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**CAPITAL PUBLIC RADIO, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

CAPITAL PUBLIC RADIO, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Capital Public Radio, Inc.  
Sacramento, California

We have audited the accompanying consolidated statements of financial position of Capital Public Radio, Inc., (the "Station"), as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Public Radio, Inc., as of June 30, 2012 and 2011, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



September 18, 2012  
Roseville, California

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CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2012 and 2011

ASSETS		
	2012	2011
Current assets:		
Cash and cash equivalents	\$ 584,617	\$ 626,126
Contributions receivable, net	544,901	593,272
Accounts receivable, net	251,611	285,564
Capital Campaign receivable, net	24,581	49,161
Other receivables	18,610	30,245
Prepaid expenses	32,239	37,245
Total current assets	1,456,559	1,621,613
Endowment	1,128,719	990,952
Donated artwork	35,025	35,025
Broadcast license	4,933,842	4,933,842
Deposits	63,726	59,762
Property and equipment, net	1,195,915	1,070,739
Total assets	\$ 8,813,786	\$ 8,711,933
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 105,703	\$ 341,996
Accrued interest payable	109,312	114,359
Accrued vacation	165,956	151,196
Retirement plan payable	9,166	7,105
FSA / HRA / HSA payable	1,673	2,731
Unearned revenue	9,095	228,215
Capital lease obligation, current portion	118,825	112,769
Total current liabilities	519,730	958,371
Capital lease obligation, less current portion	2,323,907	2,442,733
Total liabilities	2,843,637	3,401,104
Net assets:		
Unrestricted:		
General operating	3,494,364	3,115,222
Designated:		
Investment in property and equipment	1,128,326	1,003,150
Donated artwork	35,025	35,025
Endowment	370,679	275,373
Temporarily restricted:		
Grant	116,126	98,891
Endowment	201,041	161,200
Permanently restricted:		
Endowment	556,999	554,379
Tower 91	67,589	67,589
Total net assets	5,970,149	5,310,829
Total liabilities and net assets	\$ 8,813,786	\$ 8,711,933

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

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Revenue and support:				
Listener contributions	\$ 3,804,746	\$ -	\$ -	\$ 3,804,746
Grant funding	494,197	431,509	-	925,706
Advertising and underwriting	2,166,688	-	-	2,166,688
Fundraising	362,405	-	-	362,405
Rental income	134,420	-	-	134,420
Bequest contributions	30,362	-	-	30,362
Endowment donations	-	-	2,620	2,620
Other revenue	37,492	-	-	37,492
Interest and dividends	3,421	26,768	-	30,189
Net realized and unrealized gain on investments	-	18,186	-	18,186
Non-cash:				
CSUS administrative support	1,197,325	-	-	1,197,325
In-kind donations	808,304	-	-	808,304
<b>Total revenue and support</b>	<b>9,039,360</b>	<b>476,463</b>	<b>2,620</b>	<b>9,518,443</b>
Net assets released from restriction:				
Endowment fee	5,113	(5,113)	-	-
Grant expenditures	414,274	(414,274)	-	-
<b>Total net assets released from restrictions</b>	<b>419,387</b>	<b>(419,387)</b>	<b>-</b>	<b>-</b>
<b>Total revenue and support and net assets released from restrictions</b>	<b>9,458,747</b>	<b>57,076</b>	<b>2,620</b>	<b>9,518,443</b>
Expenditures:				
Programs:				
Programming and production	4,225,028	-	-	4,225,028
Broadcasting	1,503,518	-	-	1,503,518
Marketing and promotion	709,960	-	-	709,960
Support:				
Membership development	1,382,270	-	-	1,382,270
Management and general	1,038,347	-	-	1,038,347
<b>Total expenditures</b>	<b>8,859,123</b>	<b>-</b>	<b>-</b>	<b>8,859,123</b>
Change in net assets	599,624	57,076	2,620	659,320
Net assets, beginning of year	4,428,770	260,091	621,968	5,310,829
Net assets, end of year	<u>\$ 5,028,394</u>	<u>\$ 317,167</u>	<u>\$ 624,588</u>	<u>\$ 5,970,149</u>

