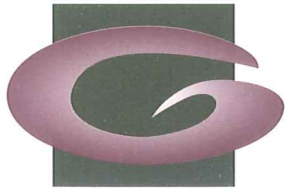


KVIE, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2009 AND 2008**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
KVIE, Inc.
Sacramento, California

We have audited the accompanying statements of financial position of KVIE, Inc., (Station) as of June 30, 2009 and 2008, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KVIE, Inc., as of June 30, 2009 and 2008, and the changes 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 23, 2009

KVIE, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 1,178,430	\$ 1,847,193
Accounts receivable, net	157,269	241,645
Membership and contributions receivable, net	434,414	582,739
Inventory	35,909	60,626
Government grants receivable	143,408	
Program broadcast rights, current portion	906,718	860,629
Prepaid expenses and deposits	139,331	180,630
Asset held for sale	469,736	
Other current assets	27,566	12,304
Total current assets	<u>3,492,781</u>	<u>3,785,766</u>
NONCURRENT ASSETS:		
Program broadcast rights, net	358,917	356,670
Other assets	397,731	106,183
Investments	794,431	937,448
Property and equipment, net	<u>11,301,023</u>	<u>11,267,404</u>
TOTAL ASSETS	<u>\$ 16,344,883</u>	<u>\$ 16,453,471</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 373,976	\$ 620,679
Accrued expenses	253,211	269,404
Deferred revenue	149,121	304,918
Long-term debt, current portion	<u>106,376</u>	<u>114,472</u>
Total current liabilities	882,684	1,309,473
LONG-TERM DEBT, Net	<u>4,756,737</u>	<u>4,644,346</u>
Total liabilities	<u>5,639,421</u>	<u>5,953,819</u>
NET ASSETS:		
Unrestricted	9,991,771	9,728,805
Temporarily restricted	413,691	470,847
Permanently restricted	300,000	300,000
Total net assets	<u>10,705,462</u>	<u>10,499,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,344,883</u>	<u>\$ 16,453,471</u>

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

KVIE, INC.

STATEMENTS OF ACTIVITIES (Page 1 of 2) YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Membership contributions	\$ 6,362,815	\$ 7,403,117
Less: Direct benefit to donors	<u>(584,227)</u>	<u>(856,015)</u>
Membership contributions, net	5,778,588	6,547,102
Grants and other contributions	3,277,785	3,286,942
Production	2,070,500	2,162,302
Underwriting	1,641,749	1,828,630
Rental income	429,708	156,095
Creative services	481,022	491,579
Government grants	143,408	
Special events	125,265	149,292
Other revenue	124,440	172,980
Net assets released from restriction	<u>423,419</u>	<u>131,268</u>
Total revenues and support	<u>14,495,884</u>	<u>14,926,190</u>
EXPENSES:		
Program services:		
Programming and production	6,833,674	6,628,654
Program information and promotion	1,672,808	1,831,669
Broadcasting	<u>1,126,938</u>	<u>1,165,273</u>
Total program services	<u>9,633,420</u>	<u>9,625,596</u>
Supporting services:		
Fundraising and membership development	2,505,375	3,105,061
Management and general	<u>1,827,276</u>	<u>1,885,461</u>
Total supporting services	<u>4,332,651</u>	<u>4,990,522</u>
Total expenses	<u>13,966,071</u>	<u>14,616,118</u>
INCOME FROM OPERATIONS	529,813	310,072
Interest and investment income (loss)	(114,204)	3,938
Loss from impairment of property and equipment	<u>(152,643)</u>	<u> </u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>262,966</u>	<u>314,010</u>

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

KVIE, INC.

STATEMENT OF ACTIVITIES (Page 2 of 2) YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and other contributions	\$ 361,263	\$ 268,105
Membership contributions	5,000	110,357
Net assets released from restriction	<u>(423,419)</u>	<u>(131,268)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(57,156)</u>	<u>247,194</u>
INCREASE IN NET ASSETS	205,810	561,204
NET ASSETS, Beginning of Year	<u>10,499,652</u>	<u>9,938,448</u>
NET ASSETS, End of Year	<u>\$ 10,705,462</u>	<u>\$ 10,499,652</u>

