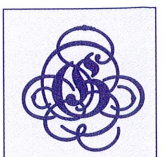


# RURAL CALIFORNIA BROADCASTING CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2013



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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural California Broadcasting Corporation  
Rohnert Park, California

We have audited the accompanying financial statements Rural California Broadcasting Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from Rural California Broadcasting Corporation's 2012 financial statements and, in our report dated February 20, 2013 we expressed an unqualified opinion on those financial statements.

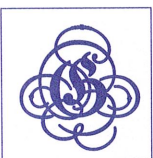
## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design auditor procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural California Broadcasting Corporation as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*goranson and Associates, Inc.*

January 15, 2014

Santa Rosa, California



RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2013  
(with summarized comparative totals for September 30, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash	\$ 216,769	\$ 685,520
Accounts receivable, net of \$3,010 allowance for uncollectible accounts	159,001	95,892
Grants receivable	17,574	50,468
Prepaid license agreements	57,014	249,879
Prepaid expenses	48,019	79,671
Total current assets	<u>498,377</u>	<u>1,161,430</u>
Land	359,542	367,734
Structures and equipment, net	<u>1,883,261</u>	<u>1,982,062</u>
Total Fixed Assets	<u>2,242,803</u>	<u>2,349,796</u>
Other assets:		
Long-term investments	223,238	184,886
Other assets	<u>37,853</u>	<u>141,318</u>
Total assets	<u>\$ 3,002,271</u>	<u>\$ 3,837,430</u>

The notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2013  
(with summarized comparative totals for September 30, 2012)

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 345,707	\$ 567,632
Other payables	4,109	3,329
Accrued expenses	147,129	169,551
Deferred revenue	216,852	58,468
Current portion of long-term debt	10,216	9,647
Total current liabilities	<u>724,013</u>	<u>808,627</u>
Long-term debt, net of current portion	630,506	640,721
Total liabilities	<u>1,354,519</u>	<u>1,449,348</u>
Net assets:		
Unrestricted:		
Undesignated	1,386,162	2,030,329
Board designated quasi-endowment	223,238	184,886
Temporarily restricted	38,352	172,867
Total net assets	<u>1,647,752</u>	<u>2,388,082</u>
Total liabilities and net assets	<u>\$ 3,002,271</u>	<u>\$ 3,837,430</u>

The notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
(with summarized comparative totals for the year ended September 30, 2012)

	Unrestricted		Temporarily Restricted	2013 Total	2012 Total
	Television Company	Radio Company			
SUPPORT AND REVENUE:					
Grants:					
Corporation for Public Broadcasting	\$ 397,482	\$ 67,469		\$ 464,951	\$ 771,055
Corporate, foundation, government and other	105,398	10,576	\$ 38,352	154,326	94,874
Underwriting contributions	197,357	85,986		283,343	335,540
Membership contributions	519,472	162,540	58,989	741,001	893,337
Annual auction and other fundraising activities	225,962	3,399		229,361	176,677
Services and other revenues	375,798	88,553		464,351	398,080
Investment Income	16,266	1,264		17,530	18,118
Donated goods and services	73,829	7,460		81,289	130,918
Net assets released from restriction	196,665	35,192	(231,857)	-	-
Total support and revenue	<u>2,108,229</u>	<u>462,439</u>	<u>(134,516)</u>	<u>2,436,152</u>	<u>2,818,599</u>
EXPENSES:					
Program services:					
Programming/production	373,946	223,672		597,618	639,541
Broadcasting/Podcasting	656,736	160,166		816,902	1,044,791
Web / podcasting	75,460	48,116		123,576	
Program information/promotion	131,907	35,058		166,965	153,322
Supporting services:					
Management and general	508,087	106,538		614,625	659,045
Auction/membership development	390,124	41,553		431,676	394,315
Underwriting/grant development	373,735	51,385		425,120	338,950
Total expenses	<u>2,509,996</u>	<u>666,487</u>		<u>3,176,483</u>	<u>3,229,964</u>
CHANGE IN NET ASSETS	(401,767)	(204,048)	(134,516)	(740,331)	(411,365)
NET ASSETS, beginning of year	<u>3,314,670</u>	<u>(1,099,455)</u>	<u>172,868</u>	<u>2,388,083</u>	<u>2,799,447</u>
NET ASSETS, end of year	<u>\$ 2,912,903</u>	<u>\$ (1,303,503)</u>	<u>\$ 38,352</u>	<u>\$ 1,647,752</u>	<u>\$ 2,388,082</u>

The notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

(with summarized comparative totals for the year ended September 30, 2012)

	Programming and Production	Program				Auction and Membership Development	Underwriting and Grant Development	2013		2012	
		Broadcasting	Web	Information and Promotion	Management and General			Total		Total	
Personnel costs	\$ 238,555	\$ 354,763	\$ 111,834	\$ 41,439	\$ 334,203	\$ 208,181	\$ 181,874	\$ 1,470,850	\$	1,632,143	\$
Depreciation and amortization	8,603	247,987	-	1,518	38,701	6,579	1,518	304,906		296,904	
Dues, fees and subscriptions	77	-	1,800	360	18,227	38,504	1,587	60,554		77,747	
Fundraising and promotion	321	-	-	122,635	3,775	93,921	1,256	221,908		201,596	
Insurance	-	-	-	-	31,045	-	-	31,045		29,438	
Interest	-	-	-	-	41,552	-	-	41,552		38,995	
Equipment rental and maintenance	180	46,245	-	-	19,766	947	-	67,137		44,115	
Travel, education, training	2,154	1,300	20	96	2,054	608	1,892	8,125		11,110	
Postage and shipping	371	1,709	-	811	612	31,189	210	34,902		25,319	
Printing and supplies	-	-	-	-	70	23,637	44	23,751		14,046	
Production costs	1,089	184	-	-	-	-	-	1,273		360	
Professional services	4,626	9,943	8,786	-	42,046	5,397	215,843	286,640		226,513	
Program acquisition	339,715	-	-	-	-	-	-	339,715		319,880	
Rent	-	71,186	-	-	-	-	-	71,186		71,174	
Telephone	649	47,032	365	-	24,007	22,549	-	94,601		93,132	
Utilities	-	32,248	-	-	49,799	-	-	82,048		87,505	
Bad debt expense	-	-	-	-	-	-	-	-		1,755	
Miscellaneous	1,279	-	771	106	8,771	164	25,199	36,290		58,232	
Total expenses	\$ 597,618	\$ 812,597	\$ 123,576	\$ 166,965	\$ 614,625	\$ 431,676	\$ 429,424	\$ 3,176,482	\$	3,229,964	\$

The notes are an integral part of these financial statements



RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
(with summarized comparative totals for the year ended September 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members, grants and other support	\$ 2,546,791	\$ 2,331,891
Cash received from other exchange transactions	240,906	526,757
Cash paid to vendors and employees	(2,986,589)	(2,741,041)
Investment income received	7,933	3,237
Other cash received (paid)	(328)	(1,363)
Interest paid	(41,552)	(38,995)
Net cash (used) provided by operations	<u>(232,838)</u>	<u>80,486</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(28,355)	(72,735)
Purchase of structures and equipment	(197,912)	(281,849)
Net cash used by investing activities	<u>(226,267)</u>	<u>(354,584)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(9,646)	(9,108)
Total cash used by financing activities	<u>(9,646)</u>	<u>(9,108)</u>
NET CHANGE IN CASH	(468,751)	(283,206)
CASH, beginning of year	<u>685,520</u>	<u>968,726</u>
CASH, end of year	<u><u>\$ 216,769</u></u>	<u><u>\$ 685,520</u></u>

The notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013  
(with summarized comparative totals for the year ended September 30, 2012)

	<u>2013</u>	<u>2012</u>
Reconciliation of Change in Net Assets to Net		
Cash Provided by Operating Activities:		
Change in net assets	\$ (740,331)	\$ (411,365)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	304,906	296,904
Other noncash items	(9,997)	(14,140)
(Increase) decrease in:		
Accounts receivable	(63,109)	(48,000)
Grants receivable	32,894	232,233
Contributions receivable		
Program license agreements	192,866	(42,739)
Prepaid expense	31,652	(5,266)
Other assets	103,464	(102,915)
Increase (decrease) in:		
Accounts and other payables	(221,145)	180,151
Accrued expenses	(22,422)	16,427
Deferred revenue	158,384	(20,804)
	<u>                    </u>	<u>                    </u>
Net cash provided by operations	<u>\$ (232,838)</u>	<u>\$ 80,486</u>

The notes are an integral part of these financial statements

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 1            NATURE OF OPERATIONS

The Rural California Broadcasting Corporation (KRCB), a California public benefit corporation, was organized in January 1981 for the purpose of operating non-commercial educational telecommunications services for all or part of Sonoma, Marin, Napa, Solano, and Mendocino Counties. In 1985, KRCB obtained four Instructional Television Fixed Site (ITFS) licenses. KRCB began ITFS operations in 1996. In 1991, KRCB obtained a license to operate a non-commercial Radio station. Support and revenues are primarily from public, private and government grants, and contracts.

