



Financial Statements and Report of Independent
Certified Public Accountants

KPBS FM/TV

(A Department of San Diego State University)

June 30, 2015 and 2014

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Report of Independent Certified Public Accountants

Tom Karlo, General Manager
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We have audited the accompanying financial statements of KPBS FM/TV, a department of San Diego State University (the “University”), which comprise the statement of net position as of June 30, 2015 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KPBS FM/TV as of June 30, 2015 and the changes in its net position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements of KPBS FM/TV are intended to present the financial position, the changes in net position and cash flows of only that portion of the University that is attributable to the transactions of KPBS FM/TV. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2015 and the changes in its net position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The financial statements of KPBS FM/TV of and for the year ended June 30, 2014 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2014 financial statements in their report dated November 25, 2014.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended June 30, 2015 was conducted for the purpose of forming an opinion on the financial statements. The supplementary schedule of direct and indirect support for the year ended June 30, 2015 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The supplementary schedule of direct and indirect support has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

San Diego, California
November 23, 2015

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Management's Discussion and Analysis

June 30, 2015 and 2014

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 years ended June 30, 2015 and 2014. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

The Stations' financial statements include the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements 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.

Statements of Net Position: The Statements of Net Position include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and liabilities are reported on an accrual basis as of the statement date. Long-term investments are reported at fair value as of the statement date. Major categories of restrictions on the net position of the Stations are also identified.

Statements of Revenues, Expenses and Changes in Net Position: The Statements of Revenues, Expenses and Changes in Net Position present the revenues earned and expenses incurred during the year on an accrual basis.

Statements of Cash Flows: The Statements of Cash Flows present the inflows and outflows of cash for the year and are summarized by operating, non-capital and capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and therefore present gross rather than net amounts for the year's activities.

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Management's Discussion and Analysis

June 30, 2015 and 2014

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 years ended June 30, 2015 and 2014. Included are a comparative analysis of current year and prior year activities and balances; a discussion of restrictions of the Stations' net position; and a discussion of capital assets and long-term debt.

The Stations' condensed summary of net position as of fiscal years June 30, 2015, 2014 and 2013 are as follows:

Condensed Summary of Net Position

	June 30,		
	2015	2014	2013
Assets:			
Current assets	\$ 6,543,794	\$ 5,374,627	\$ 5,081,951
Capital assets, net	10,899,302	11,693,120	12,669,331
Other noncurrent assets	8,239,621	8,453,711	7,300,500
Total assets	<u>25,682,717</u>	<u>25,521,458</u>	<u>25,051,782</u>
Deferred outflows of resources	\$ -	-	-
Liabilities:			
Current liabilities	4,498,457	3,723,523	3,415,565
Noncurrent liabilities	4,490,964	4,890,507	4,902,452
Total liabilities	<u>8,989,421</u>	<u>8,614,030</u>	<u>8,318,017</u>
Deferred inflows of resources	\$ 600,000	600,000	600,000
Net position:			
Invested in capital assets, net of related debt	6,414,377	6,906,697	7,257,423
Restricted - nonexpendable	1,295,418	1,274,000	1,044,414
Restricted - expendable	1,330,337	1,455,944	1,342,696
Unrestricted	7,886,539	7,255,159	6,489,232
Total net position	<u>\$ 16,926,671</u>	<u>\$ 16,891,800</u>	<u>\$ 16,133,765</u>

Assets

Total assets increased \$470,000 and \$161,000 from 2013 to 2014 and from 2014 to 2015, respectively. The increase in total assets for 2014 was primarily due to an increase in the value of investments, resulting from both favorable market conditions and endowment contributions, offset by depreciation of capital assets exceeding capital additions.

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Management's Discussion and Analysis

June 30, 2015 and 2014

The increase in total assets for 2015 was primarily due to an increase in accounts receivable resulting from major donor pledges, offset by depreciation of capital assets exceeding capital additions.

Capital assets decreased \$976,000 from 2013 to 2014 due primarily to depreciation of \$1,566,000, offset by project investments of approximately \$590,000, including completion of the broadcast backup generator system. Capital assets decreased approximately \$794,000 from 2014 to 2015 due primarily to depreciation of \$1,613,000 and net asset retirements of \$7,000, offset by project investments of approximately \$826,000, including broadcast audio board system work in progress.

Other non-current assets increased by \$1,153,000 from 2013 to 2014 primarily due to an increase in the fair market value of the managed investment portfolio, inclusive of an additional charitable remainder trust gift, offset by a decrease in non-current underwriting receivables. Other non-current assets decreased by \$214,000 from 2014 to 2015 primarily due to a decrease in non-current underwriting receivables.

Liabilities

Total liabilities decreased from 2013 to 2014 by \$288,000 primarily due to scheduled payments made against outstanding notes payable and capital lease obligations offset by an increase in unearned revenue resulting from an additional charitable remainder trust gift as mentioned above. Total liabilities increased from 2014 to 2015 by \$126,000 primarily due to scheduled payments against outstanding notes payable and capital lease obligations offset by an increase in unearned revenue resulting from additional advances in program receipts.

Net Position

Total net position increased \$758,000 from 2013 to 2014 primarily due to a \$33,000 operating loss (net of San Diego State University transfers and depreciation), the net increase of \$798,000 in the fair market value of investments and net interest expense of \$7,000. Total net position increased \$35,000 from 2014 to 2015 primarily due to a \$44,000 operating loss (net of San Diego State University transfers and depreciation), the net increase of \$67,000 in the fair market value of investments, net interest income of \$19,000 and a net loss on asset disposals of \$7,000.

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Management's Discussion and Analysis

June 30, 2015 and 2014

Restrictions on Net Position

Net position 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:

	June 30,		
	2015	2014	2013
Nonexpendable	\$ <u>1,295,418</u>	\$ <u>1,274,000</u>	\$ <u>1,044,414</u>
Expendable:			
Capital campaign	\$ 528,320	\$ 558,716	\$ 589,063
Annuity trust agreements	58,990	85,253	69,693
Program production and airing	495,834	539,962	477,838
Scholarship activities	<u>247,193</u>	<u>272,013</u>	<u>206,102</u>
Total restricted expendable net position	\$ <u>1,330,337</u>	\$ <u>1,455,944</u>	\$ <u>1,342,696</u>

The Capital campaign fund is funded by donations for expenditures specifically for the Gateway Center building. The Program production and airing fund is funded by donations for expenditures specifically for the KPBS Radio Reading Service. The nonexpendable net position increase from 2013 to 2014 is primarily due to receipt of a charitable remainder trust gift. The restricted expendable net position decrease from 2014 to 2015 is primarily due to a net decrease in the value of investments resulting from unfavorable market conditions experienced during the year.

