



**KPBS-FM/TV**  
(A Department of San Diego State University)  
Financial Statements  
June 30, 2004  
(With Independent Auditors' Report Thereon)

**KPBS-FM/TV**  
(A Department of San Diego State University)

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**KPMG LLP**  
Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

## **Independent Auditors' Report**

General Manager  
KPBS-FM/TV:

We have audited the accompanying statement of net assets of KPBS-FM/TV (KPBS), a department of San Diego State University (the University), as of June 30, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of KPBS's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of KPBS are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University that is attributable to the transactions of KPBS. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KPBS-FM/TV as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 3, net assets at June 30, 2003 have been restated.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

November 19, 2004

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Management's Discussion and Analysis  
June 30, 2004

**Management's Discussion and Analysis**

This section of the KPBS-FM/TV (the Stations) annual financial report includes Management's Discussion and Analysis of the financial performance of the Stations for the fiscal year ended June 30, 2004. This discussion should be read in conjunction with the financial statements and notes.

**Introduction to the Financial Statements**

The Stations' financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements are supported by notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Stations.

**Statement of Net Assets:** The Statement of Net Assets includes all assets and liabilities. Assets and liabilities are reported on an accrual basis as of the statement date. It also identifies major categories of restrictions on the net assets of the Stations.

**Statement of Revenues, Expenses, and Changes in Net Assets:** The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis.

**Statement of Cash Flows:** The Statement of Cash Flows presents the inflows and outflows of cash for the year and is summarized by operating, noncapital and capital and related financing, and investing activities. The statement is prepared using the direct method of cash flows and, therefore, presents gross rather than net amounts for the year's activities.

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**Analytical Overview**

**Summary**

The following discussion highlights management's understanding of the key financial aspects of the Stations' financial activities as of and for the year ended June 30, 2004. Included are a comparative analysis of current year and prior year activities and balances; a discussion of restrictions of the Stations' net assets; and a discussion of capital assets and long-term debt.

In FY 2004, management of San Diego State University (the University) determined that the Stations met the definition of a governmental entity for financial reporting purposes and that its financial statements should be prepared in accordance with accounting principles applicable to such entities; therefore, as a department of the University, the Stations were required to reflect this change. The Stations' net assets at June 30, 2003 have been restated to reflect this change. Additionally, certain changes in presentation have been made in the FY 2004 financial statements. Refer to note 3 to the financial statements for more information on this restatement.

The Stations' condensed summary of net assets as of June 30, 2004 and 2003 is as follows:

**Condensed Summary of Net Assets**

	<b>June 30</b>	
	<b>2004</b>	<b>2003 (as restated)</b>
Assets:		
Current assets	\$ 4,510,581	5,619,614
Capital assets	11,271,755	12,390,345
Other noncurrent assets	5,905,364	1,666,080
Total assets	21,687,700	19,676,039
Liabilities:		
Current liabilities	2,497,400	5,587,746
Noncurrent liabilities	5,136,619	5,402,016
Total liabilities	7,634,019	10,989,762
Net assets:		
Invested in capital assets, net of related debt	5,887,837	6,733,482
Restricted – nonexpendable	680,217	651,191
Restricted – expendable	1,938,899	1,939,521
Unrestricted	5,546,728	(637,917)
Total net assets	\$ 14,053,681	8,686,277

**Assets**

Total assets increased by approximately \$2 million or 10% from FY 2003 to FY 2004 mostly due to an increase in cash funds held by the University and long-term investments.

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Current assets decreased by approximately \$1.1 million or 20% from FY 2003 to FY 2004 due to a decrease in pledge receivables and program rights. During FY 2004, management reviewed the policy relating to program rights. In the past, the costs of programs purchased for broadcast program rights on the statement of net assets were deferred and amortized based upon the programs' estimated broadcast schedules and relative values of subsequent broadcasts. Public Broadcasting Service (PBS) content has migrated to current events, which have minimal future value. Management determined that such programs no longer have future value and chose to expense the remaining cost in the current year. Additionally, the pledge receivable of \$812,500 at the end of FY 2003 was collected during the current year and there are no remaining pledges at end of FY 2004.

Capital assets decreased by approximately \$1.1 million or 9% from FY 2003 to FY 2004 due to depreciation of approximately \$1.6 million and the offset of the purchase of property and equipment.

Other noncurrent assets increased by \$4.2 million or 254% from FY 2003 to FY 2004 due to an increase in long-term investments. The significant change in fiscal 2004 was primarily due to two contributions totaling over \$7 million to the Stations that management opted to invest in long-term investments.

**Liabilities**

Total liabilities decreased by approximately \$3.4 million or 31% from FY 2003 to FY 2004 mostly due to a decrease in deferred revenue and payment of an amount due to San Diego State University Foundation (SDSU Foundation).

Current liabilities decreased by approximately \$3.1 million or 55% from FY 2003 to FY 2004 principally due to a payment of the amount due to SDSU Foundation and a decrease in deferred revenue. At the end of FY 2004, the Stations no longer owed SDSU Foundation and had a positive cash position.