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

KVIE, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 205,810	\$ 561,204
Reconciliation to net cash and equivalents provided by operating activities:		
Depreciation and amortization	1,279,372	1,092,147
Net realized and unrealized loss on investments	157,676	70,741
Loss from impairment of property and equipment	152,643	
Donated property and equipment		(191,056)
Changes in:		
Accounts receivable	84,376	(52,419)
Membership and contributions receivable, net	148,325	46,592
Government grants receivable	(143,408)	
Inventory	24,717	(30,117)
Program broadcast rights	(48,336)	(41,306)
Prepaid expenses and deposits	41,299	51,340
Other assets	(306,810)	42,816
Accounts payable	(246,703)	101,288
Accrued expenses	(16,193)	(100,460)
Deferred revenue	<u>(155,797)</u>	<u>85,249</u>
Net cash and equivalents provided by operating activities	<u>1,176,971</u>	<u>1,636,019</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(36,054)	(249,308)
Proceeds from sale of investments	21,395	21,073
Purchases of property and equipment	<u>(1,935,370)</u>	<u>(1,369,369)</u>
Net cash and equivalents used by investing activities	<u>(1,950,029)</u>	<u>(1,597,604)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	207,040	4,692,960
Repayment of long-term debt	<u>(102,745)</u>	<u>(4,874,838)</u>
Net cash and equivalents provided (used) by financing activities	<u>104,295</u>	<u>(181,878)</u>
DECREASE IN CASH AND EQUIVALENTS	(668,763)	(143,463)
CASH AND EQUIVALENTS, Beginning of Year	<u>1,847,193</u>	<u>1,990,656</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 1,178,430</u>	<u>\$ 1,847,193</u>
SUPPLEMENTAL ACTIVITY:		
Cash paid for interest	<u>\$ 333,300</u>	<u>\$ 468,377</u>

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

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

KVIE, Inc., (Station) is a nonprofit corporation which was incorporated in 1955 under the laws of the State of California. Its purpose is to provide educational television programming to the North Central California area. Following is a description of the Station's primary programs:

- **Programming and production** consists of the selection of programs to be aired by the Station, and the production of content by the Station to be aired locally and nationally in the Public Broadcasting Service.
- **Program information and promotion** relates to providing viewers with information about the Station's programming, local productions, events, and other mission-related services.
- **Broadcasting** is related to the transmission of the Station's content to viewers through various media, including over-the-air broadcasting, cable, satellite, and the Internet.

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Station reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – Membership revenues and other contributions are recognized in full when received or unconditionally promised, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the *Statement of Activities* as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Production revenues consist of sponsorship revenue for production cost of programs produced by the Station. These revenues are recorded as exchange transactions, with revenue being recognized based on percentage of production completion of the program sponsored.

Underwriting revenues relate to station sponsorships where the donor is recognized adjacent to programming on the Station. These revenues are recorded as exchange transactions, with revenue recognized over the life of the underwriting contract.

Creative services revenue consists of fees for production services provided by the Station to outside parties. These revenues are recorded as services are performed.

Government grant revenue is recognized when qualifying expenses are incurred.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

Donations – Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair market values at the date of donation.

Donated services are recognized as contributions in accordance with SFAS No. 116, 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 is not recognized as contribution income in the financial statements since the recognition criteria under SFAS No. 116 are not met.

Cash and equivalents – The Station considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents, unless designated for long-term purposes.

The Station maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Station has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash deposits.

Asset held for sale is a piece of broadcast equipment that is no longer in use and is held for sale as of June 30, 2009.

Program broadcast rights – Program series and other syndicated products are recorded at the lower of unamortized cost or estimated net realizable value. Generally, these programs and products are amortized on the straight-line basis over the period of the license agreement.

Investments are stated at fair value based on quoted market prices and held for long-term purposes.

Property and equipment is stated at cost or, if donated, at fair market value on date of receipt. The Station provides for depreciation using the straight-line method over the estimated lives of these assets, which range from 3 to 40 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments that extend the useful lives of assets are capitalized, as are interest costs during the period of construction.

Equipment purchased with grant funds from the National Telecommunications and Information Administration is to revert to that agency if the Station wishes to dispose of the equipment within 10 years from the date of the grant. Such equipment is capitalized and included in property and equipment.

Inventory consists of supplies and membership inducement premiums. Inventory is stated at the lower of cost or market under the first-in, first-out method of valuation.

Functional allocation of expenses – Expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the functional areas based on management's estimates of employees' time incurred and on resource usage.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

Income taxes – 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. The Station has elected to defer the application of Financial Accounting Standards Board (FASB) Interpretation 48, *Accounting for Uncertainty in Income Taxes*, as allowed until July 1, 2009. The Station will evaluate any uncertain tax positions in conjunction with the preparation of their tax returns.

Use of estimates – The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Subsequent events have been reviewed through the issuance date of the audit report.