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Management's Discussion and Analysis

June 30, 2015 and 2014

The Stations' condensed summary of revenues, expenses and changes in net position for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, are as follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		
	2015	2014	2013
Operating revenues:			
Contributions	\$ 20,129,094	\$ 17,867,553	\$ 18,234,056
Corporation for Public Broadcasting grants	3,250,579	3,011,838	2,523,290
Stations-generated support	668,942	643,312	1,021,803
Total operating revenues	<u>24,048,615</u>	<u>21,522,703</u>	<u>21,779,149</u>
Operating expenses:			
Program services	17,343,047	15,958,463	15,064,022
Support services	14,642,347	12,688,712	13,054,278
Total operating expenses	<u>31,985,394</u>	<u>28,647,175</u>	<u>28,118,300</u>
Operating loss	<u>(7,936,779)</u>	<u>(7,124,472)</u>	<u>(6,339,151)</u>
Nonoperating revenues (expenses):			
Interest expense	(129,628)	(147,581)	(160,487)
Interest income, net	148,432	140,364	207,019
Net increase (decrease) in fair value of investments	67,176	798,097	489,982
Other nonoperating expense	(6,599)	-	(20,136)
Total nonoperating revenue (expense), net	<u>79,381</u>	<u>790,880</u>	<u>516,378</u>
Loss before transfers	<u>(7,857,398)</u>	<u>(6,333,592)</u>	<u>(5,822,773)</u>
San Diego State University transfers	<u>7,892,269</u>	<u>7,091,627</u>	<u>6,900,353</u>
Change in net assets	34,871	758,035	1,077,580
Net assets, beginning of year	<u>16,891,800</u>	<u>16,133,765</u>	<u>15,056,185</u>
Net assets, end of year	<u>\$ 16,926,671</u>	<u>\$ 16,891,800</u>	<u>\$ 16,133,765</u>

Operating Revenues and Expenses

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

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June 30, 2015 and 2014

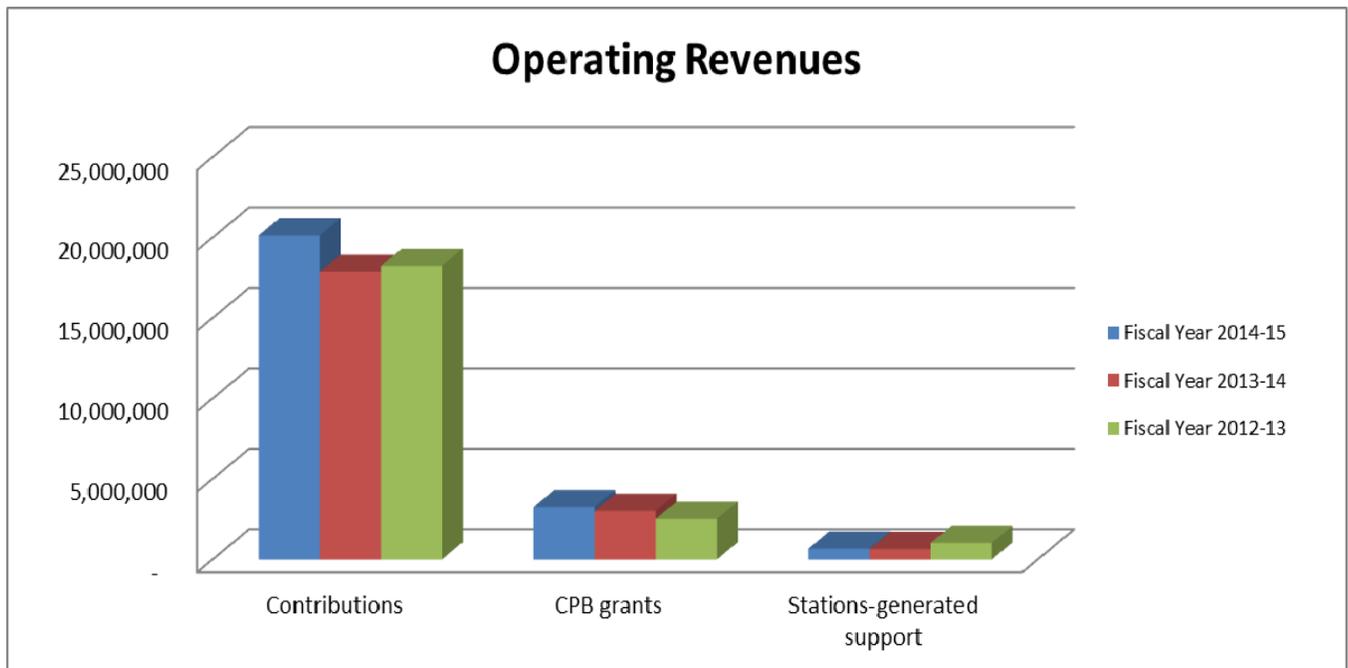
Operating Revenues

Contributions decreased \$367,000 from 2013 to 2014 resulting primarily from non-recurring revenue of \$176,000 and \$807,000, respectively, relating to grant program completion and prior year capital projects, including the radio tower and transmitter and broadcast backup generator system, offset by increases in several areas including membership and producers club of \$817,000 and other net decreases of \$201,000. Contributions increased \$2,262,000 from 2014 to 2015 resulting primarily from net increases in several areas including underwriting \$525,000, major gifts \$912,000, planned gifts \$66,000, membership and producers club \$552,000 and other \$207,000.

Funding received from the Corporation for Public Broadcasting (CPB) increased \$489,000 during 2013 to 2014 and \$239,000 during 2014 to 2015 due to increases in non-federal financial support. Current year CPB grants are calculated based upon non-federal financial support measured during the previous two fiscal years.

Stations-generated support decreased \$378,000 from 2013 to 2014 primarily due to a reduction in national pledge production programs of \$170,000, a net decreases in web sponsorships \$162,000 and other programs of \$46,000. Stations-generated support increased \$26,000 from 2014 to 2015 primarily due to increases in web sponsorship.

The following chart presents the proportional share that each category of operating revenues contributed to the totals for fiscal years 2015, 2014, and 2013:



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Management's Discussion and Analysis

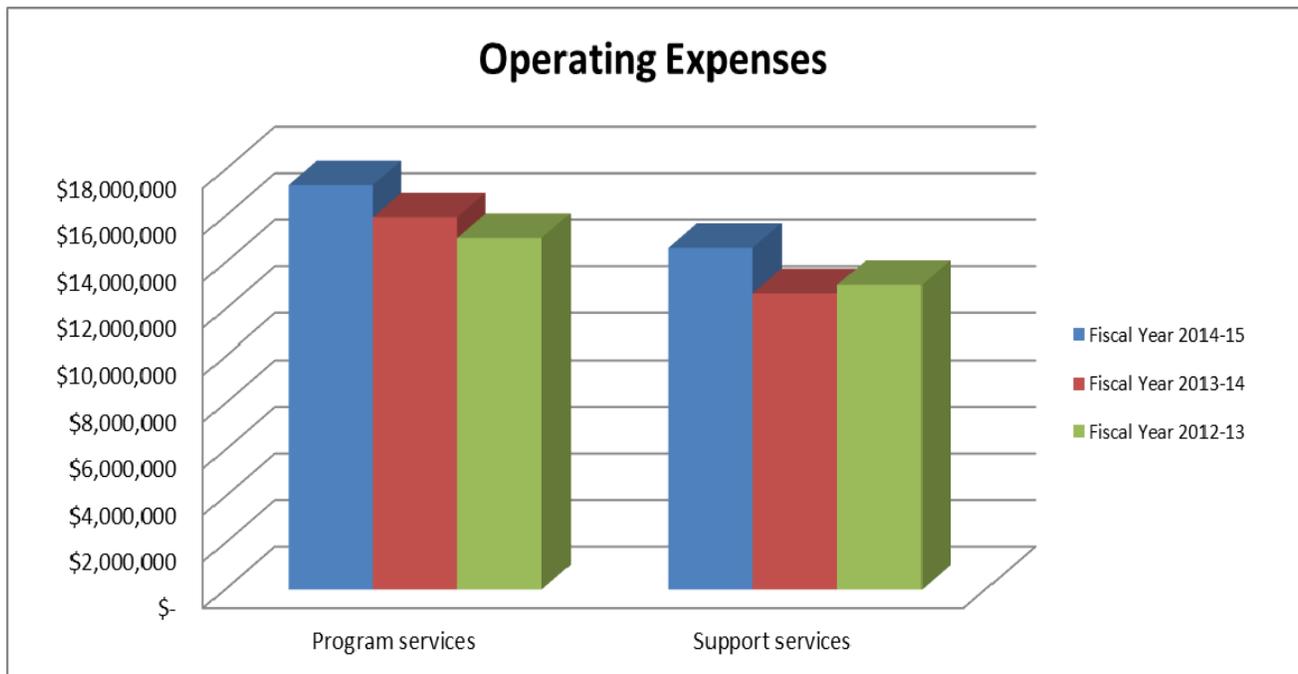
June 30, 2015 and 2014

Operating Expenses

Program services expenses increased \$894,000 from 2013 to 2014 and \$1,385,000 from 2014 to 2015 due to new programs and initiatives and increases in the expenditure allocations related to San Diego State University indirect financial support.

