasonable estimate of the corresponding fair values.

Note 4 - Property and Equipment:

Property and equipment at September 30, 2009 and 2008 consisted of the following:

	2009	2008
Land	$ 3,269,691	$ 3,269,691
Building and improvements	28,172,251	28,150,502
Furniture, fixtures, office equipment and vehicles	8,428,047	8,346,323
TV station equipment	30,382,307	33,529,679
Radio station equipment	4,769,173	4,896,823
Total	75,021,469	78,193,018
Less accumulated depreciation	(37,577,644)	
	(38,373,326)	
Property and equipment, net	$ 37,443,825	$ 39,819,692

Property and equipment are secured against the line of credit (see Note 6), bonds payable, and reversionary interests pursuant to certain government grant agreements (see Note 7).

Note 5 - Intangible Assets:

In May 2003, the Corporation acquired the assets of KQEI-FM Radio in North Highlands, California for $3,196,568, which included $64,770 of radio station equipment. The acquisition was accounted for under the purchase method. The purchase price was allocated $2,966,362 to the broadcast license and $165,436 to acquisition costs.

The broadcast license and acquisition costs are reflected as intangible assets on the accompanying Statement of Financial Position and are being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2009 and 2008 was $502,393 and $424,097, respectively. The radio station equipment is included in property and equipment on the accompanying Statement of Financial Position.

In October 2006, the Corporation acquired the assets of KTEH Foundation in San Jose which included a license fee for $300,000 which is being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2009 and 2008 was $71,250 and $63,750, respectively.

Note 6 - Line of Credit:

The Corporation has a revolving line of credit, as amended on October 1, 2009, in the amount of $1,500,000 which expires on July 1, 2011. The line of credit contains certain covenants and is secured by the Corporation's real and personal property (see Note 4). The interest rate is based upon either (i) a fluctuating rate per year equal to the prime rate in effect from time to time or (ii) a fixed rate per year determined by the bank to be 2.25% above LIBOR in effect on the first day of the applicable fixed rate term. The Corporation had no outstanding balance on the line of credit at September 30, 2009.

Note 7 - Bonds Payable:

In April 1996, the Corporation entered into a loan agreement with the California Economic Development Financing Authority for $13,400,000 of Variable Rate Demand Refund Revenue Bonds, Series 1996 (the "Series 1996 Bonds"). The Series 1996 Bonds mature on April 1, 2020. The Corporation makes monthly deposits to a special fund, in amounts which are sufficient to pay Bond principal and interest as the bond payments become due and payable. The $617,804 balance of the special fund as of September 30, 2009 has been included in cash on the accompanying 2009 Statement of Financial Position. The bonds bear interest at a Weekly Interest Rate during a Weekly Interest Rate Period or a Term Interest Rate during a Term Interest Rate Period. A Term Interest Rate Period can have duration of one year or any multiple of one year, or the period of time remaining to the final maturity of the Series 1996 Bonds. The rate (0.25% at September 30, 2009) is set by the remarketing agent and cannot exceed 12% per annum. Interest on the Series 1996 Bonds was based on a Weekly Interest Rate and averaged approximately 0.59% during fiscal year 2009.

The terms of the loan agreement require that a letter of credit be maintained as long as the Series 1996 Bonds are outstanding. Accordingly, the Corporation has an irrevocable letter of credit with Wells Fargo Bank for $3,718,563 and $4,108,563 as of September 30, 2009 and 2008, respectively, which expires on August 15, 2012. The letter of credit is collateralized by a deed of trust on all the real and personal property of the Corporation, excluding certain assets subject to reversionary interest (see Note 4). The nonrefundable Letter of Credit fee as of September 30, 2009, was 1%. Upon the declaration by the bank of an event of default, the letter of credit fee will increase to 2.5% per year. The Series 1996 Bonds are subject to a reimbursement agreement, which has a mandatory redemption at a redemption price equal to the Bond principal amount, and are payable in installments of $390,000 each year through August 15, 2012. The reimbursement agreement contains certain financial and non-financial covenants, which were amended as of October 1, 2009. On September 30, 2009, the Corporation was in compliance with the amended covenants.

On October 1, 2006, the Corporation acquired the assets of KTEH Foundation ("KTEH") which completed a closing for a $10,000,000 bond issue on October 2, 2003. In November 2008, the Corporation retired $7,500,000 of the KTEH bond debt and retired the remaining $1,500,000 in December 2008.

