KPBS–FM/TV

(a Department of San Diego State University)

Financial Report

June 30, 2005 and 2004

KPBS–FM/TV

(a Department of San Diego State University)

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McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Stephen Weber, President
San Diego State University
San Diego, California

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, 2005, 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. The accompanying financial statements of KPBS as of and for the year ended June 30, 2004 were audited by other auditors whose report thereon dated November 19, 2004 expressed an unqualified opinion.

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, 2005 and 2004, and the changes in its financial position and its cash flows for the years 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 respective financial position of the Department of KPBS FM/TV as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

McGladrey & Pullen, LLP

San Diego, California
September 20, 2005

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, 2005 and 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 Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; 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 Assets: The Statements of Net Assets include all assets and liabilities. Assets and liabilities are reported on an accrual basis as of the statement date. Major categories of restrictions on the net assets of the Stations are also identified.

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

Statement of Cash Flows: The Statements of Cash Flows present the inflows and outflows of cash for the year and are summarized by operating, noncapital 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.

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, 2005 and 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.

The Stations' condensed summary of net assets as of June 30, 2005, 2004 and 2003 are as follows:

Condensed Summary of Net Assets

	June 30, 2005	June 30, 2004	June 30, 2003
Assets:			
Current assets	$ 6,320,789	$ 4,510,581	$ 5,619,613
Capital assets	9,900,792	11,271,755	12,390,344
Other noncurrent assets	7,849,128	5,905,364	1,666,082
Total assets	24,070,709	21,687,700	19,676,039
Liabilities:			
Current liabilities	3,528,032	2,497,400	5,587,746
Noncurrent liabilities	4,882,310	5,136,619	5,402,016
Total liabilities	8,410,342	7,634,019	10,989,762
Net assets:			
Invested in capital assets, net of related debt	4,775,844	5,887,837	6,733,482
Restricted - nonexpendable	682,045	680,217	651,191
Restricted - expendable	2,071,278	1,938,899	1,939,521
Unrestricted	8,131,200	5,546,728	(637,917)
Total net assets	$ 15,660,367	$ 14,053,681	$ 8,686,277

Assets

Total assets increased by approximately $2.0 million or 10% from fiscal year 2003 to 2004 mostly due to an increase in cash and long-term investments. The total assets increase of approximately $2.4 million, or 11%, from 2004 to 2005 was primarily due to an increase in the amount due from SDSU Research Foundation and receivables.

Current assets decreased by approximately $1.1 million, or 20%, from fiscal year 2003 to 2004 due to a decrease in pledge receivables and program rights. During 2004, management reviewed the policy relating to program rights. In the past, the costs of programs purchased for broadcast, identified as program rights on the statements of net assets, were amortized based upon the programs' estimated broadcast schedules and relative values of subsequent broadcasts. PBS content has migrated to current events which have minimal future value. Management decided that a majority of programs do not have a future value and chose to expense the cost in the current year. A pledge receivable of $812,500 at the end of 2003 was collected during 2004 and there are no remaining pledges at end of 2005. Current assets increased by approximately $1.8 million or 40% from 2004 to 2005 due to an increase in the amount due from SDSU Research Foundation as well as trade and grants receivable.

Capital assets decreased by approximately $1.1 million, or 9%, from fiscal year 2003 to 2004 due to depreciation of approximately $1.5 million and the offset of the purchase of property and equipment. Capital assets decreased by approximately $1.4 million, or 12%, from 2004 to 2005 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 fiscal year 2003 to 2004 due to an increase in long-term investments. The significant change in 2004 was primarily due to two significant contributions to the Stations that management invested in long-term investments. Other noncurrent assets increased by $1.9 million, or 33%, due primarily to an increase of approximately $500,000 in noncurrent accounts receivable and the excess value of $830,000 (over the cost of $1,115,000) for the acquisition and donation of KQVO, a radio station in California's Imperial Valley.

Liabilities

Total liabilities decreased by approximately $3.4 million, or 31%, from fiscal year 2003 to 2004 mostly due to a decrease in deferred revenue and payment of an amount due to SDSU Research Foundation. Total liabilities increased by approximately $776,000, or 10%, from 2004 to 2005 primarily due to an increase in accounts payable.

Current liabilities decreased by approximately $3 million, or 55%, from fiscal year 2003 to 2004 principally due to a significant decrease in the amount due to SDSU Research Foundation and a decrease in deferred revenue. Current liabilities increased by approximately $1 million, or 41%, from 2004 to 2005 principally due to a payable to the University. A portion of the Stations' expenses are processed through the University and reimbursed to the University by KPBS funds held at SDSU Research Foundation.

