

NORTHERN CALIFORNIA PUBLIC  
BROADCASTING, INC.

SEPTEMBER 30, 2010

---

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Northern California Public Broadcasting, Inc.

## Independent Auditors' Report and Financial Statements

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 23

**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, 2010 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 2009 financial statements, and in our report dated December 18, 2009, 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, 2010, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hood & Strong LLP*

December 13, 2010

*Consultants and*

*Business Advisors*

*100 First Street*

*14<sup>th</sup> Floor*

*San Francisco*

*CA 94105*

*415.781.0793*

*fax 415.421.2976*

*San Francisco*

*San Jose*

*Redwood Shores*



# Northern California Public Broadcasting, Inc.

## Statement of Financial Position

<i>September 30, 2010 (with comparative totals for 2009)</i>	2010	2009
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 13,259,874	\$ 10,683,668
Restricted cash (see Note 1)	488,557	1,116,410
Accounts and pledges receivable, less allowance for doubtful accounts of \$171,842 in 2010 and \$117,348 in 2009, respectively	3,101,582	4,178,253
Grants receivable	2,340,452	2,522,467
Other current assets	782,688	767,449
Total current assets	19,973,153	19,268,247
<b>Grants Receivable, Long-Term</b> (see Note 1)	25,000	
<b>Charitable Gift Annuities and Trusts</b>	5,128,949	4,902,610
<b>Long Term Investments</b> (see Note 2)	33,941,615	30,206,348
<b>Bond Financing Costs</b>	264,529	292,690
<b>Intangible Assets, net</b> (see Note 5)	2,772,361	2,858,156
<b>Property and Equipment, net</b> (see Note 4)	37,302,325	37,443,825
Total assets	\$ 99,407,932	\$ 94,971,876
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 6,187,249	\$ 5,171,806
Accrued broadcast rights	1,196,518	1,162,028
Current portion of bonds payable (see Note 7)	390,000	390,000
Deferred production and underwriting revenues	498,330	475,974
Total current liabilities	8,272,097	7,199,808
<b>Long Term Liabilities</b>	2,171,187	2,081,860
<b>Bonds Payable</b> (see Note 7)	2,950,000	3,340,000
Total liabilities	13,393,284	12,621,668
<b>Net Assets:</b>		
Unrestricted	61,761,622	57,975,547
Temporarily restricted (see Note 8)	8,938,037	9,076,769
Permanently restricted	15,314,989	15,297,892
Total net assets	86,014,648	82,350,208
Total liabilities and net assets	\$ 99,407,932	\$ 94,971,876

# Northern California Public Broadcasting, Inc.

## Statement of Activities and Changes in Net Assets

Year Ended September 30, 2010 (with comparative totals for 2009)