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

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Revenue and support:				
Listener contributions	\$ 3,545,924	\$ -	\$ -	\$ 3,545,924
Grant funding	354,162	510,945	-	865,107
Advertising and underwriting	1,880,290	-	-	1,880,290
Fundraising	380,625	-	-	380,625
Rental income	136,192	-	-	136,192
Bequest contributions	265,565	-	-	265,565
Endowment donations	-	-	3,337	3,337
Other revenue	9,773	-	-	9,773
Interest and dividends	7,279	13,841	-	21,120
Net realized and unrealized gain on investments	-	93,639	-	93,639
Non-cash:				
CSUS administrative support	1,139,115	-	-	1,139,115
In-kind donations	504,973	-	-	504,973
<b>Total revenue and support</b>	<b>8,223,898</b>	<b>618,425</b>	<b>3,337</b>	<b>8,845,660</b>
Net assets released from restriction:				
Endowment fee	3,597	(3,597)	-	-
Grant expenditures	449,554	(449,554)	-	-
<b>Total net assets released from restrictions</b>	<b>453,151</b>	<b>(453,151)</b>	<b>-</b>	<b>-</b>
<b>Total revenue and support and net assets released from restrictions</b>	<b>8,677,049</b>	<b>165,274</b>	<b>3,337</b>	<b>8,845,660</b>
Expenditures:				
Programs:				
Programming and production	3,971,617	-	-	3,971,617
Broadcasting	1,276,935	-	-	1,276,935
Marketing and promotion	928,108	-	-	928,108
Support:				
Membership development	1,066,179	-	-	1,066,179
Management and general	970,528	-	-	970,528
<b>Total expenditures</b>	<b>8,213,367</b>	<b>-</b>	<b>-</b>	<b>8,213,367</b>
Change in net assets	463,682	165,274	3,337	632,293
Net assets, beginning of year	3,965,088	94,817	618,631	4,678,536
Net assets, end of year	<u>\$ 4,428,770</u>	<u>\$ 260,091</u>	<u>\$ 621,968</u>	<u>\$ 5,310,829</u>

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

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2012 and 2011

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2012 Total
Personnel	\$ 1,582,405	\$ 609,158	\$ 213,332	\$ 427,313	\$ 490,228	\$ 3,322,436
Professional fees	75,701	18,315	-	4,750	54,435	153,201
Commissions	-	15,601	15,601	-	-	31,202
In-kind	994,794	358,126	99,479	298,438	238,751	1,989,588
Printing and supplies	2,272	-	16,891	54,945	45,345	119,453
Program guides	-	-	20,232	-	-	20,232
Telephone	11,641	60,240	-	18,367	8,105	98,353
Telemarketing	-	-	-	31,853	-	31,853
Postage and freight	-	-	22,265	13,457	16,733	52,455
Travel and training	51,363	12,458	18,043	40,650	34,873	157,387
Recruiting	23,440	-	-	-	-	23,440
Advertising	-	-	78,277	-	-	78,277
Utilities	17,653	164,175	5,296	3,531	3,531	194,186
Repairs and maintenance	56,490	60,021	19,418	10,592	12,357	158,878
Program acquisition	945,479	-	-	-	-	945,479
Dues and subscriptions	5,848	-	8,666	5,475	13,695	33,684
Bank charges	-	-	-	76,792	153	76,945
Bad debt	-	-	24,580	12,371	-	36,951
Outside services	-	-	18,812	204,556	18,351	241,719
Computer	30,297	14,970	104,517	41,213	3,703	194,700
Premiums	-	-	17,275	55,986	-	73,261
Rent	174,182	147,068	12,937	38,914	36,917	410,018
Depreciation	80,556	29,000	8,056	24,167	19,334	161,113
Insurance	35,185	12,667	3,518	10,555	8,444	70,369
Interest	132,184	-	-	-	3,710	135,894
Miscellaneous	5,538	1,719	2,765	8,345	29,682	48,049
Total functional expenses	<u>\$ 4,225,028</u>	<u>\$ 1,503,518</u>	<u>\$ 709,960</u>	<u>\$ 1,382,270</u>	<u>\$ 1,038,347</u>	<u>\$ 8,859,123</u>

