

NORTHERN CALIFORNIA PUBLIC
BROADCASTING, INC.

SEPTEMBER 30, 2008

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Northern California Public Broadcasting, Inc.

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of **NORTHERN CALIFORNIA PUBLIC BROADCASTING, INC. (the Corporation)** as of September 30, 2008 and the related statements of activities, 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 2007 financial statements, and in our report dated December 10, 2007, 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, 2008, 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.

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December 2, 2008

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Northern California Public Broadcasting, Inc.

Statement of Financial Position

<i>September 30, (with comparative totals for 2007)</i>	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 15,314,226	\$ 13,198,835
Restricted cash (see Note 1)	2,225,431	2,579,153
Accounts and pledges receivable, less allowance for doubtful accounts of \$578,763 in 2008 and \$31,936 in 2007, respectively	3,236,350	3,823,855
Grants receivable	5,291,221	4,771,589
Other current assets	796,400	694,161
Short-term investments (see Note 3)	1,969,290	1,989,870
	28,832,918	27,057,463
Campaign For the Future:		
Restricted cash	448,148	887,195
Receivable	406,000	428,549
Short-term investments (see Note 3)		996,890
Total Campaign for the Future	854,148	2,312,634
Total current assets	29,687,066	29,370,097
Grants Receivable, Long-Term	410,666	510,022
Long Term Receivable - Campaign For The Future (see Note 3)		390,615
Charitable Gift Annuities and Trusts	6,246,998	5,515,976
Long Term Investments (see Note 3)	28,561,983	33,770,729
Bond Financing Costs	320,851	663,563
Intangible Assets, net (see Note 5)	2,943,951	3,029,746
Property and Equipment, net (see Note 4)	39,819,692	42,444,307
Total assets	\$ 107,991,207	\$ 115,695,055
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 4,788,576	\$ 6,077,122
Accrued broadcast rights	1,147,134	1,072,964
Current portion of bonds payable (see Note 7)	9,390,000	690,000
Deferred production and underwriting revenues	1,907,550	1,879,770
Total current liabilities	17,233,260	9,719,856
Long Term Liabilities	2,224,528	2,105,629
Bonds Payable (see Note 7)	3,730,000	13,120,000
Total liabilities	23,187,788	24,945,485
Net Assets:		
Unrestricted	58,692,480	61,766,289
Temporarily restricted (see Note 8)	10,941,297	13,659,063
Permanently restricted	15,169,642	15,324,218
Total net assets	84,803,419	90,749,570
Total liabilities and net assets	\$ 107,991,207	\$ 115,695,055