Noncurrent liabilities decreased by approximately $265,000, or 5%, from fiscal year 2003 to 2004 due to the payment of principal on long-term debt. During 2004, the Stations refinanced an equipment loan in conjunction with the University. The loan term was extended by two years, the interest rate was reduced by one hundred and eleven points and the annual payment decreased by $58,000. Noncurrent liabilities decreased by approximately $254,000, or 5%, from 2004 to 2005 due to the payment of principal on long-term debt.

Net Assets

Total net assets increased by approximately $5.4 million, or 62%, from fiscal year 2003 to 2004 due two bequests from two member's trusts, that totaled over $7 million. This increase mainly impacted unrestricted net assets. Total net assets increased by approximately $1.6 million, or 11%, from fiscal year 2004 to 2005 resulting primarily from an increase of approximately $500,000 in noncurrent accounts receivable and the excess value of $830,000 (over the cost of $1,115,000) for the acquisition and donation of KQVO, a radio station in California's Imperial Valley. This increase impacted mainly unrestricted net assets.

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

	June 30, 2005	June 30, 2004	June 30, 2003
Nonexpendable	$ 682,045	$ 680,217	$ 651,191
Expendable:			
Capital campaign	$ 810,634	$ 973,895	$ 1,169,462
Annuity trust agreements	309,845	292,592	163,855
Program production and airing	890,695	627,054	591,521
Scholarship activities	60,104	45,358	14,683
Total restricted expendable net assets	$ 2,071,278	$ 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. Program production and airing increased due to a gift restricted for programming. Scholarship activities increased from market fluctuations.

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Management's Discussion and Analysis

June 30, 2005 and 2004

The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2005, 2004 and 2003 are as follows:

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

	Year Ended June 30,		
	2005	**2004**	**2003**
Operating revenues:			
Contributions	$ 16,653,912	$ 21,442,114	$ 12,979,039
San Diego State University support	6,825,504	7,186,004	6,341,963
Stations generated support	1,647,492	2,854,888	2,753,949
Other operating revenues	4,625	24,082	15,901
Total operating revenues	25,131,533	31,507,088	22,090,852
Operating expenses:			
Program services	16,895,639	18,474,084	15,961,126
Support services	9,391,887	10,057,023	8,264,439
Total operating expenses	26,287,526	28,531,107	24,225,565
Nonoperating revenues (expenses):			
Corporation for Public Broadcasting support	2,492,348	2,503,504	2,005,259
Interest expense	(354,244)	(322,901)	(388,416)
Interest income, net	115,721	86,325	74,671
Net increase (decrease) in fair value of investments	542,340	126,621	(53,819)
Other nonoperating expense	(33,486)	(2,126)	-
Net nonoperating revenue	2,762,679	2,391,423	1,637,695
Change in net assets	1,606,686	5,367,404	(497,018)
Beginning net assets	14,053,681	8,686,277	9,183,295
Ending net assets	$ 15,660,367	$ 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

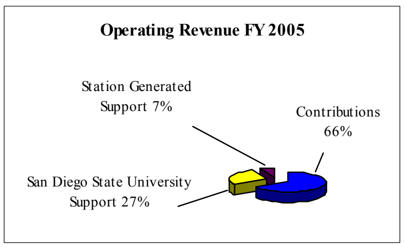
Contributions increased by approximately $8.5 million, or 65%, from fiscal year 2003 to 2004 due to the Stations' success with the vehicle donation program and two large bequests. Contributions decreased by approximately $4.8 million, or 22%, from 2004 to 2005 due to the absence of the two bequests from 2004. Despite the absence of these bequests, the Stations were able to maintain a portion of the prior year increase due to significant increases in grant and underwriting revenue for 2005.

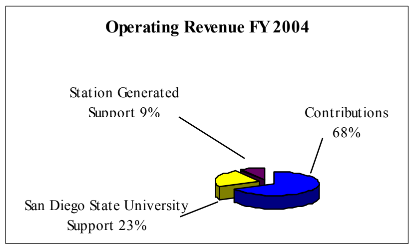
Support from the University increased by approximately $844,000, or 13%, from fiscal year 2003 to 2004. This amount represents direct financial support and indirect support received from the University. Direct financial support received from the University decreased $24,000 from 2003 to 2004. Direct support consisted primarily of salaries, space rental and utilities. Indirect support received from the University increased $868,000 from 2003 to 2004. Support from the University decreased by approximately $360,500, or 5%, from 2004 to 2005. The direct financial support received from the University decreased $48,039 from 2004 to 2005. Indirect support received from the University decreased $312,460 from 2004 to 2005. A portion of the University's general overhead costs relates to and benefits the programs of the Stations. Such items, allocated based upon a square footage percentage, include administration, maintenance and repairs. These services were provided without cost and have been allocated to the Stations. The cost of the services is reported as revenue and expense in the accompanying statements.