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

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)  
For the Years Ended June 30, 2012 and 2011

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2011 Total
Personnel	\$ 1,352,638	\$ 242,685	\$ 294,239	\$ 248,935	\$ 449,265	\$ 2,587,762
Professional fees	76,362	11,507	79,986	9,512	62,858	240,225
Commissions	-	263,871	263,871	-	-	527,742
In-kind	901,782	261,762	82,204	178,266	220,073	1,644,087
Printing and supplies	464	-	12,974	51,768	33,761	98,967
Program guides	-	-	8,529	-	-	8,529
Telephone	15,945	55,537	-	19,059	10,911	101,452
Telemarketing	-	-	-	37,525	-	37,525
Postage and freight	-	-	27,657	10,379	13,786	51,822
Travel and training	29,653	14,552	5,982	25,022	26,510	101,719
Recruiting	-	-	-	-	2,086	2,086
Advertising	-	-	24,487	-	-	24,487
Utilities	16,660	154,936	4,998	3,332	3,332	183,258
Repairs and maintenance	53,311	56,643	18,326	9,996	11,662	149,938
Program acquisition	1,011,061	-	-	-	-	1,011,061
Dues and subscriptions	9,289	-	6,436	6,176	13,595	35,496
Bank charges	-	-	-	68,886	5,996	74,882
Bad debt	18,747	-	-	50,000	-	68,747
Outside services	-	-	30,589	184,781	18,168	233,538
Computer	20,685	15,051	21,575	28,037	3,501	88,849
Premiums	-	-	17,036	43,741	-	60,777
Rent	173,729	146,364	13,009	39,026	36,136	408,264
Depreciation	100,619	36,223	10,062	30,186	24,149	201,239
Insurance	45,578	16,408	4,558	13,673	10,938	91,155
Interest	140,673	-	-	-	-	140,673
Miscellaneous	4,421	1,396	1,590	7,879	23,801	39,087
Total functional expenses	<u>\$ 3,971,617</u>	<u>\$ 1,276,935</u>	<u>\$ 928,108</u>	<u>\$ 1,066,179</u>	<u>\$ 970,528</u>	<u>\$ 8,213,367</u>

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



CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 659,320	\$ 632,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	161,113	201,237
Net realized and unrealized (gains) losses	(18,186)	(93,639)
Donated equipment	(16,040)	-
Provision for bad debt	36,951	68,747
Underwriting trade - purchase of broadcast license	(219,120)	(210,320)
Changes in operating assets and liabilities:		
Contributions receivable	48,371	(4,385)
Accounts receivable	21,582	(13,523)
Other receivables	11,635	23,464
Prepaid expenses	5,006	2,099
Deposits	(3,964)	(5,812)
Accounts payable	(236,293)	108,904
Accrued interest payable	(5,047)	(4,789)
Accrued vacation	14,760	18,355
Other employee benefits payable	1,003	319
	461,091	722,950
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(484,246)	(510,250)
Net proceeds from sale of investments	364,665	231,104
Cash paid for purchase of equipment	(270,249)	(234,437)
	(389,830)	(513,583)
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments on capital lease obligation	(112,770)	(107,022)
	(112,770)	(107,022)
Net cash used in financing activities		
Net change in cash and cash equivalents	(41,509)	102,345
Cash and cash equivalents, beginning of year	626,126	523,781
Cash and cash equivalents, end of year	\$ 584,617	\$ 626,126
<u>Supplementary disclosure of cash flow information:</u>		
Interest paid	\$ 135,894	\$ 140,673
<u>Supplementary schedule of non-cash investing and financing activities:</u>		
Donated equipment	\$ 16,040	\$ -

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

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 1: NATURE OF ORGANIZATION

Capital Public Radio, Inc. (the "Station"), is a nonprofit auxiliary organization of California State University, Sacramento ("CSUS"). Its purpose is to provide a trusted source of information, music, arts and entertainment for curious and thoughtful people, in an efficient, sustainable way, strengthening the civic and cultural life of the community served. CSUS owns the licenses under which the Station is allowed to broadcast.