Northern California Public Broadcasting, Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, (with comparative totals for 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Support and Other Changes:				
Contributions and membership fees	\$ 34,011,414			\$ 34,011,414
Underwriting and general grants	6,065,093	\$ 3,334,899		9,399,992
Project grants		5,676,478		5,676,478
Community service grants	4,783,767			4,783,767
Bequests and trusts	1,486,640	1,023,000		2,509,640
Investment income transferred from Endowments (see Note 3)	1,452,614			1,452,614
Other	3,603,100			3,603,100
Net assets released from restrictions	10,369,463	(10,369,463)		-
Subtotal	61,772,091	(335,086)		61,437,005
Trade and In-kind donations	2,185,378			2,185,378
Total revenues, support and other changes	63,957,469	(335,086)		63,622,383
Expenses:				
Program services:				
Television:				
Programming and production	15,933,477			15,933,477
Broadcast services	5,757,474			5,757,474
Radio:				
Programming and production	7,598,757			7,598,757
Broadcast services	1,837,573			1,837,573
Education network	1,478,659			1,478,659
Program promotion	2,747,163			2,747,163
Interactive	1,748,286			1,748,286
Total program services	37,101,389			37,101,389
Support services:				
Marketing and development	14,642,313			14,642,313
General and administrative	6,979,609			6,979,609
Total support services	21,621,922			21,621,922
Subtotal	58,723,311			58,723,311
Trade and In-kind expenses	1,938,642			1,938,642
Total expenses	60,661,953			60,661,953
Increase (Decrease) in Net Assets Before Endowment and Campaign for the Future	3,295,516	(335,086)		2,960,430
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		359,279	\$ 63,293	422,572
Change in Value - Charitable Gift Annuities and Trusts		(514,746)	(217,869)	(732,615)
Net Investment Income on Endowments (see Note 3)	(6,422,962)	(366,713)		(6,789,675)
Campaign for the Future:				
Support		15,785		15,785
Net assets released from restrictions	1,876,285	(1,876,285)		-
Total Campaign for the Future revenue, support and other changes	1,876,285	(1,860,500)		15,785
Production expenses	(1,839,564)			(1,839,564)
Digital TV and FM conversion				(49,457)
Fundraising expenses	16,916			(423,960)
Total Campaign expenses	(1,822,648)			(1,822,648)
Increase (Decrease) in Net Assets from Campaign for the Future	53,637	(1,860,500)		(1,806,863)
Increase (Decrease) in Net Assets	(3,073,809)	(2,717,766)	(154,576)	(5,946,151)
Net Assets, beginning of year	61,766,289	13,659,063	15,324,218	90,749,570
Net Assets, end of year	\$ 58,692,480	\$ 10,941,297	\$ 15,169,642	\$ 84,803,419

Northern California Public Broadcasting, Inc.

Statement of Cash Flows

<i>Year Ended September 30, (with comparative totals for 2007)</i>	2008	2007
Operating Activities:		
(Decrease) increase in net assets	\$ (5,946,151)	\$ 1,019,688
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,300,032	4,526,408
Amortization of bond financing costs	342,712	47,226
Bad debt expense and cancelled contracts	543,304	435,291
Net realized and unrealized losses (gains) on investments	6,104,223	(3,414,066)
Permanent endowment contributions	(63,293)	(40,000)
Net effect of changes in:		
Accounts and pledges receivable	44,201	(1,743,528)
Grants and Campaign for the Future receivable	(7,112)	639,812
Charitable gift annuities and trusts	(762,019)	(1,709,262)
Other current assets	(102,237)	174,638
Accounts payable, accrued expenses and other liabilities	(407,887)	866,663
Deferred production and underwriting revenues	(191,825)	984,841
Net cash provided by operating activities	3,853,948	1,787,711
Investing Activities:		
Purchases of investments	(8,369,642)	(8,546,294)
Proceeds from sales of investments	8,522,631	10,973,981
Cash acquired in the merger with KTEH Foundation		2,317,455
Loss on disposal of equipment	984	
Purchases of equipment	(2,058,592)	(2,118,160)
Net cash (used) provided by investing activities	(1,904,619)	2,626,982
Financing Activities:		
Payment on bonds	(690,000)	(690,000)
Principal payments under capital lease		(13,117)
Permanent endowment contribution	63,293	40,000
Net cash used by financing activities	(626,707)	(663,117)
Net Increase in Cash, Cash Equivalents and Restricted Cash	1,322,622	3,751,576
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	16,665,183	12,913,607
End of year	\$ 17,987,805	\$ 16,665,183
Supplemental Data:		
Interest paid	\$ 409,577	\$ 607,683
Non-Cash Transactions:		
Assets acquired in the merger of KTEH Foundation		\$ 9,306,699
Liabilities assumed from the merger with KTEH Foundation		(10,776,200)
Equipment purchased with a payable at year end	\$ 446,129	914,114

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-TV", "KTEH-TV", "KQET-TV") 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 place 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 includes 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. 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, 2008 and 2007, pledges receivable were approximately \$2,739,000 and \$2,215,000, 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. Such amounts are considered temporarily restricted and are presented separately within the statements of financial position, activities and changes in net assets. Campaign for the Future receivables represent amounts committed by donors that are expected to be collected in future years. Such receivables are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable in the years in which the commitments were received.