The bonds are scheduled for repayment as follows:

Year Ending September 30	
2010	$ 390,000
2011	390,000
2012	390,000
Thereafter	2,560,000
Total	$ 3,730,000

Note 8 - Temporarily Restricted Net Assets:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the year ended September 30, 2009 and 2008, as adjusted:

	2009	2008
Campaign for the Future	$ 349,129	$ 1,876,285
Underwriting specific productions or areas of programming	5,689,937	6,140,640
Unrestricted operations in future periods	439,248	150,682
Planned gifts	1,249,202	21,541
Endowment earnings appropriated	1,141,759	
	8,520,146	6,312,863
Total	$ 8,869,275	$ 8,189,148

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2009 and 2008, as adjusted:

	2009	2008
Campaign for the Future	$ 494,705	$ 843,833
Underwrite specific productions or areas of programming	942,109	1,392,020
Unrestricted operations in future periods	85,439	169,717
Planned gifts	2,824,405	3,932,537
Endowment earnings not yet spent	4,233,228	1,263,891
Capital projects	496,883	
Total	$ 9,076,769	$ 7,601,998

Note 9 - Endowments:

The Corporation's endowments consist of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Donor-restricted endowment funds are restricted to investment in perpetuity, the income from which is expendable to support programmatic activities of the Corporation. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2009, the Corporation implemented *FASB ASC 958-205-65, Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* which was effective for fiscal years ending after December 15, 2008. The state of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its SPMIFA which is applicable to funds established on or after January 1, 2009 and funds established prior to January 1, 2009 only with respect to actions taken after January 1, 2009.

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. No such deficiencies existed as of September 30, 2009 and 2008.

Return Objectives and Risk Parameters

The Corporation's primary long-term management objective is to preserve the inflation adjusted purchasing power of Endowment funds, while providing an available, stable, and constant stream of earnings to help meet the Corporation's spending needs.

Strategies Employed for Achieving Objectives

The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Spending Rule Amount is defined as the annual amount appropriated by the Board of Directors for inclusion in the subsequent year's budget. The withdrawals may not exceed 5% of the Endowment's market value averaged over the prior 12 quarters calculated as of June 30 each year. If this amount would cause the Corporation Permanent Endowment's value to fall below its original gift value level, then the annual Spending Rule Amount to be included in the subsequent fiscal year's budget is limited to the amount in excess of the original gift value.

If the annual Spending Rule Amount becomes limited as so described, this may be considered a "financial emergency" for purposes of making supplemental payouts from the Board-Designated Endowment. If such a financial emergency is determined by the Board of Directors, the Corporation may spend additional amounts from the Board-Designated Endowment up to the entire principal balance in the Board-Designated Endowment.

Endowment funds as of September 30, 2009 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 4,233,228	$ 15,017,744	$ 19,250,972
Board-designated funds	$ 10,955,376			10,955,376
Total endowment funds	$ 10,955,376	$ 4,233,228	$15,017,744	$ 30,206,348

Endowment activity by net asset classification as of September 30, 2009:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as adjusted	$12,478,850	$ 1,263,891	$ 14,819,242	$ 28,561,983
Net asset reclassification based on change of law	(4,016,780)	3,833,278	183,502	-
Endowment net assets after reclassification	8,462,070	5,097,169	15,002,744	28,561,983
Investment return:				
Income	253,315	568,297		821,612
Net depreciation (realized and unrealized)	162,304	(290,478)		(128,174)
Total investment return	415,619	277,819		693,438
Contributions	2,455,133		15,000	2,470,133
Appropriation of endowment assets for expenditure	(377,446)	(1,141,760)		(1,519,206)
Endowment net assets, end of year	$ 10,955,376	$ 4,233,228	$ 15,017,744	$ 30,206,348

Note 10 - Commitments and Contingencies:

The Corporation leases real estate property in connection with their operation of noncommercial public television and radio stations. The following is a schedule of future minimum lease payments required under noncancelable operating leases as of September 30, 2009:

September 30	
2010	$ 618,032
2011	521,490
2012	284,807
2013	284,863
2014	86,631
Thereafter	330,501
Total minimum rental payments	$ 2,126,324

The minimum lease payments do not include future cost of living escalations and pro rata property tax allocations, which are required for certain of the leases.

Total rent expense, including month-to-month leases, was approximately $906,531 and $866,488 for the years ended September 30, 2009 and 2008.

In September 2007, the Corporation entered into an agreement with Sutro Tower, Inc. to construct certain improvements and install digital television equipment and facilities ("Common DTV Facilities") to accommodate the mandate by the Federal Communications Commission to cease analog transmission of television signals and broadcast exclusively in digital television format effective February 17, 2009.

The Corporation's remaining obligation is estimated at $514,000 and is expected to be paid in March 2010. In addition, the Corporation will incur ongoing costs of operating, insuring, repairing, replacing and maintaining the Common DTV Facilities, which will be factored into the annual rent calculation formula pursuant to the current lease agreement.

The Corporation is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's financial position or its change in net assets.