The Station also manages programs and operates the non-commercial radio station KUOP (FM) in Stockton, California. University of the Pacific ("UOP") owned the license under which KUOP was allowed to broadcast until January 2009, when CSUS purchased the license.

Capital Public Radio Endowment, Inc. (the "Endowment"), Tower 91, Inc., and certain assets of CSUS are consolidated into the Station's financial statements because they meet the criteria for consolidation under Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 810, *Not-for-Profit Entities – Consolidation* (FASB ASC 958-810). FASB ASC 958-810 requires consolidation if the nonprofit organizations are related to one another by means of ownership, control and/or economic interest. The Station exercises control through common members and appointment of members of the boards of directors of the related entities and has an economic interest as the sole beneficiary of the assets and resources of the other organizations. The interrelated organizations are described as follows:

- Capital Public Radio Endowment, Inc. is a nonprofit public benefit corporation with a board of directors separate from Capital Public Radio, Inc. The Endowment's sole purpose is to provide funding for the Station. The Station is the only beneficiary of the endowment, according to its by-laws.
- Tower 91, Inc. is a nonprofit public benefit corporation with a board of directors separate from the Station. Tower 91, Inc. holds title to the property where a transmitting tower is located. It exists for the sole benefit of the Station.
- CSUS provides the use of certain equipment that the Station utilizes in its operations. CSUS has set aside this equipment for the Station's sole benefit.

The net assets of the above organizations are not available to meet the financial obligations of the Station. All significant interorganizational balances and transactions have been eliminated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements of the Station have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Station presents its consolidated financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Station is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Station is required to present a statement of cash flows. Accordingly, net assets of the Station and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Station and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Station.

Revenues and gains and losses on investments are reported as changes in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition

In accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 958-605, *Not-for-Profit Entities – Revenue Recognition* (FASB ASC 958-605), unconditional contributions are generally recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give (pledges) are recognized as revenues once a valid pledge has been received. The receivable and the corresponding revenue are recognized concurrently. Conditional contributions and pledges are recorded when the conditions have been met.

Unrestricted grants are recognized as support in the statement of activities upon receipt or accrual. The Station reports certain grants as restricted support if they are received with grantor stipulations that limit their use.

Revenue for program underwriting is recorded on a pro rata basis for the period.

Receivable balances are stated at unpaid balance, less an allowance for doubtful accounts. Capital Public Radio, Inc. provides for losses on receivable balances using the allowance method. This method is based on experience and other circumstances which may affect the collectability of the balance. Uncollectible receivables are charged off when management determines the receivable will not be collected.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value when it is received. Capital Public Radio, Inc. provides for depreciation over the estimated useful lives of the assets using the straight-line method. The estimated lives of these assets range from 2 to 30 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the useful lives of assets are capitalized.

Equipment purchased with grant funds from the National Telecommunications and Information Administration ("NTIA") is to revert to that agency if Capital Public Radio, Inc. wishes to dispose of the equipment within ten years from the date of the grant.

Donated Assets

In accordance with the provisions of FASB ASC 958-605, donated marketable securities, artwork and other non-cash donations received are valued at fair value at the date of contribution.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets (continued)

Donations of property and equipment and other assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire such assets are reported as restricted contributions. The Station reports gifts of artwork as unrestricted because there are no donor stipulations specifying how the donated assets must be used.

Donated Services

Donated services are recognized as contributions in accordance with FASB ASC 958-605, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Station. Volunteers also provide assistance in program and supporting services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958-605 are not met.

Cash and Cash Equivalents

Cash equivalents consist of all highly liquid investments with original maturities of three months or less.

Concentration of Credit Risk

Financial instruments which potentially subject the Station to concentrations of credit risk consist principally of contribution receivables, cash deposits and investments at brokerage firms. The Station does not generally require collateral for receivables, and operations are dependent upon these contributions. The Station's contributors are primarily located within and are dependent upon the economy of the broadcast areas of Stockton and the greater Sacramento area. The Station does not believe a material risk of loss exists with respect to its financial position due to this concentration of credit risk.