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – KRCB reports information regarding its financial position and activities on an accrual basis according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of KRCB to meet the stipulations or that become unrestricted at the date specified by the donor.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by KRCB to use all or part of the investment return on these net assets for specified or unspecified purposes.

**Net assets released from restriction** – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

**Other Basis of Presentation Policies** – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, KRCB reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

KRCB reports gifts of land, structures, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KRCB reports expirations of donor restrictions when the donated or acquired long-lived assets are in placed in service.

Investments received through gifts are recorded at estimated fair value at the date of donation.

**Fundraising Campaigns** - KRCB engages in fundraising campaigns for operations and capital improvements manifested by offering special television or radio programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to KRCB. Financial contributions are frequently evidenced by pledges received from responding viewers and listeners. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the statement of financial position. Contributions and collected pledges are components of unrestricted revenue to the extent their usage is not limited to specific activities of KRCB. This usage is consistent with the appeals for contributions and pledges. Contributions to capital campaign funds are temporarily restricted until expended for their designated use.

**Contributed services** – KRCB records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated. KRCB receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects.

**Cash and Cash Equivalents** – KRCB considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Accounts and Grants Receivable** - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Accounts receivable consist of underwriting due KRCB, but not yet collected. Grants receivable consist of grants and contracts awarded, but not yet received.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed Assets** - Structures and equipment are stated at cost or, if donated, at fair market value at the date of receipt. Depreciation is computed using the straight-line method over the useful life of the assets. Structures are being depreciated over thirty years. Broadcasting, production, and satellite equipment are depreciated over periods of five to fifteen years and furniture and equipment are depreciated over periods of three to seven years.

Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the useful lives of these assets are capitalized.

**Broadcast Licenses** - The television and radio broadcast licenses are stated at cost and are being amortized over the remaining period of the leases. These licenses may not be transferred or sold without the express written permission of the Federal Communications Commission (see Note 5).

**Purchased Programming** - The costs of purchased programming are expensed over the period of purchase agreement because the estimated number of future airings is not determinable.

**Deferred Revenue** - Revenue from unearned contracts is deferred and recognized over the periods to which the revenue relates.

**Advertising** - KRCB uses advertising to promote its programming and fundraising events and the costs of the advertising are expended as incurred.

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

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

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Concentrations of Risk – Financial Instruments** – Financial instruments, which potentially subject KRCB to a concentration of credit risk, principally consist of cash and cash equivalents, promises to give, and investments. KRCB invests temporary cash in money market securities in banks which, from time to time, may exceed federally insured limits. KRCB has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Income Taxes** - KRCB is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined KRCB is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Management of KRCB considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to KRCB's status as a not-for-profit entity. Management believes KRCB met the requirements to maintain its tax-exempt status and has not income subject to unrelated business income tax; therefore no provision for income taxes has been provided in these financial statements. KRCB's tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

**Summarized Comparative Financial Information** – The financial statements include certain prior year summarized comparative information 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 KRCB's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 3      FAIR VALUE MEASUREMENTS AND INVESTMENTS

KRCB's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by *Statement of Financial Accounting Standards* No. 157 (FAS 157) Fair Value Measurements. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

*Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

*Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect KRCB's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table sets forth, by level within the fair value hierarchy, the KRCB's assets measured at fair value on a recurring basis at September 30, 2013.

	<u>Level 2</u>
Pooled investment fund	\$ <u>223,238</u>

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 3 FAIR VALUE MEASUREMENTS AND INVESTMENTS, continued

The following revenue, expense and gains were reported by KRCB for the fiscal year ended September 30, 2013.

