CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

CAPITAL PUBLIC RADIO, INC.

CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Capital Public Radio, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Public Radio, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 18 to the consolidated financial statements, Capital Public Radio Endowment, Inc. and Tower 91, Inc. were deconsolidated from these financial statements during 2013. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013, on our consideration of Capital Public Radio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital Public Radio, Inc.'s internal control over financial reporting and compliance.

Propp Christensen Caniglia LLP

September 23, 2013
Roseville, California

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	$ 1,180,389	$ 584,617
Contributions receivable, net	530,904	544,901
Accounts receivable, net	375,337	251,611
Capital Campaign receivable, net	24,581	24,581
Other receivables	165,116	18,610
Prepaid expenses	48,686	32,239
Total current assets	2,325,013	1,456,559
Endowment	-	1,128,719
Donated artwork	35,025	35,025
Broadcast license	4,933,842	4,933,842
Deposits	89,474	63,726
Property and equipment, net	1,400,209	1,195,915
Total assets	$ 8,783,563	$ 8,813,786

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities:		
Accounts payable	$ 135,308	$ 105,703
Accrued interest payable	-	109,312
Accrued vacation	200,733	165,956
Retirement plan payable	10,459	9,166
FSA / HRA / HSA payable	3,166	1,673
Unearned revenue	94,526	9,095
Note payable, current portion	97,818	-
Capital lease obligation, current portion	135,564	118,825
Total current liabilities	677,574	519,730
Note payable, less current portion	603,357	-
Capital lease obligation, less current portion	2,160,802	2,323,907
Total liabilities	3,441,733	2,843,637
Net assets:		
Unrestricted:		
General operating	3,781,464	3,494,364
Designated:		
Investment in property and equipment	1,400,209	1,128,326
Donated artwork	35,025	35,025
Endowment	-	370,679
Temporarily restricted:		
Grant	125,132	116,126
Endowment	-	201,041
Permanently restricted:		
Endowment	-	556,999
Tower 91	-	67,589
Total net assets	5,341,830	5,970,149
Total liabilities and net assets	$ 8,783,563	$ 8,813,786

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, 2013 and 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Revenue and support:				
Listener contributions	$ 4,001,758	$ -	$ -	$ 4,001,758
Grant funding	460,226	772,700	-	1,232,926
Advertising and underwriting	2,491,519	-	-	2,491,519
Fundraising	389,313	-	-	389,313
Rental income	141,176	-	-	141,176
Bequest contributions	36,674	-	-	36,674
Endowment donations	-	-	7,865	7,865
Other revenue	27,244	-	-	27,244
Interest and dividends	2,159	21,968	-	24,127
Net realized and unrealized gain on investments	-	97,644	-	97,644
Non-cash:				
CSUS administrative support	1,429,873	-	-	1,429,873
In-kind donations	835,216	-	-	835,216
Total revenue and support	9,815,158	892,312	7,865	10,715,335
Net assets released from restriction:				
Endowment fee	4,420	(4,420)	-	-
Grant expenditures	763,694	(763,694)	-	-
Total net assets released from restrictions	768,114	(768,114)	-	-
Total revenue and support and net assets released from restrictions	10,583,272	124,198	7,865	10,715,335
Expenditures:				
Programs:				
Programming and production	4,739,447	-	-	4,739,447
Broadcasting	1,876,311	-	-	1,876,311
Marketing and promotion	655,025	-	-	655,025
Support:				
Membership development	1,518,177	-	-	1,518,177
Management and general	1,235,329	-	-	1,235,329
Total expenditures	10,024,289	-	-	10,024,289
Change in net assets before deconsolidation	558,983	124,198	7,865	691,046
Effect of deconsolidation:				
Tower 91, Inc.	-	-	(67,589)	(67,589)
Capital Public Radio Endowment, Inc.	(370,679)	(316,233)	(564,864)	(1,251,776)
Change in net assets	188,304	(192,035)	(624,588)	(628,319)
Net assets, beginning of year	5,028,394	317,167	624,588	5,970,149
Net assets, end of year	$ 5,216,698	$ 125,132	$ -	$ 5,341,830