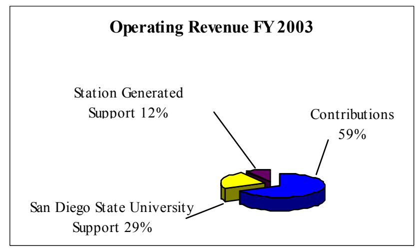
Station-generated support increased by approximately $101,000, or 4%, from fiscal year 2003 to 2004 due to an increase of revenue for a project supported by four public broadcasting stations in the state of California. The project, California Connected, is a series of TV and radio shows discussing issues facing all Californians. The station-generated support decrease of approximately $1.2 million, or 42%, from 2004 to 2005 was due to the Police Officers Standard Training (POST) contract which expired in 2004. Revenue from this project totaled approximately $1.2 million in 2004.

Other operating revenue increased by approximately $8,000, or 51%, from fiscal year 2003 to 2004 due to an increase in the royalties for a program that was in demand abroad. From 2004 to 2005, other operating revenue decreased by approximately $19,500, or 81%, due to the decision of the Stations to no longer produce in-house documentary projects, therefore significantly reducing royalties.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2005, 2004 and 2003:





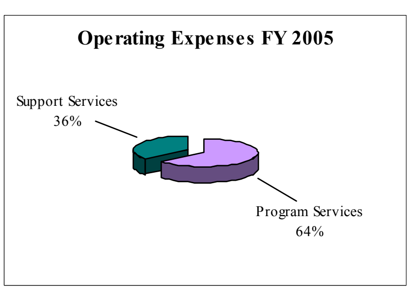


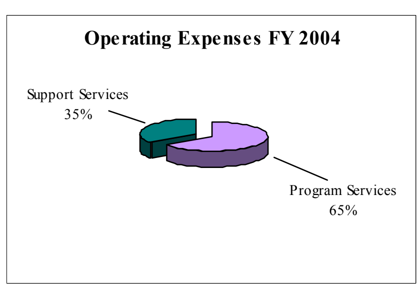
Operating Expenses

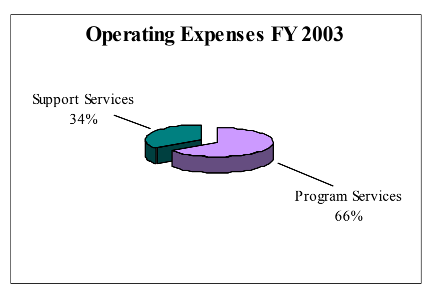
Program service expenses increased by approximately $2.5 million, or 16%, from fiscal year 2003 to 2004. The program service category contains expenses relating to program and production, broadcasting and public information. The majority of the increase is related to program and production expenses. A portion of the fluctuation coincides with the related increases discussed previously for San Diego State University support revenue. Program service expenses decreased by approximately $1.6 million, or 8%, from 2004 to 2005. The completion of the POST contract discussed earlier was the primary reason for the 2005 decrease. Additionally, management made the decision in 2004 to expense the remainder of its program rights. Management determined that the programs previously amortized were mainly current in nature and, therefore, should no longer be amortized over a useful life. This resulted in an increase in this expense for 2004 and a corresponding decrease in 2005.

Support service expenses increased by approximately $1.8 million, or 22%, from fiscal year 2003 to 2004. Underwriting expenses increased due to the vehicle donation program which coincides with the related increase discussed previously in contribution revenue. A portion of the fluctuation coincides with the related increases discussed previously for San Diego State University support revenue. Support service expenses decreased by approximately $665,000, or 7%, from 2004 to 2005. This decrease is a result of a decrease in donated services and indirect support from the University.