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.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

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, 2008 and 2007, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled approximately \$1,994,000 and \$1,891,000, 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, 2008, 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.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

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 \$2,482,000 and \$2,525,000 in the years ended September 30, 2008 and 2007, 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.

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 \$16,000 and \$615,000 for the year ended September 30, 2008, respectively, and \$193,000 and \$1,235,000, respectively, for the year ended September 30, 2007, and is reflected in the accompanying 2007 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 Statement of Financial Accounting Standards No. 116, *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 \$151,000 and \$34,000 for the years ended September 30, 2008 and 2007, respectively.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

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, 2008 and 2007, sponsorship barter transactions resulted in the recognition of approximately \$1,554,000 and \$806,000, respectively, in revenues and approximately \$1,308,000 and \$852,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets. In addition, the Corporation recognized \$285,000 of capital assets, as a result of trades, in the Statement of Financial Position in fiscal year 2008.

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.

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, 2008.

t. Collective Bargaining Agreements

The Corporation has three collective bargaining union agreements, NABET, AFTRA-TV and AFTRA-KQED FM, with approximately 36% of its employees being covered by such agreements. The agreements expire in March 2009, October 2010 and December 2010, respectively.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

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. Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes” – an interpretation of FASB Statement No. 109. FIN 48 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 FSP FIN 48-2 has deferred the effective date of FIN No. 48 for certain non-public enterprises including non-public not-for-profit organizations to the annual financial statements for fiscal years beginning after December 15, 2008. When effective, FIN No. 48 will become applicable, as of the beginning of the entity’s fiscal year. Management does not believe there is any impact to the Corporation as a result of the adoption of this interpretation.

w. Endowments of Not-for-Profit Organizations

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The provisions of this FSP are effective for fiscal years ending after December 15, 2008. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enactment of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also requires disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The Corporation is currently evaluating what effect, if any, the adoption of the above pronouncements will have on the Corporation’s financial statements.

x. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2007 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, 2007, from which the summarized financial information was derived. Certain reclassifications have been made to the 2007 amounts to conform to the 2008 presentation.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

Note 2 - Fair Value of Financial Instruments:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures and is effective for fiscal periods beginning after November 15, 2007. The Corporation is currently evaluating what effect, if any, the adoption of SFAS No. 157 will have on the Corporation's financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115", (effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Corporation is currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on the Corporation's financial statements.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

a. Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

b. Short-Term Grants and Pledges Receivable

The carrying amount approximates fair value because of the short maturity of those instruments.

c. Long-Term Receivable – Campaign for the Future

The fair values of these receivables are estimated by discounting the future cash flows using risk-free interest rates in effect at the date the grant or pledge is received.

d. Investments

The fair values of investments are estimated based on quoted market prices for those or similar investments.

e. Long-Term Liabilities

The fair values of these liabilities are estimated by discounting the future cash flows using risk-free interest rates.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

Note 3 - Investments:

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
<hr/>				
Total short-term investments			1,969,290	1,969,290
<hr/>				
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
<hr/>				
Total long-term investments	20,099,912	8,462,071		28,561,983
<hr/>				
Total	\$ 20,099,912	\$ 8,462,071	\$ 1,969,290	\$ 30,531,273

The endowment account balance of \$20,099,912 is composed of permanently restricted funds of \$14,819,242, temporarily restricted funds of \$1,263,890, and unrestricted funds of \$4,016,780.