Noncurrent liabilities decreased by approximately \$265,000 or 5% from FY 2003 to FY 2004 due to the payment of principal on long-term debt and capital leases. During FY 2004, the University refinanced an equipment loan for which KPBS is responsible for a portion of that loan to the University. The loan term was extended by three years, the interest rate was reduced by one hundred and eleven basis points, and the annual payment decreased by \$58,000.

**Net Assets**

Total net assets increased by approximately \$5.4 million or 62% from FY 2003 to FY 2004 due to the two contributions to the Stations, as previously discussed. This increase mainly impacted unrestricted net assets.

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**Restrictions on Net Assets**

Net assets of the Stations include funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction, and the amount:

**Restricted Net Assets**

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
	<b>(as restated)</b>	
Nonexpendable	\$ 680,217	651,191
Expendable:		
Capital campaign	\$ 973,895	1,169,462
Annuity trust agreements	292,592	163,855
Program production and airing	627,054	591,521
Scholarship activities	45,358	14,683
Total restricted expendable net assets	\$ 1,938,899	1,939,521

The capital campaign fund was a result of contributions donated for expenditure of the Gateway building. The capital campaign decreased due to the annual debt service payments from this fund. Annuity trust agreements fluctuate as a result of payments to annuitants, the receipt of new funds, and market fluctuations. The program production and airing increased due to a gift restricted for programming. Scholarship activities increased from market fluctuations.

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The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2004 and 2003 is as follows:

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets**

	Year ended June 30	
	2004	2003 (as restated)
Operating revenues:		
Contributions	\$ 21,442,114	12,979,039
San Diego State University support	7,186,004	6,341,963
Stations-generated support	2,854,888	2,753,949
Other operating revenues	24,082	15,901
Total operating revenues	31,507,088	22,090,852
Operating expenses:		
Program services	18,474,084	15,961,126
Support services	10,057,023	8,264,439
Total operating expenses	28,531,107	24,225,565
Operating income (loss)	2,975,981	(2,134,713)
Nonoperating revenues (expenses):		
Corporation for Public Broadcasting support	2,503,504	2,005,259
Interest expense	(322,901)	(388,416)
Investment income, net	86,325	74,671
Net increase (decrease) in fair value of investments	126,621	(53,819)
Other nonoperating expense	(2,126)	—
Total nonoperating revenues, net	2,391,423	1,637,695
Changes in net assets	5,367,404	(497,018)
Beginning net assets, as restated	8,686,277	9,183,295
Ending net assets	\$ 14,053,681	8,686,277

***Operating Revenues and Expenses***

Operating revenues and expenses come from sources that are connected directly to the Stations' primary business functions.

***Operating Revenues***

Contributions increased by approximately \$8.5 million or 65% from FY 2003 to FY 2004 due to the Stations' success with the vehicle donation program and two bequests. The vehicle donation program generated \$950,000 in gross revenue and over a half million dollars in net revenue. Also, during FY 2004, the Stations' increase in contributions was from two bequests from two members' trusts, whose bequests totaled over \$7 million.



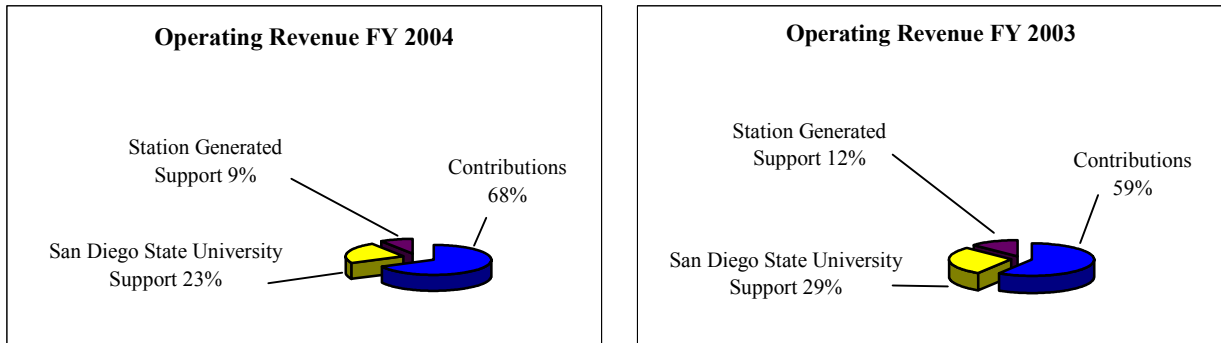
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Support from the University increased by approximately \$844,000 or 13% from FY 2003 to FY 2004. This amount represents direct financial support and indirect support received from the University. Direct financial support received from the University decreased \$24,000 from FY 2003 to FY 2004. Direct support consisted primarily of salaries and benefits, space rental, and utilities. Indirect support received from the University increased \$868,000 from FY 2003 to FY 2004. A portion of the University's general overhead costs relates to and benefits the programs of the Stations. Such costs are allocated primarily based on the proportion of KPBS' expenses to certain costs of the Foundation and the University, which are then applied to certain administration, maintenance, and repair costs of the University. The increase in FY 2004 indirect support is a result of KPBS' proportionate share of operating expenses increasing (see operating expense section below). These services were provided without cost and have been allocated to the Stations. The costs of the services are reported as revenue and expense in the accompanying statements.