The Station maintains its cash and cash equivalents in bank deposit accounts. These accounts are insurable by the Federal Deposit Insurance Corporation up to \$250,000 per bank for each category of legal ownership. On June 30, 2012 and 2011, The Station's uninsured cash balance totaled \$361,994 and \$389,214, respectively. The Station has not experienced any losses on these accounts, and management believes the Station is not exposed to any significant risk on cash accounts.

For those investments held by a broker who is a member of the Securities Investor Protection Corporation, the cash and securities are insured up to \$500,000 in the event the brokerage firm goes out of business.

Marketable Securities

Marketable equity securities and debt securities which are held to maturity are valued at fair market value with realized and unrealized gains and losses reflected in the consolidated statement of activities.

Broadcast Rights

Programming broadcast rights are expensed annually as purchased.

Endowment

The Endowment consists of a fund established to provide funding to the Station, and includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

The board of directors 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 Station 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 in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the following factors are considered 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 Station 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 Station, and (7) the investment policies of the Station.

The Endowment has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to supported programs while seeking to maintain the purchasing power of the endowment assets over the long-term. To satisfy its long-term rate-of-return objectives, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Endowment may at the discretion of the board of directors appropriate for distribution amounts which exceed the planned minimum accumulation of the fund if approved by the majority of the board. In establishing this policy, the Endowment considered the long-term expected return on endowment funds. Accordingly, over the long-term, the Endowment expects the current spending policy to allow endowment funds to reach and maintain certain minimum levels which have been established by the donors and the board. This is consistent with the Endowment's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The endowment fund consists of money funds and investments comprised of equity securities stated at fair value based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Functional Expenses

Functional expenses are allocated to program and supporting services based on direct expenditures incurred. Expenses not directly chargeable to a particular functional category are allocated based on an analysis of personnel time and space or other resources utilized for the related activities.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Station is exempt from income taxes under the provisions of the Internal Revenue Code Section 501(c)(3), and franchise taxes under the provisions of the California Revenue and Taxation Code Section 23701d, except as they may be levied for unrelated business income. After they are filed, the Station's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities and disclosures at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Station has implemented the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, Subtopic 10, *Fair Value Measurements and Disclosures* (FASB ASC 820-10), which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Station determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10. The standard describes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Station has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an on-going basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Station's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Station's own data.

The fair values of investments are based on unadjusted quoted market prices within active markets.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified, with no effect to change in net assets, to conform to the 2012 consolidated financial statement presentation.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through September 18, 2012, the date that the financial statements were available to be issued.

NOTE 3: TOWER RENT ESCROW

At June 30, 2012 and 2011, the Station had a letter of credit in the amount of \$50,000 on deposit at a local bank in the event that tower equipment on the Walnut Grove site is removed.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Contributions receivable	\$ 731,647	\$ 835,403
Less allowance for contributions receivable	<u>(186,746)</u>	<u>(242,131)</u>
Contributions receivable, net	<u>\$ 544,901</u>	<u>\$ 593,272</u>
Accounts receivable	\$ 253,787	\$ 287,740
Less allowance for accounts receivable	<u>(2,176)</u>	<u>(2,176)</u>
Accounts receivable, net	<u>\$ 251,611</u>	<u>\$ 285,564</u>

NOTE 5: CAPITAL CAMPAIGN RECEIVABLE

In June 2005, Capital Public Radio, Inc. ended the quiet phase of the Building Better Radio Capital Campaign, an effort designed to raise funds for equipment, furnishings and program development relating to the Station's new facility. Unconditional promises to give at June 30, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 46,028	\$ 70,608
Total unconditional promises to give	46,028	70,608
Less allowance for uncollectible promises receivable	<u>(21,447)</u>	<u>(21,767)</u>
Net unconditional promises to give	<u>\$ 24,581</u>	<u>\$ 49,161</u>