Interest and dividends	\$ 1,213
Realized gains	6,320
Unrealized gains	9,997
Management Fees	<u>(2,165)</u>
Total	<u>\$ 15,365</u>

NOTE 4 STRUCTURES AND EQUIPMENT

Structures and equipment as of September 30, 2013 are summarized as follows:

Land	\$ 359,542
Buildings and improvements	1,062,625
Broadcasting equipment	4,158,763
Production equipment	622,486
Satellite dishes and equipment	164,383
Furniture and equipment	396,739
Software	285,364
Construction in Progress	<u>2,807</u>
Total structures and equipment	6,908,472
Less accumulated depreciation	<u>(4,665,670)</u>
Net book value	<u>\$ 2,242,804</u>

Depreciation expense totaled \$304,906 for the year ended September 30, 2013.

The satellite dishes and certain other equipment were acquired through grants from the National Telecommunications and Information Administration, the Public Broadcasting Service, and in-kind donations. Equipment with a cost of approximately \$1,200,000 has been purchased during the past twenty years with proceeds of the grants and matching funds and is subject to priority liens for a period of ten years from the date of purchase.



RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 5            BROADCAST LICENSES

Broadcast licenses as of September 30, 2013 are summarized as follows:

Television broadcast license	\$ 60,987
Radio broadcast license	<u>7,470</u>
Total broadcast licenses	68,457
Less accumulated amortization	<u>(68,457)</u>
Net value broadcast licenses	\$ <u>0</u>

Broadcast licenses are fully amortized for the year ended September 30, 2013.

In light of the new Fair Value Measurement hierarchy, KRCB obtained an independent valuation of the television and radio broadcast licenses. Based on recent sales in comparable markets an estimated value of \$5,650,000 and \$585,000 for the television and radio licenses, respectively, was determined. The independent valuation based on quoted prices for similar assets in active markets would place this asset as a Level 2 asset.

NOTE 6            UNEMPLOYMENT FUND

KRCB is self-insured through the 501(c) Trust for unemployment claims made to the State of California. The fund earns interest and claims are paid directly by the fund, as administered by the trustee.

NOTE 7            ACCRUED VACATION AND SICK BENEFITS

Accumulated unpaid employee vacation benefits are recognized as liabilities of KRCB. Accumulated vacation at September 30, 2013 is \$83,176.

Sick leave benefits are accumulated for each eligible employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of KRCB since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period sick leaves are taken.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 8            LONG TERM DEBT

KRCB has an obligation to Exchange Bank bearing interest at five and three quarter percent. The loan is payable in monthly installments of \$3,902, including interest, secured by land and building and due in April 2016.

Principal maturities for each of the next five years at September 30 are as follows:

2014	\$ 10,216
2015	10,819
2016	<u>619,687</u>
Total	\$ <u>640,722</u>

NOTE 9            TEMPORARILY RESTRICTED ASSETS

Amounts classified as temporarily restricted assets include grant monies received for future capital purposes, and future programs.

NOTE 10           BOARD DESIGNATED ENDOWMENT

In March 2010 the Board of Directors made a resolution to establish the KRCB Public Media Fund (the Fund) for the purpose of supporting KRCB Television 22, KRCB Radio 91FM, public media and community engagement. The Fund is established as a quasi-endowed fund with Community Foundation Sonoma County.

**Interpretation of Relevant Law**

The Board of Directors has interpreted California's enacted version of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring the preservation of the fair market value of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 10      BOARD DESIGNATED ENDOWMENT, continued

In accordance with UPMIFA, KRCB 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 KRCB 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 KRCB
- (7) The investment policies of the KRCB

Endowment net asset composition as of September 30, 2013:

	Unrestricted
Board-designated endowment fund	\$ 233,238

Changes in endowment net assets for the year ended September 30, 2012:

Fair Value, September 30, 2012	\$ 184,886
Gifts	22,987
Investment return:	
Investment income	1,213
Realized gains	6,320
Unrealized gains	9,997
Management fees	(2,165)
Total investment return	15,365
Endowment net assets, end of year	\$ 223,238

RURAL CALIFORNIA BROADCASTING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 11      LEASE COMMITMENTS

Operating Leases - Land

KRCB leases land in Geyserville from a private party on which it has constructed a small building to house a radio transmitter and associated equipment. The original lease agreement provided for annual rent of \$1,800 payable in two equal installments in December and June and expired in June 2003. During the year ended September 30, 2003, the lease was renewed for an additional ten-year term and established rent at \$2,150 per year for the initial four years, \$2,210 for years five through seven and \$2,225 for years eight through ten.