Stations generated support increased by approximately \$101,000 or 4% from FY 2003 to FY 2004 due to an increase of revenue for a project supported by four public broadcasting stations in the state of California. The project, California Connected, is a series of TV and radio shows discussing issues facing all Californians.

Other operating revenue increased by approximately \$8,000 or 51% from FY 2003 to FY 2004 due to an increase in the royalties for a program that was in demand abroad.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2004 and 2003:



***Operating Expenses***

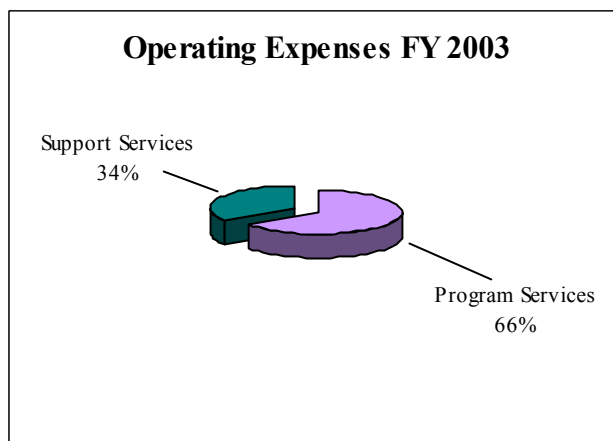
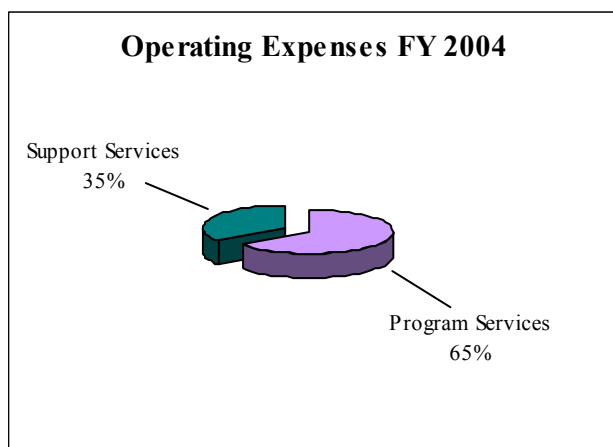
Program service expenses increased by approximately \$2.5 million or 16% from FY 2003 to FY 2004. The program service category contains expenses relating to program and production, broadcasting, and public information. The majority of the increase is related to program and production expenses. A portion of the fluctuation coincides with the related increases discussed previously for San Diego State University support revenue. During FY 2004, the dues for National Public Radio and Public Broadcasting Service increased by approximately 8%.

Support service expenses increased by approximately \$1.8 million or 22% from FY 2003 to FY 2004. Management and general, fund-raising and membership, and underwriting expenses make up the support service category. Underwriting expenses increased due to the vehicle donation program which coincides with the related

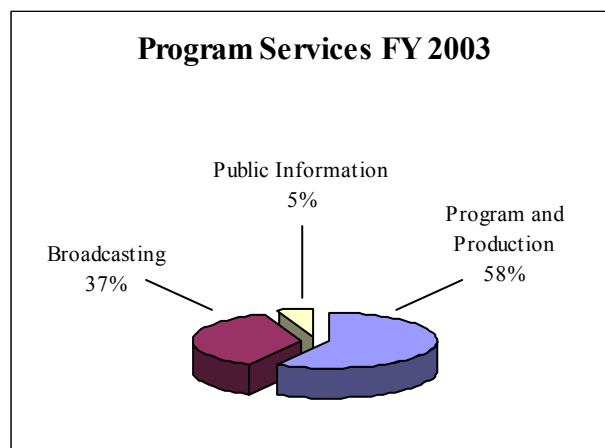
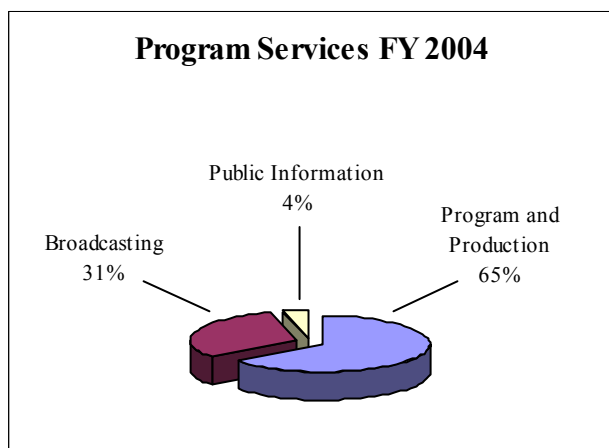
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increase discussed previously in contribution revenue. During FY 2004, the membership department converted to a new database causing an increase in expenses. A portion of the fluctuation coincides with the related increases discussed previously for San Diego State University support revenue.