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, 2013 and 2012

	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
Total revenue and support	9,039,360	476,463	2,620	9,518,443
Net assets released from restriction:				
Endowment fee	5,113	(5,113)	-	-
Grant expenditures	414,274	(414,274)	-	-
Total net assets released from restrictions	419,387	(419,387)	-	-
Total revenue and support and net assets released from restrictions	9,458,747	57,076	2,620	9,518,443
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
Total expenditures	8,859,123	-	-	8,859,123
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	$ 5,028,394	$ 317,167	$ 624,588	$ 5,970,149

CAPITAL PUBLIC RADIO, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2013 and 2012

	Programming and Production	Broadcasting	Marketing and Promotion	Membership Development	Management and General	2013 Total
Personnel	$ 1,742,069	$ 832,188	$ 272,486	$ 442,299	$ 580,158	$ 3,869,200
Professional fees	72,485	15,348	4,115	7,617	43,208	142,773
Commissions	-	30,580	-	-	30,580	61,160
In-kind	1,139,975	404,531	113,254	333,394	273,935	2,265,089
Printing and supplies	1,258	-	12,017	56,056	42,120	111,451
Telephone	12,071	57,137	-	23,354	8,743	101,305
Telemarketing	-	-	-	36,805	-	36,805
Postage and freight	-	-	22,705	14,392	13,805	50,902
Travel and training	59,543	18,420	17,126	42,103	64,443	201,635
Recruiting	-	-	-	-	1,789	1,789
Advertising	-	-	124,807	-	-	124,807
Utilities	17,836	165,879	5,351	3,567	3,567	196,200
Repairs and maintenance	57,077	60,644	19,620	10,702	12,486	160,529
Program acquisition	1,213,340	-	-	-	-	1,213,340
Dues and subscriptions	12,751	-	9,661	5,303	12,748	40,463
Bank charges	-	-	-	77,999	2,450	80,449
Bad debt	-	-	-	28,333	20,318	48,651
Outside services	-	-	27,092	256,329	21,147	304,568
Computer	139,964	14,641	-	41,266	4,632	200,503
Premiums	-	-	-	66,279	-	66,279
Rent	151,974	133,879	10,624	31,872	32,797	361,146
Depreciation	81,995	29,518	8,199	24,598	12,677	156,987
Insurance	30,372	10,934	3,037	9,112	7,288	60,743
Interest	-	101,407	-	-	13,092	114,499
Miscellaneous	6,737	1,205	4,931	6,797	33,346	53,016
Total functional expenses	$ 4,739,447	$ 1,876,311	$ 655,025	$ 1,518,177	$ 1,235,329	$ 10,024,289

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, 2013 and 2012

	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	$ 4,225,028	$ 1,503,518	$ 709,960	$ 1,382,270	$ 1,038,347	$ 8,859,123

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ (628,319)	$ 659,320
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	156,987	161,113
Effect of deconsolidation - Capital Public Radio Endowment, Inc.	1,251,776	-
Effect of deconsolidation - Tower 91, Inc.	67,589	-
Net realized and unrealized (gains) losses	(97,644)	(18,186)
Donated equipment	-	(16,040)
Provision for bad debt	48,651	36,951
Underwriting trade - purchase of broadcast license	9,095	(219,120)
Changes in operating assets and liabilities:		
Contributions receivable	13,997	48,371
Accounts receivable	(172,377)	21,582
Other receivables	(146,506)	11,635
Prepaid expenses	(16,447)	5,006
Deposits	(25,748)	(3,964)
Accounts payable	29,605	(236,293)
Accrued interest payable	(109,312)	(5,047)
Accrued vacation	34,777	14,760
Other employee benefits payable	2,786	1,003
Unearned revenue	76,336	-
Net cash provided by operating activities	495,246	461,091
Cash flows from investing activities:		
Purchases of investments	(40,972)	(484,246)
Net proceeds from sale of investments	15,559	364,665
Cash paid for purchase and construction of property and equipment	(428,870)	(270,249)
Net cash used in investing activities	(454,283)	(389,830)
Cash flows from financing activities:		
Proceeds from note payable	750,000	-
Principal payments on note payable	(48,825)	-
Proceeds from short-term note payable	150,000	-
Principal payments on short-term note payable	(150,000)	-
Principal payments on capital lease obligation	(146,366)	(112,770)
Net cash provided by (used in) financing activities	554,809	(112,770)
Net change in cash and cash equivalents	595,772	(41,509)
Cash and cash equivalents, beginning of year	584,617	626,126
Cash and cash equivalents, end of year	$ 1,180,389	$ 584,617
Supplementary disclosure of cash flow information:		
Interest paid	$ 114,499	$ 135,894
Supplementary schedule of non-cash investing and financing activities:		
Donated equipment	$ -	$ 16,040