Support services expenses decreased \$366,000 from 2013 to 2014 due primarily to decreases in donated services, events and San Diego State University indirect financial support expenditure allocations. Support services expenses increased by \$1,954,000 from 2014 to 2015 primarily due to increases in donated services, membership premiums, expenditure allocations related to San Diego State University indirect financial support, and personnel and equipment costs.

The following chart presents the distribution of resources in support of the Stations for fiscal years 2015, 2014, and 2013:



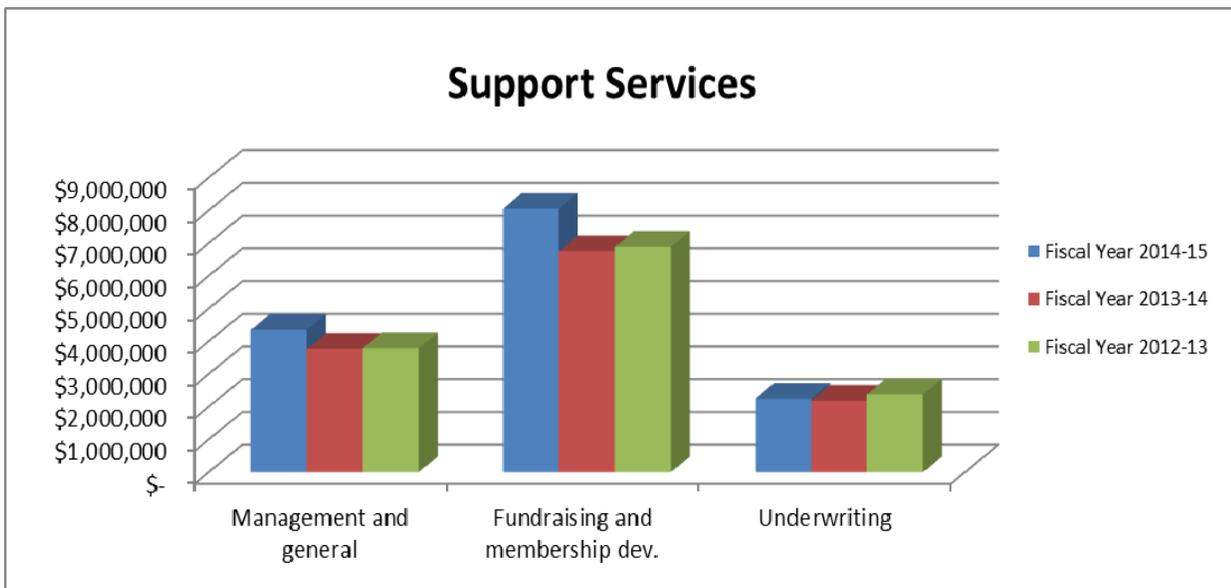
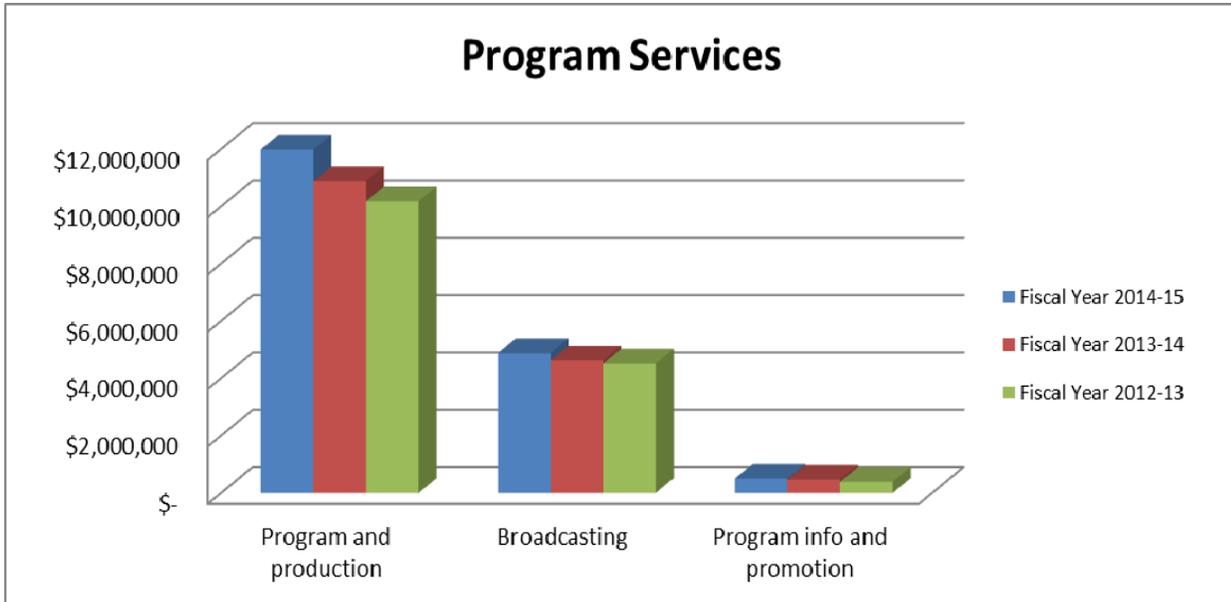
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A further breakdown of the program services and support services is provided as follows:



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Non-operating Revenues and Expenses

Non-operating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are changes in the fair value of investments and interest expense. Non-operating revenues exceeded expenses in 2014 by \$791,000, which was an increase of \$275,000 as compared to 2013, due primarily to the impact of favorable market conditions on the fair value of investments. Non-operating expenses exceeded revenues in 2015 by \$79,000, which was a decrease of \$711,000 as compared to 2014, due primarily to the impact of less favorable market conditions on the fair value of investments.

San Diego State University Transfers

Support from the University increased by \$191,000 and \$801,000 from 2013 to 2014 and 2014 to 2015, respectively. These services were provided without cost and have been allocated to the Stations as shown in the Supplementary Schedule of Direct and Indirect Support (page 35 of report). The cost of the services is reported as transfers and operating expense in the accompanying financial statements.

The direct financial support received from the University decreased \$122,000 from 2013 to 2014 and increased \$109,000 from 2014 to 2015. Direct support, consisted primarily of salaries, space rental and utilities. The decrease in direct support in 2014 resulted primarily from a reduction in utility costs. The increase in direct support in 2015 resulted primarily from an increase in utility and personnel costs. Indirect support received from the University increased \$313,000 and \$692,000 from 2013 to 2014 and 2014 to 2015, respectively. Indirect support relates to a portion of the University's general overhead costs that directly benefit the programs of the Stations. Such items are allocated based upon square footage percentage or prorated costs including administration, maintenance and repairs.