The following chart presents the distribution of resources in support of the Stations for fiscal years 2004 and 2003:

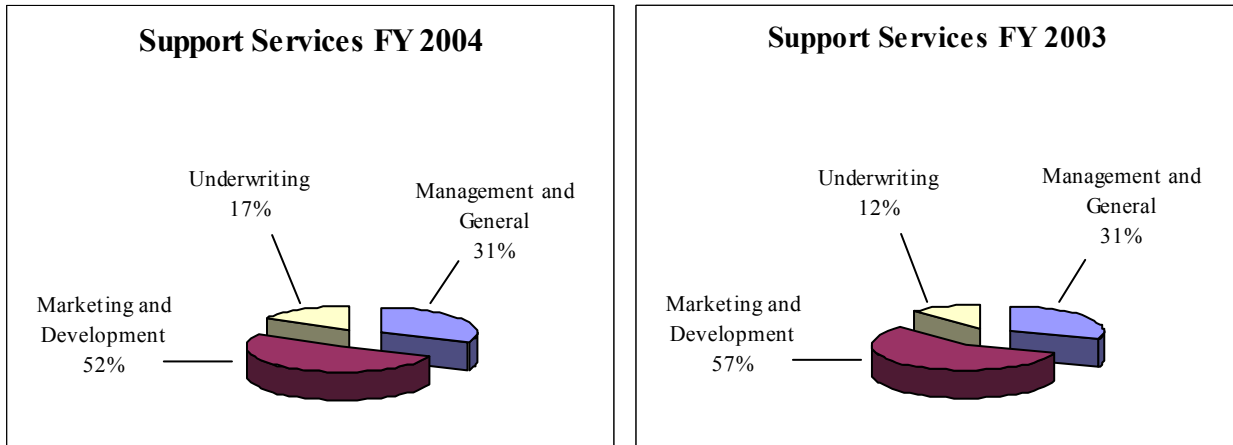


A further breakdown of the program services is provided as follows:



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A further breakdown of the Support Services is provided as follows:



***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses decreased by approximately \$754,000 or 46% from FY 2003 to FY 2004. Nonoperating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are grants received from the Corporation for Public Broadcasting (CPB), investment income, changes in the fair value of investments, and interest expense.

Funding received by the Corporation for Public Broadcasting increased by approximately \$498,000 or 25% from FY 2003 to FY 2004 due to an increase in the Stations' nonfederal financial support. The grants received from CPB are based on nonfederal financial support received during FY 2002. During that year the Stations reported a 25% increase in support.

The net increase in fair value of investments increased by approximately \$180,000 or 335% from FY 2003 to FY 2004 due to ongoing fluctuations in the market value of investments held. Investment income for the Stations increased by approximately \$12,000 or 16% from FY 2003 to FY 2004 due to a positive cash flow. Interest expense decreased by approximately \$66,000 or 17% due to the decrease in the amount due to SDSU Foundation.

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**Capital Assets**

Capital assets, net of accumulated depreciation, are shown below:

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
Building under capital lease	\$ 6,550,178	6,872,318
Studio/broadcast equipment	2,697,847	3,241,967
Furniture and fixtures	518,371	448,910
Transmission/antenna/tower	1,505,359	1,598,584
Work in progress	—	228,565
	\$ 11,271,755	12,390,344

Capital assets decreased by approximately \$1.1 million or 9% from FY 2003 to FY 2004 due to depreciation of approximately \$1.6 million offset by the purchase of property and equipment.

**Long-Term Debt Obligations**

Debt outstanding at June 30, 2004 and 2003 are summarized below by type of debt instrument:

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
Capital lease	\$ 4,429,315	4,559,835
Note payable	954,604	1,097,029
Total	5,383,919	5,656,864
Less current portion	(258,971)	(293,597)
Total long-term debt, net	\$ 5,124,948	5,363,267

Long-term debt decreased by approximately \$273,000 or 5% from FY 2003 to FY 2004 due to the payment of principal on long-term debt. During FY 2004, the University refinanced an equipment loan for which KPBS is responsible for a portion of that loan to the University. The loan term was extended by three years, the interest rate was reduced by one hundred and eleven basis points and the annual payment decreased by \$58,000.

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Statement of Net Assets

June 30, 2004

**Assets**

Current assets:	
Cash funds held by San Diego State University (note 2)	\$ 263,183
Due from San Diego State University Foundation	2,317,909
Accounts receivable (note 5)	1,803,777
Grants receivable	56,737
Prepaid expenses	68,975
Total current assets	4,510,581
Noncurrent assets:	
Accounts receivable (note 5)	136,000
Long-term investments (note 4)	3,140,019
Restricted assets - investments (note 4)	2,619,116
Capital assets, net (notes 6 and 8)	11,271,755
Other assets	10,229
Total noncurrent assets	17,177,119
Total assets	21,687,700

**Liabilities**

Current liabilities:	
Accounts payable	821,028
Accrued expenses	817,964
Deferred revenue	599,437
Note payable to University - current portion (note 7)	122,898
Capital lease obligation to SDSU Foundation - current portion (note 8)	136,073
Total current liabilities	2,497,400
Noncurrent liabilities:	
Note payable to University, net of current portion (note 7)	831,706
Capital lease obligation to SDSU Foundation, net of current portion (note 8)	4,293,242
Other liabilities	11,671
Total noncurrent liabilities	5,136,619
Total liabilities	7,634,019

Commitments (notes 8, 9, 10, and 11)

**Net assets**

Net assets:	
Invested in capital assets, net of related debt	5,887,837
Restricted for:	
Nonexpendable – endowments	680,217
Expendable:	
Capital campaign	973,895
Annuity trust agreements	292,592
Program production and airing	627,054
Scholarship activities	45,358
Unrestricted	5,546,728
Total net assets	\$ 14,053,681

See accompanying notes to financial statements.