	2010			2009 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>Revenues, Support and Other Changes:</b>					
Contributions and membership fees	\$ 31,274,990			\$ 31,274,990	\$ 32,684,606
Underwriting and general grants	9,705,643			9,705,643	9,740,041
Project grants		\$ 1,873,000		1,873,000	5,240,027
Community service grants	5,517,187			5,517,187	4,876,085
Bequests and trusts	1,391,157			1,391,157	1,685,766
Investment income transferred from					
Endowments (see Note 2)	398,679	1,072,661		1,471,340	1,519,205
Other	3,285,816	356,760		3,642,576	4,112,747
Net assets released from restrictions	4,139,639	(4,139,639)			
Subtotal	55,713,111	(837,218)		54,875,893	59,858,477
Trade and In-kind donations	1,979,442			1,979,442	2,440,525
<b>Total revenues, support and other changes</b>	<b>57,692,553</b>	<b>(837,218)</b>		<b>56,855,335</b>	<b>62,299,002</b>
<b>Expenses:</b>					
Program services:					
Television:					
Programming and production	13,425,179			13,425,179	16,638,417
Broadcast services	5,082,865			5,082,865	5,543,177
Radio:					
Programming and production	7,382,915			7,382,915	7,329,556
Broadcast services	1,790,285			1,790,285	1,777,847
Education network	1,338,077			1,338,077	1,318,862
Program promotion	2,530,444			2,530,444	2,603,112
Interactive	2,085,866			2,085,866	1,891,503
<b>Total program services</b>	<b>33,635,631</b>			<b>33,635,631</b>	<b>37,102,474</b>
Support services:					
Marketing and development	12,617,104			12,617,104	13,520,363
General and administrative	6,661,793			6,661,793	7,300,393
<b>Total support services</b>	<b>19,278,897</b>			<b>19,278,897</b>	<b>20,820,756</b>
Subtotal	52,914,528			52,914,528	57,923,230
Trade and In-kind expenses	1,879,627			1,879,627	2,387,201
<b>Total expenses</b>	<b>54,794,155</b>			<b>54,794,155</b>	<b>60,310,431</b>
<b>Increase (Decrease) in Net Assets Before Endowment and Campaign for the Future</b>	<b>2,898,398</b>	<b>(837,218)</b>		<b>2,061,180</b>	<b>1,988,571</b>
<b>Permanent Endowment, Charitable Gift Annuities and Trust Contributions</b>		113,013	\$ 3,500	116,513	63,513
<b>Change in Value - Charitable Gift Annuities and Trusts</b>		108,440	13,597	122,037	22,304
<b>Net Investment Income (Loss) on Endowments (see Note 2)</b>	<b>872,272</b>	<b>971,737</b>		<b>1,844,009</b>	<b>(825,767)</b>
<b>Campaign for the Future:</b>					
Net assets released from restrictions	494,704	(494,704)			
Production expenses	(479,299)			(479,299)	(310,888)
Increase (decrease) in net assets from Campaign for the Future	15,405	(494,704)		(479,299)	(310,888)
<b>Increase (Decrease) in Net Assets</b>	<b>3,786,075</b>	<b>(138,732)</b>	<b>17,097</b>	<b>3,664,440</b>	<b>937,733</b>
<b>Net Assets, beginning of year</b>	<b>57,975,547</b>	<b>9,076,769</b>	<b>15,297,892</b>	<b>82,350,208</b>	<b>81,412,475</b>
<b>Net Assets, end of year</b>	<b>\$ 61,761,622</b>	<b>\$ 8,938,037</b>	<b>\$ 15,314,989</b>	<b>\$ 86,014,648</b>	<b>\$ 82,350,208</b>

# Northern California Public Broadcasting, Inc.

## Statement of Cash Flows

<i>Year Ended September 30, 2010 (with comparative totals for 2009)</i>	2010	2009
<b>Operating Activities:</b>		
Increase in net assets	\$ 3,664,440	\$ 937,733
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,648,451	3,980,505
Amortization of bond financing costs	28,161	28,161
Bad debt expense and cancelled contracts	(138,354)	(321,544)
Net realized and unrealized gains on investments	(2,589,794)	(10,940)
Loss on disposal of equipment	1,678	92,307
Permanent endowment contributions	(3,500)	(15,000)
Net effect of changes in:		
Accounts and pledges receivable	1,215,025	488,897
Grants receivable	157,015	194,476
Charitable gift annuities and trusts	(143,629)	470,734
Other current assets	(15,239)	28,950
Accounts payable, accrued expenses and other liabilities	259,822	62,228
Deferred production and underwriting revenues	22,356	(1,431,576)
<b>Net cash provided by operating activities</b>	<b>6,106,432</b>	<b>4,504,931</b>
<b>Investing Activities:</b>		
Purchases of investments	(2,823,951)	(3,718,479)
Proceeds from sales of investments	1,595,767	3,818,744
Purchases of equipment	(2,543,395)	(1,417,923)
<b>Net cash used by investing activities</b>	<b>(3,771,579)</b>	<b>(1,317,658)</b>
<b>Financing Activities:</b>		
Payment on bonds	(390,000)	(9,390,000)
Permanent endowment contribution	3,500	15,000
<b>Net cash used by financing activities</b>	<b>(386,500)</b>	<b>(9,375,000)</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>1,948,353</b>	<b>(6,187,727)</b>
<b>Cash, Cash Equivalents and Restricted Cash:</b>		
Beginning of year	11,800,078	17,987,805
End of year	\$ 13,748,431	\$ 11,800,078
<b>Supplemental Data:</b>		
Interest paid	\$ 47,340	\$ 108,695
<b>Non-Cash Transactions:</b>		
Equipment purchases included in payables at year end	\$ 1,299,190	\$ 419,751

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### Note 1 - Summary of Significant Accounting Policies:

#### a. Organization

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. Basis of Presentation

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. Cash and Cash Equivalents

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. Accounts and Pledges Receivable

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. As of September 30, 2010 and 2009, pledges receivable were approximately \$2,294,000 and \$3,031,000, respectively.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

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. Final expenditure of those temporarily restricted funds are presented separately within the statement of 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. Fair Value Measurements

The Corporation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Corporation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

j. 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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### k. 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, 2010 and 2009, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled approximately \$1,836,000 and \$1,798,000, 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, 2010, 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.