Capital Assets

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

	June 30,		
	2015	2014	2013
Building under capital lease	\$ 5,754,105	\$ 6,429,464	\$ 6,470,296
Studio/broadcast equipment	2,237,975	2,616,349	2,719,674
Furniture and fixtures	106,293	136,873	146,573
Transmission/antenna/tower	1,613,798	1,840,434	2,056,179
Construction in progress	517,131	-	606,609
KQVO radio station license	670,000	670,000	670,000
Total capital assets, net of accumulated depreciation	<u>\$ 10,899,302</u>	<u>\$ 11,693,120</u>	<u>\$ 12,669,331</u>

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Management's Discussion and Analysis

June 30, 2015 and 2014

Capital assets decreased \$976,000 from 2013 to 2014 due primarily to depreciation of \$1,566,000, offset by project investments of approximately \$590,000, including completion of the broadcast backup generator system. During 2014 to 2015, capital assets decreased approximately \$794,000 due to project investments of approximately \$826,000, including broadcast audio board system work in progress, offset by depreciation of \$1,613,000 and net asset retirements of \$7,000.

Long-Term Debt Obligations

Debt outstanding at June 30, 2015, 2014 and 2013 is summarized below by type of debt instrument:

	June 30,		
	2015	2014	2013
Capital lease obligations	\$ 3,043,625	\$ 3,449,701	\$ 3,830,534
Notes payable	1,441,300	1,336,722	1,581,374
Total	4,484,925	4,786,423	5,411,908
Less current portion	(731,588)	(676,094)	(623,007)
Total long-term debt	<u>\$ 3,753,337</u>	<u>\$ 4,110,329</u>	<u>\$ 4,788,901</u>

Total debt decreased approximately \$625,000 during 2013 to 2014 due to the payment of scheduled obligations net of the purchase of capitalized licensed software. Total debt decreased approximately \$301,000 during 2014 to 2015 due to the payment of scheduled obligations, net of new financing related to the audio board system and the purchase of capitalized licensed software.

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Statements of Net Position

June 30, 2015 and 2014

Assets		
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash held by San Diego State University	\$ -	\$ -
Due from San Diego State University Research Foundation	2,225,382	2,308,258
Accounts receivable (note 4)	4,141,490	3,027,711
Grants receivable	138,072	34,034
Prepaid expenses	38,850	4,624
Total current assets	<u>6,543,794</u>	<u>5,374,627</u>
Noncurrent assets:		
Accounts receivable (note 4)	414,946	610,751
Long-term investments (note 3)	5,117,437	5,006,811
Restricted investments (note 3)	2,625,752	2,729,944
Capital assets, net (notes 5 and 8)	10,899,302	11,693,120
Other assets (note 6)	81,486	106,205
Total noncurrent assets	<u>19,138,923</u>	<u>20,146,831</u>
Total assets	<u>25,682,717</u>	<u>25,521,458</u>
Deferred outflows of resources	\$ -	-
Liabilities		
Current liabilities:		
Due to San Diego State University	294,148	260,972
Accounts payable	656,812	624,127
Accrued expenses	1,149,159	993,586
Unearned revenue	833,375	584,372
Notes payable, current portion (note 7)	304,252	253,214
Capital lease obligations, current portion (note 8)	427,336	422,880
Total current liabilities	<u>3,665,082</u>	<u>3,139,151</u>
Noncurrent liabilities:		
Notes payable, net of current portion (note 7)	1,137,048	1,083,508
Capital lease obligations, net of current portion (note 8)	2,616,289	3,026,821
Amount held for others	619,090	659,617
Other liabilities	118,537	120,561
Total noncurrent liabilities	<u>4,490,964</u>	<u>4,890,507</u>
Total liabilities	<u>8,156,046</u>	<u>8,029,658</u>
Commitments and contingencies (notes 5, 8, 9, 10 and 11)		
Deferred inflows of resources	\$ 600,000	600,000
Net position		
Net position:		
Net investment in capital assets	6,414,377	6,906,697
Restricted for:		
Nonexpendable - endowments	1,295,418	1,274,000
Expendable:		
Capital campaign	528,320	558,716
Annuity trust agreements	58,990	85,253
Program production and airing	495,834	539,962
Scholarship activities	247,193	272,013
Unrestricted	7,886,539	7,255,159
Total net position	<u>\$ 16,926,671</u>	<u>\$ 16,891,800</u>

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

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Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Contributions	\$ 20,129,094	\$ 17,867,553
Corporation for Public Broadcasting grants (note 2)	3,250,579	3,011,838
Stations-generated support	668,942	643,312
Total operating revenues	<u>24,048,615</u>	<u>21,522,703</u>
Operating expenses (notes 5, 6, 8, 9 and 11):		
Program services:		
Programming and production	11,978,719	10,873,930
Broadcasting	4,873,107	4,618,422
Program information and promotion	491,221	466,111
Total program services	<u>17,343,047</u>	<u>15,958,463</u>
Support services:		
Management and general	4,347,942	3,762,417
Fundraising and membership		
development	8,053,762	6,747,718
Underwriting	2,240,643	2,178,577
Total support services	<u>14,642,347</u>	<u>12,688,712</u>
Total operating expenses	<u>31,985,394</u>	<u>28,647,175</u>
Operating loss	<u>(7,936,779)</u>	<u>(7,124,472)</u>
Nonoperating revenues (expenses):		
Interest expense (notes 7 and 8)	(129,628)	(147,581)
Interest income, net	148,432	140,364
Net increase (decrease) in fair value of investments	67,176	798,097
Other nonoperating expense	(6,599)	-
Total nonoperating revenues (expenses), net	<u>79,381</u>	<u>790,880</u>
Loss before transfers	<u>(7,857,398)</u>	<u>(6,333,592)</u>
San Diego State University transfers (note 2):		
Direct financial support	2,169,574	2,060,662
Indirect financial support	5,722,695	5,030,965
Total San Diego State University transfers	<u>7,892,269</u>	<u>7,091,627</u>
Change in net position	34,871	758,035
Net position, beginning of year	16,891,800	16,133,765
Net position, end of year	<u>\$ 16,926,671</u>	<u>\$ 16,891,800</u>

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

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Statements of Cash Flows

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Contributions	\$ 19,315,558	\$ 18,240,425
Stations-generated support	668,942	643,312
Payments to suppliers	(12,818,219)	(11,072,189)
Payments to employees	(10,829,118)	(10,383,189)
Administrative fees paid to San Diego State University Research Foundation	(791,000)	(695,126)
Corporation for Public Broadcasting grants	3,250,579	3,011,838
Net cash used in operating activities	<u>(1,203,258)</u>	<u>(254,929)</u>
Cash flows from noncapital and related financing activities:		
Transfers from San Diego State University	2,169,574	2,060,662
Decrease in amounts due from San Diego State University Research Foundation	82,876	(668,088)
Net cash provided by noncapital and related financing activities	<u>2,252,450</u>	<u>1,392,574</u>
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital leases	(670,988)	(636,959)
Interest paid	(178,758)	(199,564)
Purchase of capital assets	(408,620)	(530,767)
Net cash used in capital and related financing activities	<u>(1,258,366)</u>	<u>(1,367,290)</u>
Cash flows from investing activities:		
Interest income, net	148,432	140,364
Sale of investments	235,742	10,286
Purchase of investments	(175,000)	(40,000)
Net cash provided by investing activities	<u>209,174</u>	<u>110,650</u>
Net increase (decrease) in cash and cash equivalents	-	(118,995)
Cash and cash equivalents held by San Diego State University, beginning of year	<u>-</u>	<u>118,995</u>
Cash and cash equivalents held by San Diego State University, end of year	<u>\$ -</u>	<u>\$ -</u>