**KPBS-FM/TV**  
(A Department of San Diego State University)  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2004

Operating revenues (note 2):	
Contributions	\$ 21,442,114
San Diego State University support:	
Direct financial support	2,212,476
Indirect noncash support	4,973,528
Stations-generated support	2,854,888
Other operating revenues	24,082
	<hr/>
Total operating revenues	31,507,088
	<hr/>
Operating expenses (notes 6, 8, 9, and 10):	
Program services:	
Programming and production	11,954,323
Broadcasting	5,804,091
Program information and promotion	715,670
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Total program services	18,474,084
	<hr/>
Support services:	
Management and general	3,140,975
Fund-raising and membership development	5,208,812
Underwriting	1,707,236
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Total support services	10,057,023
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Total operating expenses	28,531,107
	<hr/>
Operating income	2,975,981
	<hr/>
Nonoperating revenues (expenses):	
Corporation for Public Broadcasting grants	2,503,504
Interest expense (notes 7 and 8)	(322,901)
Investment income, net	86,325
Net increase in fair value of investments	126,621
Other nonoperating expense	(2,126)
	<hr/>
Total nonoperating revenues, net	2,391,423
	<hr/>
Change in net assets	5,367,404
Net assets, beginning of year, as restated (note 3)	8,686,277
Net assets, end of year	\$ <u><u>14,053,681</u></u>

See accompanying notes to financial statements.

**KPBS-FM/TV**  
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Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Contributions	\$ 20,821,887
San Diego State University support	2,212,476
Stations-generated support	2,891,972
Other operating receipts	24,082
Payments to suppliers	(10,310,028)
Payments to employees	(8,878,989)
Administrative fees paid to San Diego State University Foundation	(749,118)
	<hr/>
Net cash provided by operating activities	6,012,282
	<hr/>
Cash flows from noncapital financing activities:	
Amounts received from Corporation for Public Broadcasting Support	2,493,079
Amounts repaid to San Diego State University Foundation	(3,263,789)
	<hr/>
Net cash used in noncapital financing activities	(770,710)
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Cash flows from capital and related financing activities:	
Principal payments on long-term debt and capital lease	(272,945)
Interest paid	(323,284)
Purchase of capital assets	(463,302)
	<hr/>
Net cash used in capital and related financing activities	(1,059,531)
	<hr/>
Cash flows from investing activities:	
Investment income	101,142
Proceeds from sale of investments	100,000
Purchase of investments	(4,120,000)
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Net cash used in investing activities	(3,918,858)
	<hr/>
Net increase in cash and cash equivalents	263,183
Cash and cash equivalents, beginning of year	<hr/> —
Cash and cash equivalents, end of year	\$ <u><u>263,183</u></u>

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Statement of Cash Flows  
Year ended June 30, 2004

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,975,981
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,579,765
(Increase) decrease in assets:	
Accounts receivable	57,296
Pledges receivable	812,500
Grants receivable	201,550
Prepaid expenses	82,247
Program inventory	28,512
Program rights	938,545
Other assets	(10,229)
Increase (decrease) in liabilities:	
Accounts payable	(100,693)
Accrued expenses	136,321
Deferred revenue	(701,184)
Other liabilities	11,671
Net cash provided by operating activities	<u>\$ 6,012,282</u>
Supplemental disclosure of noncash investing activity:	
Increase in fair value of investments	\$ 126,621

See accompanying notes to financial statements.



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Notes to Financial Statements

June 30, 2004

**(1) Organization**

KPBS-FM/TV (the Stations) are engaged in the production and broadcast of public television and radio programs. KPBS-TV is licensed to the board of trustees of The California State University (CSU) for San Diego State University (the University). KPBS-FM is licensed to The State of California on behalf of the University. San Diego State University Foundation (the SDSU Foundation), a not-for-profit California corporation, which is an auxiliary organization of CSU, provides administrative support to the Stations and includes all of the Stations' accounts, except for cash, certain capital assets, the note payable and related interest, and expenses related to certain State employees in its financial statements. KPBS is considered a department of the University. The accompanying financial statements include only KPBS-FM/TV and are not intended to present the financial position or changes in financial position or cash flows of SDSU Foundation or San Diego State University.

**(2) Summary of Significant Accounting Policies**

A summary of the significant accounting policies utilized by the Stations follows:

**(a) *Basis of Accounting and Reporting***

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**(b) *Election of Applicable FASB Statements***

The Stations have elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

**(c) *Classification of Current and Noncurrent Assets and Liabilities***

The Stations consider assets to be current that can reasonably be expected, as a part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(d) *Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash includes funds held by the University. The Stations consider all highly liquid investments with original maturity dates of three months or less to be cash equivalents. The Stations did not have any cash equivalents at June 30, 2004.