### l. Bond Financing Costs

Bond financing costs represent costs incurred in connection with the issuance and refinancing of bonds payable in September 1996 and August 2003, which are being amortized on a straight-line basis over the life of the Series 1996 Bonds.

### m. 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.

### n. 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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

o. 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 \$1,997,000 and \$2,198,000 in the years ended September 30, 2010 and 2009, respectively, which includes the value of de minimus 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.

p. In-Kind Contributions

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations approximated \$1,000 and \$815,000 for the year ended September 30, 2010, respectively, and \$32,000 and \$964,000, respectively, for the year ended September 30, 2009, and is reflected in the accompanying 2010 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 \$170,000 and \$188,000 for the years ended September 30, 2010 and 2009, respectively.

q. 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, 2010 and 2009, sponsorship barter transactions resulted in the recognition of approximately \$1,164,000 and \$1,444,000, respectively, in revenues and approximately \$1,064,000 and \$1,391,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

r. 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.

The Corporation's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. Management believes that there are no uncertain tax positions.

s. Functional Expense Allocations

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

t. 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, 2010.

u. Collective Bargaining Agreements

The Corporation has three collective bargaining union agreements, NABET, AFTRA-TV and AFTRA-KQED FM, with approximately 39% of its employees being covered by such agreements. The agreements expire in October 2012, December 2010, and September 2011, respectively.

v. 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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

w. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2009 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, 2009, from which the summarized financial information was derived. Certain reclassifications have been made to the 2009 amounts to conform to the 2010 presentation.

x. Subsequent Events

The Corporation has reviewed the results of activities for the period of time from its fiscal year ended September 30, 2010 through the date financial statements were issued, December 13, 2010, 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.

y. Recent Accounting Pronouncements

*Adopted:*

In April 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 820-10-35, 50, and 55 as an amendment to ASC Topic 820, *Fair Value Measurements and Disclosures*. Among other items it defined major category as related to the disclosure of investments in the fair value hierarchy. The Corporation has adopted the disclosure requirements in the financial statements as of September 30, 2010.

*Pronouncements effective in the future:*

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update provided amendments that require new disclosures of (a) transfers in and out of Levels 1 and 2 to include reasons for the transfers as well and (b) reconciliation for fair value measurements using significant unobservable inputs (Level 3) should be presented separately on a gross basis, rather than as one net number. This update also provided amendments that clarify existing disclosures such as the level of disaggregation for each class of assets and liabilities as well as disclosures about inputs and valuation techniques.

The Corporation does not believe that the adoption of this update will have a material impact on its financial statements.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### Note 2 - Investments:

The Corporation's long term investments were composed of the following at September 30, 2010:

	Endowment	Board Designated	Total
Long-term investments:			
Mutual funds - equity securities	\$ 14,613,574	\$ 9,937,179	\$ 24,550,753
Mutual funds - bonds	5,552,709	3,696,014	9,248,723
Cash and money market funds	59,926	82,213	142,139
<hr/>			
Total	\$ 20,226,209	\$ 13,715,406	\$ 33,941,615

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

	Endowment	Board Designated	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
<hr/>			
Total	\$ 19,250,972	\$ 10,955,376	\$ 30,206,348

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

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

October 1, 2009 – September 30, 2010	Endowment	Board Designated	Total
Contributions invested	\$ 3,500	\$ 1,887,758	\$ 1,891,258
Interest and dividends	\$ 558,018	\$ 334,266	\$ 892,284
Realized and unrealized net gains	1,590,365	999,428	2,589,793
Service fees	(103,985)	(62,743)	(166,728)
Total investment return	2,044,398	1,270,951	3,315,349
Income transferred to operations	(1,072,661)	(398,679)	(1,471,340)
Total investment income, net	\$ 971,737	\$ 872,272	\$ 1,844,009

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)

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, 2010 and 2009, the Corporation withdrew a total of \$1,471,340 and \$1,519,205, respectively, which is included as investment income transferred from Endowments on the accompanying Statement of Activities and Changes in Net Assets.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

### Note 3 - Fair Value of Financial Instruments:

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2010 on a recurring basis.