Note 11 - Retirement Plan:

The Corporation has two retirement plans established for its employees: the 403(b) tax sheltered annuity plan, which is funded by employee contributions, and the 401(a) money purchase pension plan, which is funded by the employer's matching share amount. Effective September 27, 2007, the Corporation amended and restated the 403(b) plan to incorporate the employer contribution terms of the 401(a) plan and certain other changes into the 403(b) plan effective January 1, 2008. Furthermore, the Corporation froze all future employer contributions into the 401(a) plan as of December 31, 2007 and directed the employer's matching share amount into the 403(b) plan. Upon receipt of an IRS favorable letter of determination on the 401(a) plan, the Board of Directors will vote to approve for formal termination of the 401(a) plan. Contribution costs, funded currently, were $727,000 and $1,036,948 for the years ended September 30, 2009 and 2008, respectively.

Effective December 1, 2003, the Corporation established a 457(b) deferred compensation plan primarily for the purpose of providing deferred compensation for a select group of employees to accumulate retirement assets. The 457(b) plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the Corporation. As of September 30, 2009 and 2008, $147,036 and $141,852, respectively, has been deferred based on elections made by the participants.

Note 12 - Related Party Transactions:

The Corporation has transactions, in the normal course of business, where directors and employees make contributions to the Corporation. For the years ended September 30, 2009 and 2008, those contributions were approximately $441,000 and $405,000 respectively, and at September 30, 2009 and 2008 the receivable balance was approximately $21,000 and $118,000, respectively.

Note 13 - Accounting Change:

During 2009, the Corporation changed its method of accounting for the revenue recognition of corporate underwriting contracts. The 2008 financial statements have been adjusted in accordance with the generally accepted accounting principles.

The Corporation had previously considered all underwriting contracts to be contributions. Thus, the Corporation accounted for all underwriting contracts by recording the entire amount of the contract as receivable and contribution revenue. The Corporation has reviewed this policy and determined that the corporate underwriting differs from foundation underwriting, in that the nature of corporate underwriting contains elements of exchange transactions, and thus should be recorded as unrestricted revenue based on a change in the facts and circumstances. The effect of the above accounting change on 2009 and 2008 financial statements is as follows:

	2009 prior to the change	Effect of Change	2009 after the change
Grants receivable, current	$ 5,078,546	$ (2,556,079)	$ 2,522,467
Grants receivable, long-term	$ 295,712	$ (295,712)	$ 0
Deferred revenue	$ 265,522	$ 210,452	$ 475,974
Underwriting and general grants:			
Restricted	$ 1,276,832	$ (921,862)	$ 354,970
Unrestricted	$ 8,243,261	$ 1,141,810	$ 9,385,071
Net assets released from restrictions	$ 8,270,992	$ (892,605)	$ 7,378,387
Support services:			
Marketing and development	$ 13,629,115	$ (108,752)	$ 13,520,363

	2008 as originally stated	Effect of Change	2008 as adjusted
Grants receivable, current	$ 5,291,221	$ (3,209,591)	$ 2,081,630
Grants receivable, long-term	$ 410,666	$ (181,353)	$ 229,313
Contribution and grant revenue:			
Restricted	$ 3,334,899	$ (3,313,849)	$ 21,050
Unrestricted	$ 6,065,093	$ 2,462,562	$ 8,527,655
Net assets released from restrictions	$ 10,369,463	$ (4,056,779)	$ 6,312,684

The aggregate effect on the change in the net assets for the year ended September 30, 2009 as a result of the above change is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net increase (decrease) in net assets prior to the accounting change	$ 2,993,535	$ (2,329,250)	$ (55,252)	$ 609,033
Change in:				
Corporate underwriting contracts	357,957	(29,257)	-	328,700
Net increase (decrease) in net assets after the accounting change	$ 3,351,492	$ (2,358,507)	$ (55,252)	$ 937,733

The aggregate effect on the statement of activities and changes in the net assets for the year ended September 30, 2008 as a result of the above change is as follows:

Net decrease in net assets, as originally reported	$ (5,946,151)
Adjustment – Corporate underwriting contracts	(851,287)
Net decrease in net assets, as adjusted	(6,797,438)
Total net assets, beginning of year, as originally reported	90,749,570
Cumulative effect of accounting change:	
Corporate underwriting contracts	(2,539,657)
Total net assets, beginning of year, as adjusted	88,209,913
Total net assets, as adjusted as of September 30, 2008	$ 81,412,475

Following is the net assets classification as adjusted as of September 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, end of year, as originally reported	$ 58,692,480	$ 10,941,297	$ 15,169,642	$ 84,803,419
Adjustment – Corporate underwriting contracts	(51,645)	(3,339,299)		(3,390,944)
Net assets, end of year, as adjusted	$ 58,640,835	$ 7,601,998	$ 15,169,642	$ 81,412,475

Note 14 - Subsequent Events:

The Corporation has reviewed the results of operations for the period of time from its fiscal year ended September 30, 2009 through the date of the independent auditors' report and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.