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

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.

Through February 2013, Capital Public Radio Endowment, Inc. (the "Endowment"), Tower 91, Inc., and certain assets of CSUS were consolidated into the Station's financial statements because they met 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 exercised control through common members and appointment of members of the boards of directors of the related entities and had 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. Previously, the Endowment's sole purpose was to provide funding for the Station and the Station was the only beneficiary of the Endowment, according to the Endowment's by-laws. During 2013, the by-laws were changed to allow for the Endowment to provide funding to other entities. Other changes were made to the board structure to provide a more clear determination that the Station cannot exercise control over the Endowment.

- 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. During 2013, Tower 91, Inc. was dissolved and all assets were transferred to Capital Public Radio Endowment, Inc.

- 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. As of June 30, 2013, Capital Public Radio Endowment, Inc. and Tower 91, Inc. were deconsolidated from these financial statements.

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 net assets, temporarily restricted net assets and permanently restricted net assets.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)
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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2013 and 2012, The Station's uninsured cash balance totaled $754,065 and $361,994, 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 was originally 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.

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 its 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 its 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 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.

The Endowment was deconsolidated from these financial statements during 2013.

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.

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.

Subsequent Events
Events and transactions have been evaluated for potential recognition or disclosure through September 23, 2013, the date that the financial statements were available to be issued.

NOTE 3: LINE OF CREDIT

At June 30, 2013 and 2012, 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.

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, 2013 and 2012.

NOTE 4: CONTRIBUTIONS AND ACCOUNTS RECEIVABLE

Contributions and accounts receivable consist of the following at June 30, 2013 and 2012.

	2013	2012
Contributions receivable	$ 730,854	$ 731,647
Less allowance for contributions receivable	(199,950)	(186,746)
Contributions receivable, net	$ 530,904	$ 544,901
Accounts receivable	$ 378,306	$ 253,787
Less allowance for accounts receivable	(2,969)	(2,176)
Accounts receivable, net	$ 375,337	$ 251,611
Accounts receivable - other	$ 14,984	$ 18,610
Accounts receivable - grants	150,132	-
Other accounts receivable	$ 165,116	$ 18,610

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, 2013 and 2012, consisted of the following:

	2013	2012
Receivable in less than one year	$ 46,028	$ 46,028
Less allowance for uncollectible promises receivable	(21,447)	(21,447)
Net unconditional promises to give	$ 24,581	$ 24,581

NOTE 6: ENDOWMENT

During 2013, the Endowment was deconsolidated from these financial statements and as such, the June 30, 2013 balances are not presented. At June 30, 2012, the Endowment consisted of the following:

	Cost	Market Value
Money accounts	$ 5,083	$ 5,083
Stocks	762,125	927,389
Corporate fixed income	188,659	196,247
Total Endowment	$ 955,867	$ 1,128,719