Reclassifications – Certain 2008 amounts have been reclassified to conform with the 2009 financial statement presentation.

Recent accounting pronouncements – In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of SFAS 157 for financial assets and liabilities on July 1, 2008 did not have a material impact on the Station's statement of financial position or the related statements of activities and of cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS 159 for financial assets and liabilities on July 1, 2008 did not have a material impact on the Station's financial statements as there were no new items selected for fair value presentation.

2. ACCOUNTS RECEIVABLE

Accounts receivable are as follows:

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 171,623	\$ 273,127
Less: Allowance for doubtful accounts	<u>(14,354)</u>	<u>(31,482)</u>
Accounts receivable, net	<u>\$ 157,269</u>	<u>\$ 241,645</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

3. MEMBERSHIP AND CONTRIBUTIONS RECEIVABLE

Membership and contributions receivable are as follows:

	<u>2009</u>	<u>2008</u>
Memberships receivable	\$ 497,340	\$ 563,198
Contributions receivable	60,610	75,589
Less: Allowance for doubtful accounts	<u>(123,536)</u>	<u>(56,048)</u>
Membership and contributions receivable, net	<u>\$ 434,414</u>	<u>\$ 582,739</u>

4. INVESTMENTS

Assets and liabilities measured at fair value are recorded in accordance with SFAS 157, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs in which there is little or no market data, which require the financial statement issuer to develop assumptions.

Investments are classified within level 1 of the fair value hierarchy because they are valued using quoted market prices.

Investments consist of:

	<u>2009</u>	<u>2008</u>
Mutual funds, primarily invested in bond, growth and government funds	\$ 793,835	\$ 934,555
Other investments	<u>596</u>	<u>2,893</u>
Total	<u>\$ 794,431</u>	<u>\$ 937,448</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

Interest and investment income (loss) consist of:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 43,472	\$ 74,679
Net realized and unrealized loss	<u>(157,676)</u>	<u>(70,741)</u>
Total	<u>\$ (114,204)</u>	<u>\$ 3,938</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,392,502	\$ 2,392,502
Buildings	8,492,150	8,308,058
Broadcast equipment	7,090,935	6,610,895
Production equipment	2,330,833	2,252,394
Office and production furniture and equipment	1,116,531	966,380
Leasehold improvements	431,883	431,883
Vehicles and related equipment	<u>95,903</u>	<u>95,903</u>
Total	21,950,737	21,058,015
Less accumulated depreciation and amortization	<u>(10,649,714)</u>	<u>(9,790,611)</u>
Property and equipment, net	<u>\$ 11,301,023</u>	<u>\$ 11,267,404</u>

Office and production furniture and equipment includes assets acquired under capital leases in the amount of \$215,201 for both 2009 and 2008, respectively.

The federally mandated transition to digital broadcasting technology, which occurred on June 12, 2009, caused several assets held by the Station to become impaired as of June 30, 2009. The Channel 6 Analog Antenna, which had a net book value of \$114,291 prior to impairment, had a fair value of \$0 as of June 30, 2009 due to the fact that analog technology will no longer be used for broadcast television after the digital transition. The Channel 53 Digital Antenna, which had a net book value of \$38,352 prior to impairment, had a fair value of \$0 as of June 30, 2009 due to the fact that no television station broadcasts over-the-air on the channel 53 frequency after the digital transition.

In addition to the above impaired assets, the Channel 53 Digital Transmitter was classified as held for sale as of June 30, 2009. The Station discontinued use of the transmitter on June 12, 2009 as a result of the digital transition, during which the Station's digital frequency changed to channel 9. The net book value of the transmitter as of June 30, 2009 was \$469,736. The Station estimates the fair value of the asset to be \$525,000 based on industry knowledge.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

The federal government currently holds a 3-to-1 interest in both the Channel 53 Antenna and the Channel 53 Digital Transmitter. Due to the unusual nature of the circumstances surrounding the impairment and potential sale of these assets, respectively, it is unknown at this time if or how the government would exercise its interest in the assets.

6. LINE OF CREDIT

The Station has a \$500,000 revolving line of credit with a bank, payable in one installment of principal and interest accrued at 5.75% per annum, maturing on February 15, 2010. There were no amounts outstanding on this line of credit at June 30, 2009 and 2008.