	2010			Total
	Level 1	Level 2	Level 3	
<b>Long-term investments:</b>				
Cash and equivalents	\$ 142,139			\$ 142,139
Mutual funds – equity securities:				
Domestic large company	10,473,995			10,473,995
International large company	4,938,329			4,938,329
Domestic small company	2,762,976			2,762,976
International small company	895,213			895,213
Emerging markets	1,066,229			1,066,229
Real estate investment trusts:				
Domestic	2,628,819			2,628,819
International	1,785,192			1,785,192
Mutual funds – bonds:				
Domestic	7,778,424			7,778,424
International	1,470,299			1,470,299
<b>Total</b>	<b>\$ 33,941,615</b>			<b>\$ 33,941,615</b>
<b>Charitable gift annuities and trusts:</b>				
Cash and equivalents	\$ 73,344			\$ 73,344
U.S. Treasury notes	712,783			712,783
Mutual funds – equity securities:				
Domestic large company	852,084			852,084
International large company	368,408			368,408
Domestic small company	136,578			136,578
Emerging markets	71,426			71,426
International small company	52,973			52,973
Real estate investment trusts				
Domestic	246,676			246,676
International	163,194			163,194
Mutual funds – bonds:				
Domestic	390,953			390,953
International	93,349			93,349
Split interest investment (non-trustee)		\$ 1,967,181		1,967,181
<b>Total</b>	<b>\$ 3,161,768</b>	<b>\$ 1,967,181</b>	<b>\$ 5,128,949</b>	

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2009 on a recurring basis.

	2009			Total
	Level 1	Level 2	Level 3	
<b>Long-term investments:</b>				
Cash and equivalents	\$ 89,697			\$ 89,697
U.S. Treasury notes	827,681			827,681
Mutual funds – equity securities:				
Domestic large company	8,941,671			8,941,671
International large company	4,127,589			4,127,589
Domestic small company	2,394,467			2,394,467
International small company	732,369			732,369
Emerging markets	913,987			913,987
Real estate investment trusts:				
Domestic	2,488,196			2,488,196
International	1,488,700			1,488,700
Mutual funds – bonds:				
Domestic	6,871,136			6,871,136
International	1,330,855			1,330,855
<b>Total</b>	<b>\$ 30,206,348</b>			<b>\$ 30,206,348</b>
<b>Charitable gift annuities and trusts:</b>				
Cash and equivalents	\$ 56,328			\$ 56,328
U.S. Treasury notes	714,595			714,595
Mutual funds – equity securities:				
Domestic large company	797,922			797,922
International large company	343,210			343,210
Domestic small company	129,347			129,347
Emerging markets	65,648			65,648
International small company	48,203			48,203
Real estate investment trusts:				
Domestic	249,658			249,658
International	155,919			155,919
Mutual funds – bonds:				
Domestic	351,555			351,555
International	71,707			71,707
Split interest investment (non-trustee)			\$ 1,918,518	1,918,518
<b>Total</b>	<b>\$ 2,984,092</b>		<b>\$ 1,918,518</b>	<b>\$ 4,902,610</b>

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

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
<hr/>		
Fair value at September 30, 2009	\$ 1,918,518	\$ 1,918,518
Change in value	48,663	48,663
<hr/>		
Fair value at September 30, 2010	\$ 1,967,181	\$ 1,967,181

### *Other financial instruments*

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2010 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, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 3,269,691	\$ 3,269,691
Building and improvements	28,313,699	28,172,251
Furniture, fixtures, office equipment and vehicles	8,582,674	8,428,047
TV station equipment	32,874,132	30,382,307
Radio station equipment	4,903,066	4,769,173
<hr/>		
Total	77,943,262	75,021,469
Less accumulated depreciation	(40,640,937)	(37,577,644)
<hr/>		
Property and equipment, net	\$ 37,302,325	\$ 37,443,825

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).