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**(e) Cash Funds held by San Diego State University**

The University acts as a collection agent on behalf of the Stations based on an interagency agreement with the Police Officers Standard Training (POST) fund. Funds held by the University represent the payments from POST and are due on demand. Therefore, these amounts are considered cash for the purpose of reporting cash flows.

**(f) Due from San Diego State University Foundation**

The amount of cash SDSU Foundation administers on behalf of the Stations is reported as due from SDSU Foundation on the statement of net assets.

**(g) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with the changes in fair value of investments included in the statement of revenues, expenses, and changes in net assets as nonoperating revenues (expenses). All other investments, which do not have a readily available market price, are carried at cost, which approximates fair value.

**(h) Capital Assets**

Capital assets in excess of \$5,000 are recorded at cost, if purchased, or at fair market value at date of donation, if donated. Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets:

Buildings	30 years
Studio/broadcast equipment	3-7 years
Furniture and fixtures	5 years
Transmission/antenna/tower	3-15 years

The portion of the Gateway Center building that houses the main operating offices for radio, TV, and studios for the Stations has been recorded as a capital lease (see note 8) and is being amortized over the life of the lease. Amortization expense for the Gateway Center is included with depreciation on owned assets.

Property and equipment include certain major items acquired with grants from various governmental agencies. Certain of these agencies maintain a reversionary interest in the items acquired for a period of years subsequent to the grant award.

**(i) Contributions**

Revenue from contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Contributions received in exchange for services are deferred prior to provision of the services.

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Underwriting revenue is recognized as contributions at the time of the pledge, when the underwriting agreement is signed. The underwriting agreement states that the funds are in the form of an unrestricted operating grant.

**(j) *San Diego State University Support***

Direct financial support received from the University for the year ended June 30, 2004 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the year ended June 30, 2004 totaled \$4,973,528. A portion of the University's general overhead costs relates to and benefits the Stations. Such costs are allocated primarily based on the proportion of KPBS' expenses to certain costs of the Foundation and the University, which are then applied to certain administration, maintenance, and repair costs of the University. These services were provided without cost and have been allocated to the Stations. The costs of the services are reported as revenue and expense in the accompanying statements.

**(k) *Corporation for Public Broadcasting Grants***

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grantmaking 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 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; however, each grant must be expended within two years of the initial grant authorization. Over the last three years, the Stations have expended all funds received under CSGs in the year received.

According to the Communications Act, funds may be used at the discretion of recipients for purposes related primarily to the production or acquisition of programming. Also, the grants may be used to sustain activities which were begun with the Community Service Grants awarded in prior years.

The grants are reported in the financial statements as nonoperating revenue. Certain guidelines must be satisfied in connection with the 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. Revenue on these grants is recognized as the funds are received and management's policy is to expend the money in the year received.

**(l) *Net Assets***

The Stations' net assets are classified into the following net asset categories:

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

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**Restricted – nonexpendable:** Net assets subject to externally imposed conditions that require the Stations retain them in perpetuity.

**Restricted – expendable:** Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Stations or by the passage of time.

**Unrestricted:** All other categories of net assets. In addition, unrestricted net assets may be designated for specific purposes by the management of the Stations.

Restricted resources are used in accordance with the Stations' policies. Unrestricted resources are used at the Stations' discretion. When both restricted and unrestricted resources are available for use, it is the Stations' policy to determine on a case-by-case basis when to use restricted or unrestricted resources.

**(m) *Classification of Revenues and Expenses***

The Stations consider operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Stations' primary functions. Certain other transactions are reported as nonoperating revenues and expenses, including CPB grants, interest expense, investment income, changes in the fair value of investments and gains (losses) from the disposal of capital assets.

**(n) *Income Taxes***

The University, as a campus of the CSU, which is an agency of the state of California and is treated as a governmental entity for tax purposes, is generally not subject to federal or state income taxes. The SDSU Foundation is generally exempt from income taxes under Section 501(c)(3) of the IRC and Section 23701d of the California Revenue and Taxation Code. However, both the University and SCSU Foundation are subject to tax on trade or business income earned from an activity which is not in furtherance of their tax-exempt purposes. The Stations are engaged in activities that produce unrelated business income; namely income from debt-financed rental property, sales of certain products and services, and advertising. However, management has determined that a tax liability, if any, for the tax year ended June 30, 2004 is immaterial to the presentation of the financial statements.

**(o) *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues, gains, and other support and expenditures and deductions during the reporting period. Actual results could differ from those estimates.

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**(3) Restatement**

Prior to 2004, the Stations' previously issued financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to nongovernmental entities. In FY 2004, the University management determined that the Stations met the definition of a governmental entity for financial reporting purposes and that its financial statements should be prepared in accordance with accounting principles applicable to such entities; therefore, as a department of the University, the Stations were required to reflect this change. Net assets reported at June 30, 2003 have been restated to reflect the following item impacted by the change in accounting standards:

The Stations are the beneficiary of a trust that is administered by a third-party trustee. Entities reporting under governmental accounting standards can only record endowment gifts that have actually been received. However, under previously applied accounting standards, the estimated net present value of the gift had been recorded by the Stations.