The Corporation's endowment and Board designated contributions and net income on investments for the year ended September 30, 2008, consist of the following components:

	Endowment	Board Designated	Total
Contributions invested	\$ 63,293	\$ 1,517,637	\$ 1,580,930
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Income transferred to operations	\$ (1,108,018)	\$ (344,596)	\$ (1,452,614)
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)
<hr/>			
Total investment loss, net	\$ (5,024,538)	\$ (1,765,138)	\$ (6,789,675)

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

The Corporation's short-term and long term investments were composed of the following at September 30, 2007:

	Endowment	Board Designated	Campaign for the Future	Other	Total
Short-term investments:					
Bonds - commercial			\$ 996,890	\$ 1,989,870	\$ 2,986,760
<hr/>					
Total short-term investments			996,890	1,989,870	2,986,760
<hr/>					
Long-term investments:					
Mutual funds - equity securities	\$ 17,542,538	\$ 6,122,641			23,665,179
Mutual funds – bonds	7,491,720	2,548,337			10,040,057
Cash and money market funds	26,900	38,593			65,493
<hr/>					
Total long-term investments	25,061,158	8,709,571			33,770,729
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Total	\$ 25,061,158	\$ 8,709,571	\$ 996,890	\$ 1,989,870	\$36,757,489

The endowment account balance of \$25,061,158 is composed of permanently restricted funds of \$14,755,950, temporarily restricted funds of \$1,630,602, and unrestricted funds of \$8,674,606.

The Corporation's endowment and Board designated contributions and net income on investments for the year ended September 30, 2007, consist of the following components:

	Endowment	Board Designated	Total
Contributions invested	\$ 226,456	\$ 800,832	\$ 1,027,288
<hr/>			
Income transferred to operations	\$ (963,457)	\$ (278,498)	\$ (1,241,955)
Interest and dividends	627,043	206,774	833,817
Realized and unrealized net gains	2,579,337	834,729	3,414,066
Service fees	(129,698)	(42,423)	(172,121)
<hr/>			
Total investment income, net	\$ 2,113,225	\$ 720,582	\$ 2,833,807

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

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, 2008 and 2007, the Corporation withdrew a total of \$1,452,614 and \$1,241,955, respectively, which is included as investment income transferred from Endowments on the accompanying Statement of Activities and Changes in Net Assets.

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. Subsequent to the year-end, the Corporation has experienced net decreases of approximately \$6,100,000 (21%) in the fair value of its Endowment and Board Designated investment portfolio through December 2, 2008. In addition, the market situation has been highly fluid with further losses possible. The Corporation believes that such decreases are consistent with the overall market decline. The Corporation maintains a diversified portfolio, subject to an investment policy. The policy requires asset allocation among several asset classes, and the portfolio is monitored by the Corporation's investment committee and outside consultant.

Note 4 - Property and Equipment:

Property and equipment at September 30, 2008 and 2007 consisted of the following:

	2008	2007
Land	\$ 3,269,691	\$ 3,269,691
Building and improvements	28,150,502	27,819,858
Furniture, fixtures, office equipment and vehicles	8,346,323	8,475,650
TV station equipment	33,529,679	32,847,481
Radio station equipment	4,896,823	4,799,852
Total	78,193,018	77,212,532
Less accumulated depreciation	(38,373,326)	(34,768,225)
Property and equipment, net	\$ 39,819,692	\$ 42,444,307

Property and equipment are secured against the line of credit (see Note 6), bonds payable, including collateralized assets pertaining to the guarantee of the David and Lucile Packard Foundation, and reversionary interests pursuant to certain government grant agreements (see Note 7). Analog television equipment will be fully depreciated at the time of national digital conversion, which is scheduled to take place in February 2009, if deemed to have no further utility.

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, 2008 and 2007 was \$424,097 and \$345,802, 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, 2008 and 2007 was \$63,750 and \$56,250, respectively.

Note 6 - Line of Credit:

The Corporation has a revolving line of credit in the amount of \$1,500,000 which expires on April 1, 2009. 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 \$480,561 balance of the special fund as of September 30, 2008 has been included in cash on the accompanying 2008 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 (7.3% at September 30, 2008) 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 2.4% during fiscal year 2008.