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, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 restrictions	5,113	(5,113)	-	-
Expenditures	(5,113)	-	-	(5,113)
Balance, June 30, 2012	370,679	201,041	556,999	1,128,719
Donor contributions	-	-	7,865	7,865
Interest and dividends	-	21,968	-	21,968
Net realized and unrealized gain/loss	-	97,644	-	97,644
Released from restrictions	4,420	(4,420)	-	-
Expenditures	(4,420)	-	-	(4,420)
Deconsolidation	(370,679)	(316,233)	(564,864)	(1,251,776)
Balance, June 30, 2013	$ -	$ -	$ -	$ -

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:

	Fair Values as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Endowment fund:				
Stocks	$ 927,389	$ -	$ -	$ 927,389
Corporate fixed income	196,247	-	-	196,247
Total	$ 1,123,636	$ -	$ -	$ 1,123,636

There were no assets or liabilities valued at fair value on a recurring basis as of June 30, 2013.

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.

NOTE 8: BROADCAST LICENSE PURCHASE (CONTINUED)

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, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Land	$ -	$ 67,589
Tower	1,218,024	1,245,790
Engineering and production	1,478,089	2,178,893
Office equipment	263,246	422,104
Computer equipment	524,230	622,874
Expansion projects	425,821	152,620
Leasehold improvements	172,528	174,401
	4,081,938	4,864,271
Less accumulated depreciation and amortization	(2,681,729)	(3,668,356)
Total property and equipment	$ 1,400,209	$ 1,195,915

NOTE 10: NOTE PAYABLE

During 2013, the Station entered into a financing agreement with CSUS in the original amount of $750,000 for the construction of a new tower to broadcast KXPR. The financing agreement provides for an interest rate of 3.5% per annum with quarterly principal and interest payments of $30,273 for a period of 7 years, maturing in December of 2019. As of June 30, 2013, construction has not yet begun.

Maturities of the note payable in each of the next five years and thereafter are as follows:

Year Ending June 30:	
2014	$ 97,818
2015	101,287
2016	104,836
2017	108,597
2018	112,448
Thereafter	176,189
Total	$ 701,175

NOTE 11: 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:	
2014	$ 214,170
2015	214,170
2016	214,170
2017	214,170
2018	214,170
Thereafter	1,820,445
Total minimum lease payments	2,891,295
Less amount representing interest	(594,929)
Principal balance due on obligations under capital leases as of June 30, 2013	2,296,366
Less current portion	(135,564)
Total long-term obligations under capital lease	$ 2,160,802

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. Rent expense totaled $361,146 and $410,018, respectively, for the years ended June 30, 2013 and 2012.

Future minimum lease payments at June 30, 2013, under agreements classified as operating leases with noncancelable terms are as follows:

Year Ending June 30:	
2014	$ 380,413
2015	376,573
2016	320,068
2017	319,603
2018	383,280
Thereafter	3,894,288
Total minimum lease payments	$ 5,674,225

NOTE 11: LEASE COMMITMENTS (CONTINUED)

Operating Leases (Continued)
Rental income on real properties sub-leased to others totaled $141,176 and $134,420, respectively, for the years ended June 30, 2013 and 2012.

Future minimum rental income on real properties sub-leased to others at June 30, 2013, under agreements classified as operating leases with noncancelable terms are as follows:

Year Ending June 30:	
2014	$ 136,914
2015	127,094
2016	79,018
2017	79,414
2018	79,822
Thereafter	202,455
Total minimum rental income	$ 704,717

NOTE 12: RELATED PARTY TRANSACTIONS

Included in accounts receivable at June 30, 2013, is $1,012 due from CSUS and related auxiliaries for program underwriting. For the years ended June 30, 2013 and 2012, revenue received from CSUS and related auxiliaries for underwriting was $26,890 and $28,339, respectively.