The impact of this adjustment on net assets at June 30, 2003 is as follows:

Net assets at June 30, 2003, as previously reported	\$ 10,495,971	
Adjustment to net assets	(1,809,694)	
	8,686,277	
Net assets at June 30, 2003, as restated	\$ 8,686,277	

**(4) Investments**

Investments are reported on the statement of net assets as of June 30, 2004 as follows:

Long-term investments	\$ 3,140,019	
Restricted assets – investments	2,619,116	
	5,759,135	
	\$ 5,759,135	

KPBS' investments are part of a unitized investment pool managed by SDSU Foundation and are therefore not separately identifiable. The pool is approved and monitored by the SDSU Foundation board of directors and maintains a 70% equity, 25% fixed income, and 5% real estate asset mix. The Stations' investments approximate 9% of SDSU Foundation's total investments.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*, cash deposits and investments are categorized separately to give an indication of the level of custodial credit risk assumed by SDSU Foundation. SDSU Foundation's investments are categorized in the following manner:

- Category 1      Includes investments that are insured or registered or for which the securities are held by SDSU Foundation or its agent in SDSU Foundation's name.
  
- Category 2      Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department in SDSU Foundation's name.

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Category 3 Includes unregistered investments for which the securities are held by the counterparty or the counterparty's trust department or agent but not in SDSU Foundation's name.

Investments not represented by specific identifiable investment securities, including investments in pooled funds, are not subject to categorization.

SDSU Foundation's investments are categorized as follows as of June 30, 2004:

	<u>Category</u>			<u>Balance per financial statements</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Treasury and government issues	—	—	24,993,533	\$ 24,993,533
Marketable certificates of deposit	—	—	3,257,572	3,257,572
Not subject to categorization				
Commonfund:				
Short-term fund	—	—	—	14,558,690
Intermediate cash fund	—	—	—	3,414,309
Equity funds	—	—	—	8,783,806
Bond funds	—	—	—	696,090
REIT	—	—	—	615,250
Real property	—	—	—	2,454,363
Notes receivable	—	—	—	224,309
Money market funds	—	—	—	2,173,753
Other investments	—	—	—	850,200
				<u>\$ 62,021,875</u>

**(5) Accounts Receivable**

Accounts receivable at June 30, 2004 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Trade receivables	\$ 1,780,121	136,000	1,916,121
Interagency receivable (POST)	12,383	—	12,383
Other receivable	11,273	—	11,273
	<u>\$ 1,803,777</u>	<u>136,000</u>	<u>1,939,777</u>

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**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2004 consisted of the following:

	<u>Balance, June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2004</u>
Nondepreciable capital assets:					
Work in progress	\$ 228,565	—	—	(228,565)	—
Total nondepreciable capital assets	<u>228,565</u>	<u>—</u>	<u>—</u>	<u>(228,565)</u>	<u>—</u>
Depreciable capital assets:					
Buildings under capital lease (a)	9,664,197	—	—	—	9,664,197
Studio/broadcast equipment	9,245,877	189,582	(97,407)	228,565	9,566,617
Furniture and fixtures	1,683,224	212,741	(118,957)	—	1,777,008
Transmission/antenna/tower	<u>2,656,250</u>	<u>60,979</u>	<u>(18,299)</u>	<u>—</u>	<u>2,698,930</u>
Total depreciable capital assets	<u>23,249,548</u>	<u>463,302</u>	<u>(234,663)</u>	<u>228,565</u>	<u>23,706,752</u>
Total before depreciation	<u>23,478,113</u>	<u>463,302</u>	<u>(234,663)</u>	<u>—</u>	<u>23,706,752</u>
Less accumulated depreciation:					
Buildings under capital lease	2,791,879	322,140	—	—	3,114,019
Studio/broadcast equipment	6,003,910	962,267	(97,407)	—	6,868,770
Furniture and fixtures	1,234,314	141,154	(116,831)	—	1,258,637
Transmission/antenna/tower	<u>1,057,666</u>	<u>154,204</u>	<u>(18,299)</u>	<u>—</u>	<u>1,193,571</u>
Total accumulated depreciation	<u>11,087,769</u>	<u>1,579,765</u>	<u>(232,537)</u>	<u>—</u>	<u>12,434,997</u>
Net capital assets	<u>\$ 12,390,344</u>	<u>(1,116,463)</u>	<u>(2,126)</u>	<u>—</u>	<u>11,271,755</u>

- (a) The building under capital lease represents the Stations-occupied portion of the Gateway Center and is pledged as collateral for debt issued by the SDSU Foundation whose outstanding balance at June 30, 2004 was approximately \$8,305,000.