KRCB also leased space on a tower in Santa Rosa for translator 90.9 for \$200 per month with annual CPI adjustments (current rent is \$244 per month). The original term expired in April 2004. KRCB has exercised the second of two five-year options with current expiration of April 2014.

KRCB's television transmitting equipment is located on Sonoma Mountain. The site is leased from the County of Sonoma and requires no rent. The original lease term expired in September 2004 and was extended for additional ten years to September 2014.

Annual minimum lease payment required under operating leases of land for the next five years and thereafter as follows:

Year ending September 30:

2014	\$ 5,186
2015	5,720

Rental expenses, net of in-kind rent, for the period ending September 30, 2013 is \$5,183.

NOTE 12      EBS AND TOWER LEASE INCOME

FCC regulations provide KRCB opportunities to lease certain of their bandwidth rights to commercial service providers interested in deploying wireless broadband services. In December 2006, KRCB signed a 30 year lease with scheduled payments which commenced in that year. KRCB received approximately \$288,000 in lease income for the year ended September 30, 2013.

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NOTE 12      EBS AND TOWER LEASE INCOME, continued

KRCB also sub-leases a portion of land for telecommunications use. Under the agreement, the third party will pay KRCB rent of \$679 per month with the annual increases based on the Consumer Price Index (CPI) for a period of five years from the date of commencement of necessary facilities by the third party. The agreement provides for four additional five-year renewal options to be held by the lessor. KRCB received approximately \$8,148 in lease income for the year ended September 30, 2013.

KRCB sub-leases part of their land to a third party under an agreement which expires in July 2016 and provides for two additional five-year renewal option. KRCB received approximately \$71,267 in lease income during the year ended September 30, 2013.

Annual lease payments expected for the next five years and thereafter as follows:

Year ending September 30:

2014	\$ 363,701
2015	359,627
2016	389,720
2017	336,000
2018	330,000
Thereafter	9,972,000

NOTE 13      COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, non-profit and grant-making organization responsible for funding more than 1,000 public television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public broadcasting stations in order to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act of 1934U.S.C. 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act the television's CSG and a portion of the radio's CSG may be used at the discretion of the recipients. KRCB uses these funds for purposes relating primarily to the production and acquisition of programming.

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NOTE 13      COMMUNITY SERVICE GRANT, continued

These funds are reported on the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. Their guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with Federal Communication Commission. The remaining portion of the radio CSG must be used as specified in Section 369(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 need of a national audience. This portion of the grant is presented as an increase in temporarily restricted net assets and will be reclassified to unrestricted net assets when the "purpose" restriction is satisfied. If the restriction is satisfied in the reporting period in which the grant is recognized, it is presented as an increase in the unrestricted net assets.

NOTE 14      DONATED SERVICES

During the year ended September 30, 2013, the value of contributed services meeting the requirements for recognition in the financial statements amounted to \$81,290. The donations are recognized in the accompanying statements of activities.

In addition, many individuals volunteer their time and perform a variety of tasks that assist KRCB in meeting its program objectives, but do not meet the requirements for recognition in the financial statements. During the years ended September 30, 2013, KRCB received more than 20,000 volunteer hours.

NOTE 15      BENEFICIAL INTEREST IN ENDOWMENT

An endowment fund of \$125,000 has been established at the Community Foundation Sonoma County whereby KRCB is the beneficiary of the income earned by the endowment. In accordance with the agreement, the annual net earnings from the fund are gifted to KRCB by the Community Foundation Sonoma County, according to a formula set by the Foundation. The net assets of this fund are fully available to KRCB upon application to the Foundation. At September 30, 2013, the value of the assets held at the Foundation for KRCB totaled \$223,238.

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NOTE 16      TAX DEFERRED ANNUITY PLAN

KRCB provides a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code (IRS). Employees may make contributions to the plan up to the maximum amount allowed by the IRS if they wish. KRCB does not make any contributions to the plan.

NOTE 17      SUBSEQUENT EVENTS

KRCB has evaluated subsequent events through January 15, 2014, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to September 30, 2013 that would have a material impact on the KRCB's results of operations or financial position.