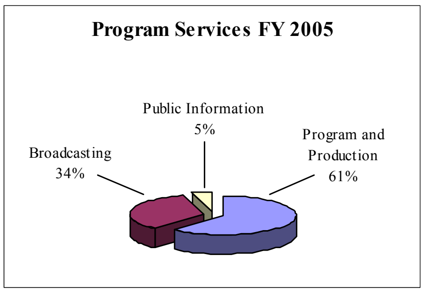
The following charts present the distribution of resources in support of the Stations for fiscal years 2005, 2004 and 2003:

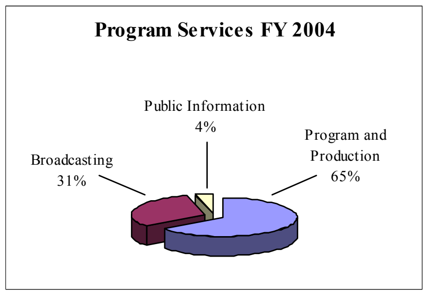


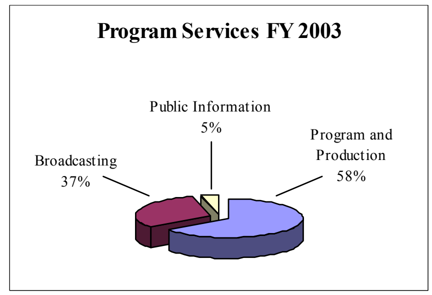




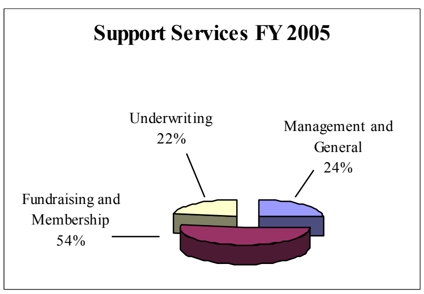
A further breakdown of program services is provided as follows:

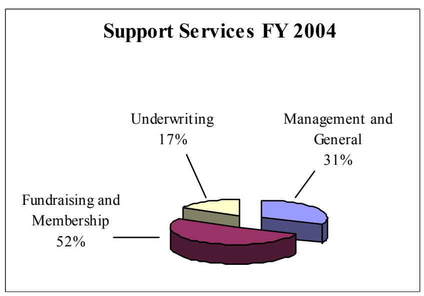


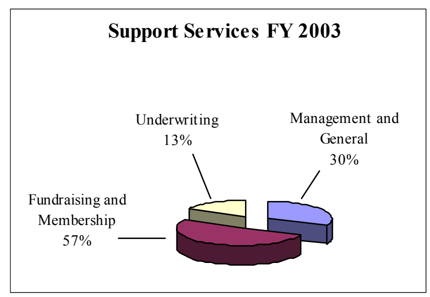




A further breakdown of support services is provided as follows:







Nonoperating Revenues and Expenses

Nonoperating revenues and expenses increased by approximately $754,000, or 46%, from fiscal year 2003 to 2004 and increased by approximately $371,000, or 16%, from 2004 to 2005. Nonoperating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are funding from the Corporation for Public Broadcasting, 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 fiscal year 2003 to 2004 due to an increase in the Stations' nonfederal financial support. The grants received from CPB are based on nonfederal financial support received during 2002. During that year the Stations reported a 25% increase in support. Funding received by CPB remained fairly constant from 2004 to 2005.

The net increase in fair value of investments increased by approximately $180,000 from fiscal year 2003 to 2004 due to ongoing fluctuations in the market value of investments held. The net increase in fair value of investments increased by approximately $416,000, or 328%, from 2004 to 2005 due to an increase in the amount of investments. Interest income for the Stations increased by approximately $12,000, or 16%, from 2003 to 2004 and increased approximately $29,000, or 34%, from 2004 to 2005 due to the increase in the amount due from SDSU Research Foundation. Interest expense decreased by approximately $66,000, or 17%, from 2003 to 2004. From 2004 to 2005, interest expense increased by approximately $31,000, or 10%.