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

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Statements of Cash Flows (continued)

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (7,936,779)	\$ (7,124,472)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Allocated San Diego State University expenses	5,722,695	5,030,965
Depreciation and amortization	1,643,609	1,596,735
Contributions restricted for long-term investments	-	(883,292)
(Increase) decrease in assets:		
Accounts receivable	(917,974)	266,327
Grants receivable	(104,038)	498,738
Prepaid expenses	(34,223)	376
Other assets	(5,958)	18,191
Increase (decrease) in liabilities:		
Due to San Diego State University	33,176	260,972
Accounts payable	32,685	(471,955)
Accrued expenses	157,097	54,377
Amounts held for others	(40,526)	659,617
Unearned revenue	249,002	(168,518)
Other liabilities	(2,024)	7,010
Net cash used in operating activities	\$ <u>(1,203,258)</u>	\$ <u>(254,929)</u>
Supplemental disclosure of noncash financing and related capital activity:		
Noncash refinancing of capital lease	\$ <u>59,304</u>	\$ <u>59,080</u>
Supplemental disclosures of noncash investing and capital activity:		
Increase in fair value of investments	\$ <u>67,176</u>	\$ <u>798,097</u>

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 1 – NATURE OF OPERATIONS

Nature of Organization

KPBS FM/TV (“KPBS” or the “Stations”) is engaged in the production, broadcast and distribution of content via public television, radio and the internet. KPBS TV and FM are licensed to the Board of Trustees of the California State University (the “CSU”) for San Diego State University (“SDSU” or the “University”). KQVO FM is licensed to the State of California on behalf of the University. San Diego State University Research Foundation (“SDSU Research Foundation”), a not-for-profit California corporation, which is an auxiliary organization of the CSU, under a service agreement provides financial accounting and administrative support to the Stations and includes all of the Stations’ accounts, except for certain capital assets, University cash, notes payable and related interest and expenses related to certain State employees in its financial statements. KPBS is a department of the University. Administrative fees paid to SDSU Research Foundation were approximately \$791,000 and \$695,000 for the fiscal years ended June 30, 2015 and 2014, respectively. The accompanying financial statements include only the activities and balances associated with KPBS FM/TV and are not intended to present the financial position, changes in financial position or cash flows of SDSU Research Foundation or the University.

Affiliated Organizations

The Stations are related to auxiliaries of the University, including SDSU Research Foundation, Associated Students of San Diego State University, Aztec Shops, Ltd. and The Campanile Foundation. The auxiliaries and the University periodically provide various services for one another and collaborate on projects.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (U.S. GAAP), as prescribed by the Governmental Accounting Standards Board (“GASB”). Revenues are recorded when earned, and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. The Stations’ financial statements are presented in accordance with the requirements of enterprise funds.

Classification of Current and Non-current Assets and Liabilities

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

KPBS FM/TV
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

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. There was no cash on hand as of and for the years ended June 30, 2014 and June 30, 2015.

Due from SDSU Research Foundation

The amount of cash SDSU Research Foundation administers on behalf of the Stations is reported as due from SDSU Research Foundation on the statements of net position.

Account Receivable

Accounts receivable consist of underwriter and other receivables. It is the policy of management to review outstanding receivables at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts of uncollectible amounts.

Investments

Investments represent the Stations' share of the internal investment pool of SDSU Research Foundation. Change in fair value of investments is included in the statements of revenues, expenses and changes in net position as non-operating revenues (expenses).

Capital Assets and Intangible 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.

Intangible assets are recorded at the lower of cost or fair value. Intangible assets consist of the broadcast license associated with the acquisition of the KQVO radio station. The broadcast license is renewable every eight years at a nominal fee to the Stations. The intangible asset has an indefinite life and is not amortized. The Stations' policy is to review the asset annually for impairment and adjust the asset to fair value, if lower than the recorded amount. There was no impairment in value for the years ended June 30, 2015 and 2014.

KPBS FM/TV
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

The Stations accrue vacation benefits for eligible employees at various rates depending upon length of service. Eligible full-time employees accrue sick leave at the rate of four hours per pay period. Employees are typically not paid for unused sick leave at the end of employment. However, for certain employees, a portion of accumulated sick leave is paid upon retirement. Liabilities for compensated absence of approximately \$662,000 and \$624,000 for the years ended June 30, 2015 and 2014, respectively, are included in accrued expenses. Liabilities for compensated absences at June 30, 2015 and 2014 include \$111,000 relating to certain KPBS employees funded by the University through direct financial support.

Contributions

Revenue from contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Contributions received prior to satisfaction of eligibility requirements are recognized as unearned revenue. The Stations received approximately 84% and 83% of their operating revenue from contributions in the years ended June 30, 2015 and 2014, respectively.

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.

Management determines bad debts by regularly evaluating individual contributions receivable and considers a donor's financial condition and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of contributions receivable previously written off are recorded when received.

University Support

Direct financial support received from the University for the years ended June 30, 2015 and 2014 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2015 and 2014 was approximately \$5,723,000 and \$5,031,000, respectively. 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's expenses to certain costs of SDSU Research Foundation and the University, which are then applied to certain administration, maintenance and repair costs of the University. These University services, provided without cost, have been allocated to the Stations and are reported as transfers and operating expense in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting (“CPB”) is a private, non-profit grant-making organization responsible for funding more than 1,000 television and radio stations. The CPB distributes annual Community Service Grant (“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. 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. The Stations have typically expend 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 grant may be used to sustain activities that began with the CSGs awarded in prior years.

The grants are reported in the financial statements as operating revenue. Certain guidelines set by the CPB 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, financing 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. The Stations received and recorded approximately \$3,251,000 and \$3,012,000 in grant revenue from the CPB in the years ended June 30, 2015 and 2014, respectively.

Unearned Revenue

Contributions from private grants and other program sponsorships are recognized as support in the fiscal year in which all eligibility requirements have been satisfied. Amounts received prior to satisfaction of eligibility requirements and incurring the related expenses have been deferred and are reflected as unearned revenue in the accompanying statements of net position.

Fundraising and Membership Development

Fundraising and membership development expenses are from fundraising activities.

KPBS FM/TV
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Position

The Stations' net position is classified into the following net position categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation; intangible assets, net of accumulated amortization; and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – non-expendable

Assets subject to externally imposed conditions that require the Stations to retain them in perpetuity.

Restricted – expendable

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 position. In addition, unrestricted 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.

Classification of Revenues and Expenses

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

Interfund Eliminations

According to KPBS policy, all interfund transactions have been eliminated in the accompanying financial statements.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

The University, as a campus of the California State University system, which is an agency of the State of California and is treated as governmental entity for tax purposes, is generally not subject to federal or state income taxes. SDSU Research Foundation is generally exempt from income taxes under Sections 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701(d) of the California Revenue and Taxation Code. However, both the University and SDSU Research Foundation are subject to tax on trade or business income earned from an activity that is not in furtherance of their tax-exempt purposes. The Stations are engaged in activities that produce unrelated business income: namely, sales of certain products and services, and advertising. The Stations had no tax liability for the years ended June 30, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenue, gains and other support and expenditures and deductions during the reporting period. Actual results could differ from those estimates.