Included in accounts payable and accrued interest at June 30, 2012, is $128,556, payable to CSUS. During the years ended June 30, 2013 and 2012, the Station incurred expenses of $162,821 and $245,767 for office building maintenance and various services provided by CSUS, respectively. The Station paid $212,481 and $258,748 to the Board of Trustees of CSUS for office building rent, during the years ended June 30, 2013 and 2012, 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, which were amended in 2013, provide for a long-term capital lease financing arrangement between the Station and CSUS, which requires the repayment of $3,000,000, at 3.5% interest, in annual installments over a period of 18 years (Note 11). During the year ended June 30, 2013, the Station paid $303,543 to CSUS in debt service relating to the Agreement. This included $146,366 in principal payments and $157,177 in interest. 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.

The Station entered into a financing agreement for the construction of the new KXPR tower (Note 10). The agreement provides for repayment of $750,000 over a seven year period at 3.5% interest. During the year ended June 30, 2013, the Station paid $60,546 to CSUS in debt service relating to this financing agreement. This included $48,825 in principal payments and $11,721 in interest payments.

NOTE 13: GRANTS

The following is a list of the grants received during the years ended June 30, 2013 and 2012:

	2013	2012
Corporation for Public Broadcasting:		
Community service grant	$ 587,238	$ 601,718
Cable grant	17,875	35,125
NTIA grant	296,448	5,964
Environmental reporting grants	53,267	79,125
Healthcare reporting grants	269,715	189,374
Other grants	8,383	14,400
Total	$ 1,232,926	$ 925,706

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 14: NON-CASH SUPPORT AND EXPENDITURES

Administrative Support
During the fiscal years ending June 30, 2013 and 2012, 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, 2013 and 2012, donated services in the amount of $1,429,873 and $1,197,325, respectively, are reported as revenue and expense in the accompanying statement of activities.

In-kind Donations
During the years ended June 30, 2013 and 2012, the value of contributed materials, facilities and services meeting the requirements for recognition in the financial statements amounted to $835,216 and $808,304, respectively. The in-kind donations are reported as revenue and expense in the accompanying statement of activities. In-kind donations capitalized for the year ended June 31, 2012, totaled $16,040. No in-kind donations were capitalized for the year ended June 30, 2013.

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, 2013 and 2012, the Station received approximately 1,383 and 2,560 in volunteer hours, respectively.

NOTE 15: FUND-RAISING EXPENSES

Total fund-raising expenses for the years ending June 30, 2013 and 2012, were $1,518,177 and $1,382,270, respectively.

NOTE 16: 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, 2013 and 2012, were $116,035 and $95,589, respectively.

NOTE 17: 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, 2013 and 2012, 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.

NOTE 18: DECONSOLIDATION

FASB ASC 958-810 requires consolidation of nonprofit organizations related to one another by means of ownership, control and/or economic interest. Through February 2013, the Station exercised control of both Tower 91, Inc. ("Tower 91") and Capital Public Radio Endowment, Inc. (the "Endowment") through common members and the ability to appointment members of the boards of directors of these entities and had an economic interest as the sole beneficiary of their assets and resources

In February 2013, deconsolidation was determined to be necessary as a result of the following:

- Tower 91 was dissolved by Board action at the end of February 2013, and all remaining assets were transferred to the Endowment.
- The Endowment voted to change its bylaws, allowing for financial support to any organization meeting the Endowment's mission. Prior to the change, the bylaws only allowed for support to the Station.
- The Endowment's Board entered into a professional services agreement with the Station to provide financial management, furthering their stated intention for a distinct separation between the two entities.

FASB ASC 958-810 requires that when deconsolidation occurs, a gain or loss should be recorded on the consolidated statement of activities for the difference between the carrying amount of the assets and liabilities of the former consolidated entity. At the time of deconsolidation, there were no liabilities carried on the Station's financial statements, and the loss is accounted for as the total assets carried for Tower 91, Inc., and Capital Public Radio Endowment, Inc., totaling $67,589 and $1,251,776, respectively.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Capital Public Radio, Inc., a nonprofit organization, which comprise the consolidated statements of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Capital Public Radio, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Capital Public Radio, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Capital Public Radio, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Public Radio, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Capital Public Radio, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital Public Radio, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Propp Christensen Caniglia LLP

September 23, 2013
Roseville, California