Depreciation expense totaled \$1,579,765 for the year ended June 30, 2004 and was allocated among expenses in the accompanying statement of revenues, expenses, and changes in net assets as follows:

Program services:	
Broadcasting	\$ 1,257,625
Support services:	
Management and general	<u>322,140</u>
Total depreciation	<u>\$ 1,579,765</u>

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**(7) Long-Term Debt Obligations**

Long-term debt obligations activity for the year ended June 30, 2004:

	<u>Balance, June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2004</u>	<u>Current portion</u>
Note payable to University	\$ 1,097,029	954,604	(1,097,029)	954,604	122,898

In June 2002, the University obtained a loan for the purchase of equipment. The Stations received certain of the equipment in return for future payment to the University on a portion of the loan in the amount of \$1,288,425. In February 2004, the University refinanced the Note extending the term by three years to 2011. The Stations portion of the Note was also restructured in accordance with this refinancing. Principal and interest are payable in annual installments of \$155,826 due each year in November. The unsecured loan bears interest at a fixed rate of 3.4%. Aggregate annual principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30:			
2005	\$ 122,898	32,928	155,826
2006	127,137	28,689	155,826
2007	131,522	24,303	155,825
2008	136,059	19,766	155,825
2009	140,752	15,073	155,825
2010 – 2011	296,236	15,414	311,650
	<u>\$ 954,604</u>	<u>136,173</u>	<u>1,090,777</u>

Interest incurred on the note payable amounted to \$70,676 for the year ended June 30, 2004.

**(8) Commitments**

**(a) Capital Lease to SDSU Foundation**

**Gateway Center**

During the year ended June 30, 1995, SDSU Foundation completed construction on the Gateway Center, a 160,000-square-foot building built on land leased from the University. The land lease expires in June 2023, at which time title of the building passes to the University.

The main operating office, radio studios, and television studio for the Stations are housed in a portion of the Gateway Center. Under the terms of the lease agreement with the SDSU Foundation, the Stations were allocated approximately \$8,345,000 of the construction costs of the building, of which \$2,860,000 was paid during construction and \$5,485,000 are to be paid through the term of the capital lease.



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Capital lease obligations activity for the year ended June 30, 2004:

	<u>Balance, June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2004</u>	<u>Current portion</u>
Capital lease obligation to SDSU Foundation	\$ 4,559,835	—	(130,520)	4,429,315	136,073

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30:			
2005	\$ 136,073	249,149	385,222
2006	141,627	241,495	383,122
2007	152,735	233,528	386,263
2008	161,066	224,937	386,003
2009	169,397	215,877	385,274
2010 – 2014	1,002,497	924,900	1,927,397
2015 – 2019	1,319,075	609,517	1,928,592
2020 – 2024	1,346,845	194,633	1,541,478
	<u>\$ 4,429,315</u>	<u>2,894,036</u>	<u>7,323,351</u>

**(b) Operating Leases**

The Stations lease certain land, buildings, and transmitter space under noncancelable operating leases, which expire on various dates through January 2010. The current monthly rental payments range from approximately \$700 to \$8,250 and several of the agreements allow for annual increases in the base rent. The Stations' incurred rental expense for the year ended June 30, 2004 of \$307,509.

The total minimum rental commitment at June 30, 2004 under the leases mentioned above is due as follows:

Year ending June 30:	
2005	\$ 316,405
2006	163,789
2007	116,077
2008	118,690
2009	124,624
2010	130,855
	<u>\$ 970,440</u>

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**(9) Pension and Other Postretirement Benefits**

The Stations' employees are employees of either the University or SDSU Foundation. Accordingly, pension and other postretirement benefits are covered by these entities. Amounts charged to KPBS from SDSU Foundation for pension and other postretirement benefits totaled \$458,354 and are recorded as either program services or support supporting services, depending upon the employees' function, on the accompanying statements of revenues, expenses, and changes in net assets. Amounts charged to KPBS from the University totaled \$183,260 and are recorded as direct support and program services or support services expense depending upon the employees' function.

**(10) Risk Management**

The Stations are exposed to risks related to general and commercial liability and workers' compensation. The Stations are covered by insurance through SDSU Foundation and the University to mitigate those risks. Insurance policies provide varying levels of coverage with varying deductibles. Premiums paid to SDSU Foundation on these insurance policies totaled approximately \$90,000 and is recorded as management and general on the statement of revenues, expenses, and changes in net assets. Insurance through the University is included in San Diego State University indirect support and allocated to program and support services on the statement of revenues, expenses, and changes in net assets. There were no settlements in excess of insurance coverage.

**(11) Subsequent Event**

Effective November 2, 2004, the University on behalf of KPBS entered into an Asset Purchase Agreement, a Programming Agreement, and a Sublease Agreement (the Agreements) with Hanson Broadcasting Company of California (Hanson) for the purchase and use of an FM radio station and its FCC license for \$1.1 million. The Programming Agreement is in effect until the FCC issues a final order on the transfer of the radio license. The Programming Agreement stipulates a monthly payment of \$5,000 plus reimbursable expenses, not to exceed \$2,400, payable to Hanson. After the final order, the Programming Agreement will end and the Sublease Agreement begins and the Asset Purchase agreement is finalized. The sublease grants KPBS the right to use the property where the radio station is located for approximately 99 years with an annual rental payment of \$5,500.