7. LONG TERM DEBT

Long-term debt is as follows:

	<u>2009</u>	<u>2008</u>
Promissory note, secured by the Station's building, payable in monthly payments ranging from \$29,284 to \$33,404 including interest at 7.02%, with a final payment of \$4,160,891 due August 1, 2017.	\$ 4,794,514	\$ 4,644,297
Capital lease obligations relating to production and office equipment.	<u>68,599</u>	<u>114,521</u>
Total	4,863,113	4,758,818
Less current portion	<u>(106,376)</u>	<u>(114,472)</u>
Long-term debt, net	<u>\$ 4,756,737</u>	<u>\$ 4,644,346</u>

Maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	
2010	\$ 106,376
2011	77,061
2012	73,669
2013	74,887
2014	80,931
Thereafter	<u>4,450,189</u>
Long-term debt	<u>\$ 4,863,113</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

On August 1, 2007, the Station finalized the transactions to defease its obligations under its Public Television Facility Revenue Bonds, Series 1997. A final principal and interest payment of \$4,301,434 was paid in full during 2008. In addition, a prepayment penalty of \$90,900 was paid with the defeasance.

Total interest expense was \$361,348 and \$342,320 for 2009 and 2008, respectively.

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Equipment	\$ 220,033	\$ 344,893
Education	135,160	68,540
Programming	46,738	52,579
Other	<u>11,760</u>	<u>4,835</u>
Total	<u>\$ 413,691</u>	<u>\$ 470,847</u>

Permanently restricted net assets are comprised of donor-restricted endowment funds to be used to support the ongoing operations of the Station. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Station classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) 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. Permanently restricted net assets as of June 30, 2009 and 2008, consist of one endowment fund that is invested in perpetuity with interest and dividends to be used for operating purposes. There were no contributions, restricted investment earnings, or distributions made from the fund in 2009 and 2008.

The endowment investment policy, approved by the Board of Directors, emphasizes preservation of the principal balance as its primary objective and growth and income as secondary objectives.

Board-restricted net assets of \$641,579 and \$584,834 at June 30, 2009 and 2008, respectively, have been designated to provide reserves to assure the ability of the Station to meet operating needs on an as-needed basis and do not represent a Board endowment fund.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

9. DONATED SERVICES, MATERIALS AND FACILITIES

The Station received the following donated services, materials and facilities:

	<u>2009</u>	<u>2008</u>
Tower facilities	\$ 360,000	\$ 360,000
Professional services	<u>175,000</u>	<u>30,619</u>
Total donated materials and services	<u>\$ 535,000</u>	<u>\$ 390,619</u>

10. RENTAL INCOME

The Station leases office space to a local not-for-profit university under a non-cancelable operating lease expiring June 30, 2018, with an option to extend for two additional five year periods. Revenue from this agreement will be recognized on the straight-line basis in accordance with SFAS No. 13, *Accounting for Leases*.

Minimum future lease payments to be received under this agreement are as follows:

<u>Year ending June 30:</u>	
2010	\$ 365,056
2011	370,910
2012	339,770
2013	349,618
2014	359,467
Thereafter	<u>1,536,350</u>
Total	<u>\$ 3,321,171</u>

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

11. COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting (CPB) is a private, nonprofit and grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of 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, 47 United States Code Annotated Section 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, funds may be used at the discretion of recipients. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

The grants are reported on the accompanying financial statements as unrestricted operating revenue; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

12. RETIREMENT PLAN

The Station has a defined contribution plan. Regular full-time and part-time employees with at least one year of service are eligible to participate. Under the provisions of the plan, the Station contributes 4% of qualified wages when the participant contributes at least 1% monthly. The Station contracts with TIAA/CREF to provide retirement benefits to its employees. All pension plan liabilities are fully funded through individually owned annuity contracts. The obligation for the payment of benefits has been transferred from the Station to TIAA/CREF. The employer retirement plan contributions for the years ended June 30, 2009 and 2008 were \$85,248 and \$118,358, respectively. The Station temporarily suspended the matching provision of the plan effective April 2009.

13. 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 the Creative Services Department, which provides video production facilities and services, is taxable as unrelated business income.

KVIE, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

During the years ended June 30, 2009 and 2008, the Station paid no state income taxes on its unrelated business taxable income. Additionally, unrelated business taxable income as calculated for federal income tax purposes did not exceed the offsetting net operating loss deduction. Accordingly, no federal income taxes were paid during the years ended June 30, 2009 and 2008.

At June 30, 2009, the available net operating loss carryover for federal purposes was as follows:

<u>Year of Organization</u>	<u>Expiration</u>	<u>Net Operating Loss</u>
1995	6/30/10	\$ 13,133
1996	6/30/11	7,859
1997	6/30/12	416
2006	6/30/26	<u>22,913</u>
Total		<u>\$ 44,321</u>