NOTE 6: ENDOWMENT

At June 30, 2012 and 2011, the endowment consisted of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money accounts	\$ 5,083	\$ 5,083	\$ 102,576	\$ 102,576
Stocks	792,125	927,389	667,645	770,478
Corporate fixed income	188,659	196,247	75,791	76,216
Certificates of deposit	-	-	24,988	25,035
Mutual funds	<u>-</u>	<u>-</u>	<u>16,451</u>	<u>16,647</u>
Total endowment	<u>\$ 985,867</u>	<u>\$ 1,128,719</u>	<u>\$ 887,451</u>	<u>\$ 990,952</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 6: ENDOWMENT (CONTINUED)

The following is a reconciliation, by class of net assets, of the beginning and ending balances of the donor restricted endowment for the years ended June 30, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2010	\$ 9,808	\$ 57,317	\$ 551,042	\$ 618,167
Donor contributions	-	-	3,337	3,337
Board designated contributions	265,565	-	-	265,565
Interest and dividends	-	13,841	-	13,841
Net realized and unrealized gain (loss)	-	93,639	-	93,639
Released from restriction	3,597	(3,597)	-	-
Expenditures	(3,597)	-	-	(3,597)
Balance, June 30, 2011	275,373	161,200	554,379	990,952
Donor contributions	-	-	2,620	2,620
Board designated contributions	95,306	-	-	95,306
Interest and dividends	-	26,768	-	26,768
Net realized and unrealized gain (loss)	-	18,186	-	18,186
Released from restriction	5,113	(5,113)	-	-
Expenditures	(5,113)	-	-	(5,113)
Balance, June 30, 2012	<u>\$ 370,679</u>	<u>\$ 201,041</u>	<u>\$ 556,999</u>	<u>\$ 1,128,719</u>

NOTE 7: FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy, the Station's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2012 and 2011:

	<u>Fair Value as of June 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment fund:				
Stocks	\$ 927,389	\$ -	\$ -	\$ 927,389
Corporate fixed income	196,247	-	-	196,247
Total	<u>\$ 1,123,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,123,636</u>
	<u>Fair Value as of June 30, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment fund:				
Stocks	\$ 770,478	\$ -	\$ -	\$ 770,478
Corporate fixed income	76,216	-	-	76,216
Certificates of deposit	25,035	-	-	25,035
Mutual funds	16,647	-	-	16,647
Total	<u>\$ 888,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 888,376</u>



CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 8: BROADCAST LICENSE PURCHASE

In 2008, on behalf of the Station, CSUS entered into an Asset Purchase Agreement to purchase the broadcast license of FM station KUOP from the University of the Pacific. The terms of the Asset Purchase Agreement established the purchase price at \$4,700,000, of which \$4,000,000 was to be paid in cash and the remaining \$700,000 was considered underwriting.

In addition to the purchase price, the Station incurred \$233,842 in legal, appraisal and escrow closing costs related to the purchase. The cost of the broadcast license totaling \$4,933,842 has been capitalized. The broadcast license is deemed to have an indefinite life and as such is not subject to amortization. The Station will review the license for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

NOTE 9: PROPERTY AND EQUIPMENT

At June 30, 2012 and 2011, property and equipment consisted of the following:

	Unrestricted	Permanently Restricted	Total 2012	Total 2011
Land	\$ -	\$ 67,589	\$ 67,589	\$ 67,589
Tower	1,245,790	-	1,245,790	1,220,252
Engineering and production	1,741,089	437,804	2,178,893	2,123,084
Office equipment	364,635	57,469	422,104	359,175
Computer equipment	581,743	41,131	622,874	611,652
Expansion projects	152,620	-	152,620	24,328
Leasehold improvements	174,401	-	174,401	171,901
	<u>4,260,278</u>	<u>603,993</u>	<u>4,864,271</u>	<u>4,577,981</u>
Less accumulated depreciation and amortization	<u>(3,131,952)</u>	<u>(536,404)</u>	<u>(3,668,356)</u>	<u>(3,507,242)</u>
Total property and equipment	<u>\$ 1,128,326</u>	<u>\$ 67,589</u>	<u>\$ 1,195,915</u>	<u>\$ 1,070,739</u>