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### 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, 2010 and 2009 was \$580,688 and \$502,393, 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, 2010 and 2009 was \$78,750 and \$71,250, respectively.

The Corporation reviewed these intangibles and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2010.

### 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, 2010.

### 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 \$329,981 balance of the special fund as of September 30, 2010 has been included in cash on the accompanying 2010 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 (0.55 % at September 30, 2010) 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 0.34 % during fiscal year 2010.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

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 \$3,328,563 and \$3,718,563 as of September 30, 2010 and 2009, 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, 2010, 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, 2010, the Corporation was in compliance with the amended covenants.

The bonds are scheduled for repayment as follows:

Year Ending	
September 30	
2011	\$ 390,000
2012	390,000
Thereafter	2,560,000
<hr/>	
Total	\$ 3,340,000

### 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, 2010 and 2009:

	2010	2009
Campaign for the Future	\$ 494,704	\$ 349,129
<hr/>		
Underwriting specific productions, equipment or areas of programming	2,934,941	5,689,937
Endowment earnings appropriated	1,072,661	1,141,759
Planned gifts	46,600	1,249,202
Unrestricted operations in future periods	85,437	439,248
<hr/>		
	4,139,639	8,520,146
<hr/>		
Total	\$ 4,634,343	\$ 8,869,275

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2010 and 2009:

	2010	2009
Endowment earnings not yet spent	\$ 5,204,965	\$ 4,233,228
Planned gifts	2,999,258	2,824,405
Underwrite specific productions or areas of programming	540,071	942,109
Capital projects	193,743	496,883
Campaign for the Future		494,705
Unrestricted operations in future periods		85,439
<b>Total</b>	<b>\$ 8,938,037</b>	<b>\$ 9,076,769</b>

### 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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

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, 2010 and 2009.

### *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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

Endowment funds as of September 30, 2010 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 5,204,965	\$ 15,021,244	\$ 20,226,209
Board-designated funds	\$ 13,715,406			13,715,406
<b>Total endowment funds</b>	<b>\$ 13,715,406</b>	<b>\$ 5,204,965</b>	<b>\$ 15,021,244</b>	<b>\$ 33,941,615</b>

Endowment activity by net asset classification as of September 30, 2010:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,955,376	\$ 4,233,228	\$ 15,017,744	\$ 30,206,348
Investment return:				
Income	334,266	558,018		892,284
Net appreciation	936,685	1,486,380		2,423,065
<b>Total investment return</b>	<b>1,270,951</b>	<b>2,044,398</b>		<b>3,315,349</b>
Contributions	1,887,758		3,500	1,891,258
Appropriation of endowment assets for expenditure	(398,679)	(1,072,661)		(1,471,340)
<b>Endowment net assets, end of year</b>	<b>\$ 13,715,406</b>	<b>\$ 5,204,965</b>	<b>\$ 15,021,244</b>	<b>\$ 33,941,615</b>

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### 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, 2010:

September 30	
2011	\$ 877,771
2012	639,899
2013	535,051
2014	301,899
2015	158,864
Thereafter	297,317
<hr/>	
Total minimum rental payments	\$ 2,810,801

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 \$907,322 and \$906,531 for the years ended September 30, 2010 and 2009.

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 will incur ongoing costs of operating, insuring, repairing, replacing and maintaining the Common DTV Facilities, which is 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.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

---

### **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. On October 1, 2010 the IRS issued a determination letter addressing the proposed termination of the 401(a) plan. The IRS has determined that the termination of the 401(a) plan does not adversely affect the 401(a) plan's qualification for federal tax purposes. The 401(a) plan is expected to be fully terminated during 2011 by transferring its remaining plan assets to the Corporations' tax sheltered annuity plan. Contribution costs, funded currently, were approximately \$543,000 and \$727,000 for the years ended September 30, 2010 and 2009, 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, 2010 and 2009, approximately \$69,000 and \$147,000, 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, 2010 and 2009, those contributions were approximately \$322,000 and \$441,000, respectively, and at September 30, 2010 and 2009 the receivable balance was approximately \$60,000 and \$21,000, respectively.

### **Note 13 - Accounting Change:**

During 2009, the Corporation changed its method of accounting for the revenue recognition of corporate underwriting contracts.

# Northern California Public Broadcasting, Inc.

## Notes to the Financial Statements

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 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

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