Liabilities for Amounts Held for Others

KPBS serves as trustee and administrators for a trust arrangement whereby the beneficial interest is shared with other parties. The arrangement generally requires payment of annual trust income to the income beneficiary over the term of the trust with the remainder portion of the assets reverting to KPBS. The liability for amounts held for others on the statements of net position represents the present value of the estimated future payments to be distributed to these beneficiaries.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Stations have no amounts that qualify as deferred outflows of resources at June 30, 2015.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pronouncements Issued

KPBS implemented the following GASB statements during the year ended June 30, 2015:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Pronouncements Issued (continued)

- GASB Statement No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statements No. 27* (effective for the year ending June 30, 2015).
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (effective for the year ending June 30, 2015).
- GASB Statement No.70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (effective for the year ending June 30, 2015).
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (effective for the year ending June 30, 2015).

Implementation of GASB Statement Nos. 68, 69, 70 and 71 did not have a significant impact on the financial statements.

The GASB has issued the following statements:

- GASB Statement No. 72, *Fair Value Measurement and Application* (effective for the year ending June 30, 2016).
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (effective for the year ending June 30, 2016).
- GASB statement No. 74, *Financial Reporting for Postemployment Government Combinations and Disposals of Government Operations* (effective for the year ending June 30, 2017).
- GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for the year ending June 30, 2018).
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (effective for the year ending June 30, 2016).
- GASB Statement No. 77, *Tax Abatement* (effective for the year ending June 30, 2016).

Management has not currently determined what, if any, impact implementation of these standards may have on the financial statements of KPBS.

Reclassification

The financial statements for the year ended June 30, 2014 included \$600,000 in “unearned revenue” within current liabilities on the statement of net position. This amount has been reclassified to “deferred inflows of resources” for comparability with the financial statements for the year ended June 30, 2015.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 3 – INVESTMENTS

Investments are reported on the statements of net position as of June 30 as follows:

	2015	2014
Long-term investments	\$ 5,117,437	\$ 5,006,811
Restricted assets, investments	2,625,752	2,729,944
	\$ 7,743,189	\$ 7,736,755

KPBS’s investments are part of a unitized investment pool managed by SDSU Research Foundation and are therefore not separately identifiable. The pool is approved and monitored by the SDSU Research Foundation Board of Directors, and maintains 56% stock, 24% fixed income, and 20% alternative investments and real estate as of June 30, 2015.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed-income investment. SDSU Research Foundation manages a separate pool of fixed-income investment, unrelated to the unitized pool referred to above, which has an average maturity of approximately one year.

(b) Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to repay the debt security when due. According to SDSU Research Foundation’s investment policy, fixed-income investments are limited to ‘Investment Grade’ issues, which is BBB or higher. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. The Commonfund, repurchase agreements and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The table below summarizes the range of ratings of fixed income investments of SDSU Research Foundation:

Federally sponsored enterprises – interest bearing	AA to AAA
Federally sponsored enterprises – zero coupon	AA to AAA
Corporate bonds	BBB to AAA

Custodial Credit Risk

Custodial credit risk for deposits is the risk that SDSU Research Foundation will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of SDSU Research Foundation’s operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation (FDIC) insured limits; however, the depository bank has agreed to maintain collateral of at least 110% of the balance on deposit. In accordance with SDSU Research Foundation’s investment policy, all certificates of deposit are FDIC insured and limited to \$250,000 at any one institution.

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, SDSU Research Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally applied only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds, government

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 3 – INVESTMENTS – Continued

investment pools and the Commonfund. U.S. Treasury issues and Federally Sponsored Enterprise Issues are held by Securities Investor Protection Corporation (SIPC) insured brokers and are not registered with the issuer in SDSU Research Foundation's name.

Investment Policy

The primary objective of the investment policy of SDSU Research Foundation is to protect the underlying assets so that the funds are available when needed by various projects and programs. A secondary objective is to maximize investment income on available investments. Various policies have been adopted to meet these objectives at the same time. Specific references are included below under various risk categories. In general, operating funds are limited in maturity ranges and type of debt instrument.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, consisted of the following:

	2015	
	<u>Current</u>	<u>Noncurrent</u>
Underwriter receivables	\$ 2,943,849	\$ 303,716
Other receivable	1,227,641	111,230
Allowance	(30,000)	-
	<u>\$ 4,141,490</u>	<u>\$ 414,946</u>
	2014	
	<u>Current</u>	<u>Noncurrent</u>
Underwriter receivables	\$ 2,740,436	\$ 499,521
Other receivable	317,275	111,230
Allowance	(30,000)	-
	<u>\$ 3,027,711</u>	<u>\$ 610,751</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2014	Additions	Retirements/ Transfers	Balance June 30, 2015
Nondepreciable capital assets:				
Construction in progress ^(b)	\$ -	\$ 517,131	\$ -	\$ 517,131
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	<u>670,000</u>	<u>517,131</u>	<u>-</u>	<u>1,187,131</u>
Depreciable capital assets:				
Building under capital lease ^(a)	13,567,117	-	-	13,567,117
Studio/broadcast equipment	11,795,833	295,387	(317,406)	11,773,814
Furniture and fixtures	1,654,355	32,995	(99,110)	1,588,240
Transmission/antenna/tower	3,893,519	(19,800)	(5,674)	3,868,045
Total depreciable capital assets	<u>30,910,824</u>	<u>308,582</u>	<u>(422,190)</u>	<u>30,797,216</u>
Less accumulated depreciation:				
Building under capital lease	7,137,653	675,359	-	7,813,012
Studio/broadcast equipment	9,179,484	667,163	(310,808)	9,535,839
Furniture and fixtures	1,517,482	63,575	(99,110)	1,481,947
Transmission/antenna/tower	2,053,085	206,835	(5,673)	2,254,247
Total accumulated depreciation	<u>19,887,704</u>	<u>1,612,932</u>	<u>(415,591)</u>	<u>21,085,045</u>
Total depreciable assets	<u>11,023,120</u>	<u>(1,304,350)</u>	<u>(6,599)</u>	<u>9,712,171</u>
Net capital assets	<u>\$ 11,693,120</u>	<u>\$ (787,219)</u>	<u>\$ (6,599)</u>	<u>\$ 10,899,302</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 5 – CAPITAL ASSETS – Continued

	Balance June 30, 2013	Additions	Retirements/ Transfers	Balance June 30, 2014
Nondepreciable capital assets:				
Construction in progress ^(b)	\$ 606,609	\$ -	\$ (606,609)	\$ -
KQVO radio station license	670,000			670,000
Total nondepreciable capital assets	<u>1,276,609</u>	<u>-</u>	<u>(606,609)</u>	<u>670,000</u>
Depreciable capital assets:				
Building under capital lease ^(a)	12,939,980	627,137	-	13,567,117
Studio/broadcast equipment	11,723,659	519,864	(447,690)	11,795,833
Furniture and fixtures	1,621,658	49,455	(16,758)	1,654,355
Transmission/antenna/tower	3,893,519	-	-	3,893,519
Total depreciable capital assets	<u>30,178,816</u>	<u>1,196,456</u>	<u>(464,448)</u>	<u>30,910,824</u>
Less accumulated depreciation:				
Building under capital lease	6,469,684	667,969	-	7,137,653
Studio/broadcast equipment	9,003,985	623,189	(447,690)	9,179,484
Furniture and fixtures	1,475,085	59,155	(16,758)	1,517,482
Transmission/antenna/tower	1,837,340	215,745	-	2,053,085
Total accumulated depreciation	<u>18,786,094</u>	<u>1,566,058</u>	<u>(464,448)</u>	<u>19,887,704</u>
Total depreciable assets	<u>11,392,722</u>	<u>(369,602)</u>	<u>-</u>	<u>11,023,120</u>
Net capital assets	<u>\$ 12,669,331</u>	<u>\$ (369,602)</u>	<u>\$ (606,609)</u>	<u>\$ 11,693,120</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 SDSU Research Foundation, whose outstanding balance at June 30, 2015 and 2014 was approximately \$3,615,000 and \$3,980,000.