Capital Assets

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

	June 30		
	2005	2004	2003
Building under capital lease	$ 6,228,038	$ 6,550,178	$ 6,872,318
Studio/broadcast equipment	1,807,020	2,697,847	3,241,967
Furniture and fixtures	391,837	518,371	448,910
Transmission/antenna/tower	1,357,539	1,505,359	1,598,584
Work in progress	116,358	-	228,565
KQVO radio station license	1,555,000	-	-
Goodwill	390,000	-	-
Total capital assets, net of accumulated depreciation	$ 11,845,792	$ 11,271,755	$ 12,390,344

Capital assets decreased by approximately $1.1 million, or 9%, from fiscal year 2003 to 2004 due to depreciation of approximately $1.5 million offset by the purchase of property and equipment. Capital assets increased by approximately $574,000, or 5%, from 2004 to 2005 due to depreciation of approximately $1.6 million offset by the purchase of property and equipment and KQVO**.**

Long-term Debt Obligations

Debt outstanding at June 30, 2005, 2004 and 2003 is summarized below by type of debt instrument:

	June 30,		
	2005	2004	2003
Capital Lease	$ 4,293,242	$ 4,429,315	$ 4,559,835
Note Payable	831,706	954,604	1,097,029
Total	5,124,948	5,383,919	5,656,864
Less current portion	(268,764)	(258,971)	(293,597)
Total long-term debt, net	$ 4,856,184	$ 5,124,948	$ 5,363,267

Long-term debt decreased by approximately $238,000, or 4%, from fiscal year 2003 to 2004 due to the payment of principal on long-term debt. During 2004, the University refinanced an equipment loan of which KPBS is responsible for a portion of that loan to the University. The loan term was extended by two years, the interest rate was reduced by one hundred and eleven basis points and the annual payment decreased by $58,000. Long-term debt decreased by approximately $269,000, or 5%, from 2004 to 2005 due to the payment of principal on long-term debt.

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Statements of Net Assets

June 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash funds held by San Diego State University (note 2)	$ —	$ 263,183
Due from San Diego State University Research Foundation	3,616,849	2,317,909
Accounts receivable (note 4)	2,209,324	1,803,777
Grants receivable	445,611	56,737
Prepaid expenses	49,005	68,975
Total current assets	6,320,789	4,510,581
Noncurrent assets:		
Accounts receivable (note 4)	706,250	136,000
Long-term investments (note 3)	2,424,659	3,140,019
Restricted assets-investments (note 3)	2,753,215	2,619,116
Capital assets, net (notes 5, 7 and 10)	11,845,792	11,271,755
Other assets	20,004	10,229
Total noncurrent assets	17,749,920	17,177,119
Total assets	24,070,709	21,687,700
Liabilities		
Current liabilities		
Due to San Diego State University	1,025,575	276,029
Accounts payable	498,746	544,999
Accrued expenses	746,461	817,964
Deferred revenue	988,486	599,437
Note payable-current portion (note 6)	127,137	122,898
Capital lease obligation-current portion (note 7)	141,627	136,073
Total current liabilities	3,528,032	2,497,400
Noncurrent liabilities		
Note payable, net of current portion (note 6)	704,569	831,706
Capital lease obligation, net of current portion (note 7)	4,151,615	4,293,242
Other liabilities	26,126	11,671
Total noncurrent liabilities	4,882,310	5,136,619
Total liabilities	8,410,342	7,634,019
Commitments and contingencies (notes 7, 8 and 9)		
Net assets		
Net assets:		
Invested in capital assets, net of related debt	6,720,844	5,887,837
Restricted for:		
Nonexpendable - endowments	682,045	680,217
Expendable:		
Capital campaign	810,634	973,895
Annuity trust agreements	309,845	292,592
Program production and airing	890,695	627,054
Scholarship activities	60,104	45,358
Unrestricted	6,186,200	5,546,728
Total net assets	$ 15,660,367	$ 14,053,681

See accompanying notes to financial statements.

KPBS–FM/TV

(A Department of San Diego State University)

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues (note 2):		
Contributions	$ 16,653,912	$ 21,442,114
San Diego State University support:		
Direct financial support	2,164,437	2,212,476
Indirect noncash support	4,661,067	4,973,528
Station-generated support	1,647,492	2,854,888
Other operating revenues	4,625	24,082
Total operating revenues	25,131,533	31,507,088
Operating expenses (notes 7, 8 and 9):		
Program services:		
Programming and production	10,407,033	11,954,323
Broadcasting	5,804,707	5,804,091
Program information and promotion	683,899	715,670
Total program services	16,895,639	18,474,084
Support services:		
Management and general	2,282,771	3,140,975
Fundraising and membership development	5,079,507	5,208,812
Underwriting	2,029,609	1,707,236
Total support services	9,391,887	10,057,023
Total operating expenses	26,287,526	28,531,107
Operating income (loss)	(1,155,993)	2,975,981
Nonoperating revenues (expenses):		
Corporation for Public Broadcasting grants	2,492,348	2,503,504
Interest expense (notes 6 and 7)	(354,244)	(322,901)
Investment income, net	115,721	86,325
Net increase in fair value of investments	542,340	126,621
Other nonoperating expense	(33,486)	(2,126)
Net nonoperating revenue	2,762,679	2,391,423
Change in net assets	1,606,686	5,367,404
Net assets, beginning of year	14,053,681	8,686,277
Net assets, end of year	$ 15,660,367	$ 14,053,681

See accompanying notes to financial statements.