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 \$4,108,563 and \$4,507,092 as of September 30, 2008 and 2007, 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 that are pledged as collateral to the David and Lucile Packard Foundation as well as those subject to reversionary interest (see Note 4). The nonrefundable Letter of Credit fee as of September 30, 2008, 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 agreement contains certain covenants which, among other things, require the Corporation to maintain certain financial ratios and places limitations on other indebtedness, pledge of assets, lease expenditures and guaranties. On September 30, 2008, the Corporation was not in compliance with the financial covenants related to the Series 1996 Bonds agreement and received a waiver from the bank. The Series 1996 Bonds mature on April 1, 2020, are subject to mandatory redemption at a redemption price equal to the Bond principal amount, and are payable, as amended during 2007, in installments of \$390,000 each year commencing on April 1, 2007 and continuing through August 15, 2012.

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. The tax-exempt variable rate demand revenue bonds are guaranteed by the David and Lucile Packard Foundation through September 30, 2011, and have a 20 year maturity. At September 30, 2008, the bond interest rate was 7.05% and averaged approximately 2.41% during fiscal year 2008. The guarantee is secured by certain assets of the former KTEH Foundation. KTEH used a portion of the bond issuance proceeds to pay off existing debt and to purchase equipment relating to the conversion to a digital broadcast signal. The Corporation has a letter of credit with Bank of America for \$9,133,151 as of September 30, 2008, which expires on September 30, 2009. The nonrefundable letter of credit fee as of September 30, 2007 was .4%.

In October 2008, the Corporation entered into a credit agreement with The David and Lucile Packard Foundation pursuant to which the Corporation may borrow up to \$1,500,000 in order to support the Corporation in retiring the KTEH bond debt. The Corporation is entitled to draw any amount from the loan from time to time as may be necessary to cover operating expenses during the year ended September 30, 2009. The loan amount shall be reduced to \$1,000,000 effective June 1, 2009. Should the outstanding balance exceed \$1,000,000 on June 1, 2009, no further borrowings shall be available under the credit agreement. All funds drawn under the loan shall bear simple interest at 2% per annum. The entire unpaid principal balance and accrued interest are payable on September 30, 2009.

In November 2008, the Corporation retired \$7,500,000 of the KTEH bond debt and retired the remaining \$1,500,000 in December 2008.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

The bonds are scheduled for repayment as follows:

Year Ending September 30	
2009	\$ 9,390,000
2010	390,000
2011	390,000
2012	390,000
Thereafter	2,560,000
Total	\$ 13,120,000

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, 2008 and 2007, as follows:

	2008	2007
Campaign for the Future	\$ 1,876,285	\$ 4,466,410
Underwriting specific productions or areas of programming	6,140,640	5,289,628
Unrestricted operations in future periods	4,207,282	2,166,890
Planned gifts and endowment	21,541	117,688
	10,369,463	7,574,206
Total	\$ 12,245,748	\$ 12,040,616

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2008 and 2007:

	2008	2007
Campaign for the Future	\$ 843,833	\$ 2,704,333
Underwrite specific productions or areas of programming	1,392,020	1,856,183
Unrestricted operations in future periods	3,509,015	4,381,398
Planned gifts and endowment	5,196,429	4,717,149
Total	\$ 10,941,297	\$ 13,659,063

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

Note 9 - 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, 2008:

September 30	
2009	\$ 726,383
2010	622,426
2011	525,911
2012	285,246
2013	286,512
Thereafter	415,276
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Total minimum rental payments	\$ 2,861,754

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 \$866,488 and \$869,830 for the years ended September 30, 2008 and 2007.

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 \$1,125,000 and is expected to be paid in installments of \$611,000 and \$514,000 in July, 2009 and March 2010, respectively. 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.

Northern California Public Broadcasting, Inc.

Notes to the Financial Statements

Note 10 - 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 \$1,036,948 and \$939,723 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007, \$141,852 and \$102,506, respectively, has been deferred based on elections made by the participants.

Note 11 - 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, 2008 and 2007, those contributions were approximately \$405,000 and \$353,000 respectively, and at September 30, 2008 and 2007 the receivable balance was approximately \$118,000 and \$4,000, respectively.