(b) Construction in progress at June 30, 2015 primarily related to the broadcast audio board system.

Depreciation expense totaled \$1,612,932 and \$1,566,058 for the years ended June 30, 2015 and 2014, respectively, and was allocated among expenses in the accompanying statements of revenues, expenses and changes in net assets, as follows:

	2015	2014
Program Services	\$ 873,997	\$ 838,934
Support Services	738,935	727,124
Total depreciation	<u>\$ 1,612,932</u>	<u>\$ 1,566,058</u>

KPBS FM/TV
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 6 – OTHER ASSETS

Included in other assets is a building owned by the Stations from which rental income is derived. The use of the building is subject to two land leases, one of which terminates in fiscal 2017. The Stations are amortizing the contributed value of the building over that time. Amortization expense totaled \$30,677 for each of the years ended June 30, 2015 and 2014. The unamortized value included in other assets totaled approximately \$61,000 and \$92,000 at June 30, 2015 and 2014, respectively.

NOTE 7 – LONG-TERM DEBT OBLIGATIONS

Long-term debt obligation activity for the years ended June 30, is as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ 1,336,722	\$ 357,792	\$ (253,214)	\$ 1,441,300	\$ 304,252

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ 1,581,374	\$ -	\$ (244,652)	\$ 1,336,722	\$ 253,214

In July 2010, KPBS entered into a financing agreement with the University that provided internal financing to KPBS to enable the purchase of digital production and editing equipment in the amount of \$2,000,000. Annual principal and interest payments are required each March through 2016. At any time beginning after July 1, 2011, the University may call the loan due and payable in full for all outstanding principal and accrued interest with six months' advance notice to KPBS. In June 2011, the University amended the note payment schedule and extended the term of the loan through 2019. Payments, due each March, are secured by KPBS operating fund allocations provided by the University. The note payable bears interest at a fixed rate of 3.5%. Aggregate annual payments under this financing agreement are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 262,077	\$ 37,923	\$ 300,000
2017	271,250	28,750	300,000
2018	280,743	19,256	299,999
2019	269,437	9,429	278,866
	<u>\$ 1,083,507</u>	<u>\$ 95,358</u>	<u>\$ 1,178,865</u>

Interest incurred on the note payable amounted to \$43,915 and \$52,304 for the years ended June 30, 2015 and 2014, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 7 – LONG-TERM DEBT OBLIGATIONS – Continued

In April 2015, KPBS entered into a financing agreement with the University that provided internal financing to KPBS to enable the purchase of audio board equipment in the amount of \$357,792. Annual principal and interest payments are required each April and October through 2022. Payments are secured by KPBS operating fund allocations provided by the University. The note payable bears interest at a fixed rate of 3.7%. Aggregate annual payments under this financing agreement are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 42,175	\$ 12,951	\$ 55,126
2017	43,762	11,364	55,126
2018	45,409	9,717	55,126
2019	47,118	8,008	55,126
2020	48,891	6,235	55,126
2021	50,731	4,395	55,126
2022	52,640	2,486	55,126
2023	27,066	504	27,570
	<u>\$ 357,792</u>	<u>\$ 55,660</u>	<u>\$ 413,452</u>

Interest incurred on the note payable amounted to \$3,335 for the year ended June 30, 2015.

NOTE 8 – COMMITMENTS

(a) Capital Lease

Gateway Center

During the year ended June 30, 1995, SDSU Research 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 SDSU Research 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 was to be paid through the term of the capital lease.

The capital lease payments were set up based on an allocation of the KPBS portion of the debt service of SDSU Research Foundation's 1999 Revenue Refunding Bonds. On April 5, 2010, the California State University system issued system-wide bonds (SRB 2010A) to replace the 1999 Revenue Refunding Bonds. The SRB 2010A bonds sold at amounts greater than par, resulting in a bond premium. As a result of the refunding and new issuance, the debt service schedule that was the basis for the capital lease changed, resulting in a gain on refunding of \$666,480 which is being amortized over the remaining life of the capital lease. Amortization expense totaled \$47,606 for each of the years ended June 30, 2015 and 2014.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 8 – COMMITMENTS – Continued

Capital Equipment Lease

During the year ended June 30, 2007, KPBS obtained financing through the University to acquire equipment. Under the original capital lease, payments are due annually from September 2007 until March 2014. In July 2010, the University amended the payment schedule with the March 2011 payment deferred and loan term extended through 2016. In June 2011, the University amended the payment schedule and extended the loan term through 2019.

In November 2013, KPBS obtained financing to acquire certain broadcast equipment. Under the terms of the agreement, payments are due monthly through November 2015.

Capitalized Licensed Software

During the year ended June 30, 2012, the University purchased a software package under a five year lease for KPBS broadcasting and radio needs. Payments are due annually through 2017 for the use of the software. During the year ended June 30, 2015, the University purchased software under a two year lease with payments due annually through 2017.

Capital lease obligation activity for the years ended June 30 is as follows:

	Balance				Balance	Current
	June 30, 2014	Additions	Reductions		June 30, 2015	Portion
Capital lease obligation	\$ 3,021,251	\$ 59,305	\$ (417,775)	\$ 2,662,781	\$ 427,336	
Unamortized refinancing gain	428,450	-	(47,606)	380,844	-	
	<u>\$ 3,449,701</u>	<u>\$ 59,305</u>	<u>\$ (465,381)</u>	<u>\$ 3,043,625</u>	<u>\$ 427,336</u>	

	Balance				Balance	Current
	June 30, 2013	Additions	Reductions		June 30, 2014	Portion
Capital lease obligation	\$ 3,354,478	\$ 59,080	\$ (392,307)	\$ 3,021,251	\$ 422,880	
Unamortized refinancing gain	476,056	-	(47,606)	428,450	-	
	<u>\$ 3,830,534</u>	<u>\$ 59,080</u>	<u>\$ (439,913)</u>	<u>\$ 3,449,701</u>	<u>\$ 422,880</u>	

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 8 – COMMITMENTS – Continued

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, 2015:

Years Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 427,978	\$ 117,197	\$ 545,175
2017	418,618	103,180	521,798
2018	359,811	79,729	439,540
2019	359,457	63,942	423,399
2020	252,707	47,875	300,582
Thereafter	<u>844,209</u>	<u>64,474</u>	<u>908,683</u>
	2,662,780	<u>\$ 476,397</u>	<u>\$ 3,139,177</u>
Unamortized refinancing gain	<u>380,845</u>		
	<u>\$ 3,043,625</u>		

Operating Leases

KPBS leases certain equipment, land, and building and transmitter space under non-cancellable operating leases, which expire on various dates through January 2099. The current monthly rental payments range from approximately \$170 to \$14,600 and several of the agreements allow for annual increases in the base rent. KPBS incurred rental expense for the years ended June 30, 2015 and 2014 of \$415,500 and \$405,800, respectively.