NOTE 10: UNEARNED REVENUE

In conjunction with the purchase of the broadcast license of FM station KUOP as referenced to in Note 8, the Asset Purchase Agreement between CSUS and University of the Pacific provided for \$700,000 of underwriting. During the years ended June 30, 2012 and 2011, \$210,320 and \$219,120, respectively, of this underwriting was realized. At June 30, 2012 and 2011, the balance of the underwriting contract was \$9,095 and \$228,215, respectively.

NOTE 11: LINE OF CREDIT

The Station has available a \$400,000 line of credit with a local bank that is secured by accounts receivable and equipment. There were no amounts drawn on the line of credit at June 30, 2012 and 2011.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 12: LEASE COMMITMENTS

Capital Lease

In accordance with the terms of the KUOP Facilities Agreement, as previously referred to herein, the Station has entered into a long-term capital lease financing agreement with CSUS relating to the purchase of the broadcast license referred to in Note 8.

The following is a schedule of future minimum capital lease payments:

Year Ending June 30:

2013	\$ 244,683
2014	244,397
2015	244,096
2016	243,779
2017	243,445
Thereafter	<u>2,226,367</u>
Total minimum lease payments	3,446,767
Less amount representing interest	<u>1,004,035</u>
Principal balance due on obligations under capital leases as of June 30, 2012	2,442,732
Less current portion	<u>118,825</u>
Total long-term obligations under capital leases	<u>\$ 2,323,907</u>

Operating Leases

The Station leases office space and real property upon which towers are located. These obligations extend through 2033. These leases include the lease of a public radio station facility located at California State University, Sacramento. The lease is for a term of thirty years with semi-annual payments beginning in May 2004. Each installment of rent payable is secured by a pledge of all Station revenues as set forth in the lease.

Certain real property leases contain renewal options up to five years. Several of the real property leases contain an escalation clause which requires additional rent on each anniversary date of the lease. Total rent expense totaled \$410,018 and \$408,264, respectively, for the years ended June 30, 2012 and 2011.

Future minimum lease payments at June 30, 2012, under agreements classified as operating leases with noncancelable terms are as follows:

Year Ending June 30:

2013	\$ 405,491
2014	386,259
2015	385,419
2016	322,865
2017	303,721
Thereafter	<u>4,491,015</u>
Total minimum lease payments	<u>\$ 6,294,770</u>

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 12: LEASE COMMITMENTS (CONTINUED)

Operating Leases (Continued)

Rental income on real properties sub-leased to others totaled \$134,420 and \$136,192, respectively, for the years ended June 30, 2012 and 2011.

Future minimum rental income on real properties sub-leased to others at June 30, 2012, under agreements classified as operating leases with noncancelable terms are as follows:

Year Ending June 30:

2013	\$ 132,060
2014	119,812
2015	120,174
2016	120,548
2017	120,933
Thereafter	<u>618,763</u>
Total minimum rental income	<u>\$ 1,232,290</u>

NOTE 13: RELATED PARTY TRANSACTIONS

Included in accounts receivable at June 30, 2011, is \$1,856 due from CSUS and related auxiliaries for program underwriting. For the years ended June 30, 2012 and 2011, revenue received from CSUS and related auxiliaries for underwriting was \$28,339 and \$24,368, respectively.

Included in accounts payable and accrued interest at June 30, 2012 and 2011, is \$128,556 and \$167,764, respectively, payable to CSUS. During the years ended June 30, 2012 and 2011, the Station incurred expenses of \$156,388 and \$114,925 for office building maintenance and \$89,379 and \$98,954 for various services provided by CSUS, respectively. The Station paid \$258,748 and \$260,170 to the Board of Trustees of CSU for office building rent, during the years ended June 30, 2012 and 2011, respectively.

The Station entered the KUOP Facilities Agreement (the "Agreement") with CSUS on August 14, 2008. The Agreement provides for the financing of certain costs related to the Asset Purchase Agreement between CSUS and the University of the Pacific to secure the purchase of the broadcast license of the FM broadcasting station KUOP (Note 8). The terms of the Agreement provide for a long-term capital lease financing arrangement between the Station and CSUS, which requires the repayment of \$3,000,000, at 5.37% interest, in annual installments over a period of 18 years (Note 12). During the year ended June 30, 2012, the Station paid \$250,000 to CSUS in debt service relating to the Agreement. This included \$112,770 in principal payments and \$137,230 in interest. During the year ended June 30, 2011, the Station paid \$250,000 to CSUS in debt service relating to the Agreement. This included \$107,022 in principal payments and \$142,978 in interest.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 14: GRANTS

The following is a list of the grants received during the years ended June 30, 2012 and 2011:

	2012	2011
Corporation for Public Broadcasting:		
Community service grant	\$ 601,718	\$ 536,759
Fiscal stabilization grant	-	37,500
Cable Grant	35,125	35,675
CHCF Grant	36,248	39,070
NTIA Grant	5,964	-
Other grants	14,400	18,320
Environmental reporting grants	232,251	197,783
	<u>\$ 925,706</u>	<u>\$ 865,107</u>
Total		

The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants ("CSGs") to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby enhance the quality of programming and expand the scope of public broadcasting services.

According to the CPB Radio CSG General Provisions and Eligibility Criteria, a certain portion of the funds may be used as specified in Section 396(k)(7) of the Communications Act of 1934, 47 U.S.C. 396(k)(7), which provides that these funds "may be used at the discretion of the Grantees for purposes related primarily to the production or acquisition of programming." This portion of the Grants may also be used to sustain activities begun with previous CPB CSG funds. The remaining portion of the funds must be used as specified in Section 396(k)(3)(A)(iii) of the Communications Act of 1934, which provides that these funds are "solely to be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience." Each CSG must be expended within two years of the initial grant authorization.

NOTE 15: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support

During the fiscal years ending June 30, 2012 and 2011, CSUS provided numerous services for the Station. Amounts are calculated on the basis of percentage of use by the Station in relationship to the total respective University costs as recorded in the respective University financial reports. During the years ended June 30, 2012 and 2011, donated services in the amount of \$1,197,325 and \$1,139,115, respectively, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations

During the years ended June 30, 2012 and 2011, the value of contributed materials, facilities and services meeting the requirements for recognition in the financial statements amounted to \$792,264 and \$504,973, respectively. The in-kind donations are reported as revenue and expense in the accompanying statement of activities. The total in-kind donations capitalized for the year ended June 31, 2012, is \$16,040. No in-kind donations were capitalized for the year ended June 30, 2011.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Station in meeting its program objectives. During the years ended June 30, 2012 and 2011, the Station received approximately 2,560 and 1,918 in volunteer hours, respectively.

CAPITAL PUBLIC RADIO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2012 and 2011

NOTE 16: FUND-RAISING EXPENSES

Total fund-raising expenses for the years ending June 30, 2012 and 2011, were \$1,382,270 and \$1,066,179, respectively.

NOTE 17: RETIREMENT PLAN

Effective October 1, 2010, the Station adopted a new 401(k) plan. All employees are eligible on the date of hire to participate in salary deferrals to the plan; however employees must have 1,000 hours of service to be eligible for matching and profit sharing contributions. For all eligible employees, the Station will match 100% of employees' respective salary contributions up to 5% of their compensation. The total retirement plan contribution for the years ending June 30, 2012 and 2011, were \$95,589 and \$78,556, respectively.

NOTE 18: UNRELATED BUSINESS INCOME TAXES

While the Station is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively, net income generated by unrelated business activities is taxable as unrelated business income. Unrelated business activities conducted by the Station include advertising income from the Station's quarterly program guide and rentals of tower space.

For the years ended June 30, 2012 and 2011, net income as calculated for income tax purposes were not sufficient to yield any income tax expense. In addition, the Station has been determined by the Internal Revenue Code not to be a private foundation within the meaning of Section 509(a) of the Code.