The total minimum rental commitment at June 30, 2015 under the leases mentioned above is due as follows:

Years Ending June 30:

2016	\$ 427,982
2017	433,957
2018	441,545
2019	456,264
2020	258,727
Thereafter	<u>1,379,089</u>
	<u>\$ 3,397,564</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 9 – PENSION AND POSTRETIREMENT BENEFITS

For the Stations' staff employed through SDSU Research Foundation, SDSU Research Foundation provides health insurance benefits for the Stations' retirees who meet certain eligibility requirements as established by Board policy. There are three groups of eligible retirees, as follows:

(i) Group 1 Retirees – individuals who retired prior to July 1, 1991 and, as of July 1, 1991, were receiving benefits under SDSU Research Foundation's "Health Insurance at Retirement" policy, which was approved by the SDSU Research Foundation Board of Directors on May 14, 1984.

(ii) Group 2 Retirees – Individuals who were employed as eligible employees on June 30, 1991 and, at the time of retirement, had 10 year of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 55 (or after attaining age 50 if the individual was employed by SDSU Research Foundation and covered by PERS on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

(iii) Group 3 Retirees – Individuals who were employed as eligible employees on or after July 1, 1991 and, at the time of retirement, had 15 years of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 60, or (b) due to permanent total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

SDSU Research Foundation contracts with TIAA-CREF to provide retirement and disability benefits to its employees. Benefit liabilities are funded through individually owned non-participating annuity contract. The obligation for the payment of benefits has been transferred from SDSU Research Foundation to TIAA-CREF.

In order for the Stations' employees to be eligible for retiree pension and health benefits, the employee must be appointed to an approved class code, work a regular schedule of 20 hours or more per week, and not be a temporary or leased employee. Amounts charged to KPBS from SDSU Research Foundation for pension and other postretirement benefits totaled \$90,904 and \$96,627 for the years ended June 30, 2015 and 2014, respectively, and are recorded as either program services or support services, depending upon the employee's function, on the accompanying statements of revenues, expenses and changes in net assets.

SDSU Research Foundation issues a separate financial report that includes further information on the pension and postretirement benefits. Copies of the SDSU Research Foundation annual financial report may be obtained from the SDSU Research Foundation Executive Office, 5250 Campanile Drive, San Diego, California 92182.

For the Stations' staff employed through the University, the University, as an agency of the State of California, contributes to the California Public Employees' Retirement System ("CalPERS") on behalf of certain employees of the Stations. The State's plan with CalPERS is an agent multiple-employer defined benefit plan that provides a defined benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Act ("PEMHCA") for medical benefits.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015 and 2014

NOTE 9 – PENSION AND POSTRETIREMENT BENEFITS – Continued

The Stations' University-employed personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate. The contribution requirements (i.e., annual required contribution) of the plan members are established and may be amended by CalPERS. Amounts charged to KPBS for its annual required contribution from the University totaled \$379,744 and \$305,594 for the years ended June 30, 2015 and 2014, respectively, and are recorded as direct support and program services or support services expense, depending upon the employee's function. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

NOTE 10 - CONTINGENCIES

From time to time, the Stations are subject to claims and legal suits in the normal course of business. Management believes there will be no material adverse results on their net position as a result of these matters.

On September 29, 2013 a petition was filed with the United States government National Labor Relations Board to recognize certain non-management content development staff as a collective bargaining unit under Screen Actors Guild – American Federal of Television and Radio Artists (“SAG-AFTRA”). On November 18, 2013 the bargaining unit vote was held, affirming the collective bargaining unit and recognizing SAG-AFTRA as the representative. A collective bargaining agreement was reached between the parties executed July 16, 2015. The agreement expires December 31, 2017.

NOTE 11 – RISK MANAGEMENT

The Stations are exposed to risks related to general and commercial liability and workers' compensation. The Stations are covered by insurance through the SDSU Research Foundation and the University to mitigate those risks. Insurance policies provide varying levels of coverage with varying deductibles. The University and SDSU Research Foundation participate in the CSU risk management pool for most of its insurance needs. However, SDSU Research Foundation is partially self-insured for its unemployment and workers' compensation plans. Using insurance policies with commercial carriers to cover these risks of loss, SDSU Research Foundation maintains excess unemployment insurance coverage in the aggregate of \$1,500,000 and excess workers' compensation coverage for claims in excess of \$250,000 per occurrence.

Insurance through the University is included in the University indirect support and allocated to program and support services on the statements of revenues, expenses and changes in net assets. Premiums to SDSU Research Foundation on these insurance policies totaled approximately \$103,800 and \$97,400 for the years ended June 30, 2015 and 2014, respectively.

NOTE 12 – SUBSEQUENT EVENTS

The Stations have evaluated subsequent events through November 23, 2015, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

KPBS FM/TV
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SUPPLEMENTARY SCHEDULE OF DIRECT AND INDIRECT SUPPORT

Year ended June 30, 2015

	KPBS Excluding Direct and Indirect Transfers	SDSU Transfers Direct	SDSU Transfers Indirect	KPBS Combined
Operating revenues:				
Contributions	\$ 20,129,094	\$ -	\$ -	\$ 20,129,094
Corporation for Public Broadcasting grants	3,250,579	-	-	3,250,579
Stations-generated support	668,942	-	-	668,942
Total operating revenues	<u>24,048,615</u>	<u>-</u>	<u>-</u>	<u>24,048,615</u>
Operating expenses:				
Program services:				
Programming and production	9,842,371	-	2,136,348	11,978,719
Broadcasting	3,237,306	751,620	884,181	4,873,107
Program information and promotion	402,729	-	88,492	491,221
Total program services	<u>13,482,406</u>	<u>751,620</u>	<u>3,109,021</u>	<u>17,343,047</u>
Support services:				
Management and general	2,284,188	1,282,801	780,953	4,347,942
Fundraising and membership development	6,480,519	135,154	1,438,089	8,053,762
Underwriting	1,846,011	-	394,632	2,240,643
Total support services	<u>10,610,718</u>	<u>1,417,955</u>	<u>2,613,674</u>	<u>14,642,347</u>
Total operating expenses	<u>24,093,125</u>	<u>2,169,574</u>	<u>5,722,695</u>	<u>31,985,394</u>
Operating income (loss)	<u>(44,510)</u>	<u>(2,169,574)</u>	<u>(5,722,695)</u>	<u>(7,936,779)</u>
Nonoperating revenues (expenses):				
Interest expense	(129,628)	-	-	(129,628)
Interest income, net	148,432	-	-	148,432
Net increase (decrease) in fair value of investments	67,176	-	-	67,176
Other nonoperating expense	(6,599)	-	-	(6,599)
Total nonoperating revenues (expenses), net	<u>79,381</u>	<u>-</u>	<u>-</u>	<u>79,381</u>
Income (loss) before transfers	<u>34,871</u>	<u>(2,169,574)</u>	<u>(5,722,695)</u>	<u>(7,857,398)</u>
San Diego State University transfers:				
Direct financial support	-	2,169,574	-	2,169,574
Indirect financial support	-	-	5,722,695	5,722,695
Total San Diego State University transfers	<u>-</u>	<u>2,169,574</u>	<u>5,722,695</u>	<u>7,892,269</u>
Change in net assets	<u>\$ 34,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>34,871</u>
Net position, beginning of year				<u>16,891,800</u>
Net position, end of year				<u>\$ 16,926,671</u>