KPBS–FM/TV
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Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Contributions	$ 13,704,588	$ 20,821,887
San Diego State University support	2,164,437	2,212,476
Station-generated support	1,659,875	2,891,972
Other operating receipts	4,625	24,082
Payments to suppliers	(8,515,360)	(10,310,028)
Payments to employees	(9,102,903)	(8,878,989)
Administrative fees paid to San Diego State University Research Foundation	(680,528)	(749,118)
Net cash provided by (used in) operating activities	(765,266)	6,012,282
Cash flows from noncapital and related financing:		
Corporation for Public Broadcasting support	2,492,348	2,493,079
Amounts paid to San Diego State University Research Foundation	(1,298,940)	(3,263,789)
Net cash provided by (used in) noncapital and related financing activities	1,193,408	(770,710)
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital lease	(258,971)	(272,945)
Interest paid	(354,244)	(323,284)
Purchase of intangible assets	(1,115,000)	—
Purchase of capital assets	(202,428)	(463,302)
Net cash (used in) capital and related financing activities	(1,930,643)	(1,059,531)
Cash flows from investing activities:		
Investment income	432,683	101,142
Proceeds from sale of investments	1,148,731	100,000
Purchase of investments	(342,096)	(4,120,000)
Net cash provided by (used in) investing activities	1,239,318	(3,918,858)
Net increase (decrease) in cash and cash equivalents	(263,183)	263,183
Cash funds held by San Diego State University, beginning of year	263,183	—
Cash funds held by San Diego State University, end of year	$ —	$ 263,183

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2005 and 2004

		2005		2004
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating (loss) income	$	(1,155,993)	$	2,975,981
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization		1,591,302		1,579,765
Donated equipment		(51,400)		—
Noncash contribution of intangible asset		(830,000)		—
(Increase) decrease in assets:				
Accounts receivable		(975,795)		57,296
Pledges receivable		—		812,500
Grants receivable		(388,874)		201,550
Prepaid expenses		19,970		82,247
Program inventory		—		28,512
Program rights		—		938,545
Other assets		(9,775)		(10,229)
Increase (decrease) in liabilities:				
Accounts payable		829,905		(100,693)
Accrued expenses		(71,503)		136,321
Deferred revenue		262,437		(701,184)
Other liabilities		14,460		11,671
Net cash provided by (used in) operating activities	$	(765,266)	$	6,012,282
Supplemental disclosure of noncash investing activity:				
Increase in fair value of investments	$	542,340	$	126,621

See accompanying notes to financial statements.

(1) Organization

KPBS–FM/TV (the Stations) is 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 Research Foundation (SDSU Research 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 the activities and balances associated with KPBS-FM/TV and are not intended to present the financial position or changes in financial position or cash flows of SDSU Research Foundation or the University.

Affiliated organizations

The Station is related to auxiliaries of the University, including San Diego State University 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.

(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. The Stations' financial statements are presented in accordance with the requirements of enterprise funds.

(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 can reasonably 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

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' cash equivalents at June 30, 2004 were $263,000. The Stations had no cash on hand at June 30, 2005.

(e) Due from San Diego State University 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 statement of net assets.

(f) Investments

Investments represent the Stations' share of the internal investment pool of SDSU Research Foundation. Securities of the pool are stated at fair value. Change in the fair value of investments is included in the statements of revenues, expenses, and changes in net assets as nonoperating revenues (expenses).

(g) 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
Transmisson/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 7) 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.

Intangible assets are recorded at cost. Intangible assets consist of broadcast license and goodwill associated with the acquisition of KQVO radio station. The broadcast license is renewable every eight years at a nominal fee to the Stations. The intangible has an indefinite life and is not amortized.

It is the Stations' policy to review the asset annually for impairment and adjust the asset to fair value if impairment has occurred. The goodwill will be amortized over a period of 40 years.

(h) 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 deferred. The Stations received approximately 60% and 63% of their revenue from contributions in the years ended June 30, 2005 and 2004, 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 contribution receivables and considers a donor's financial condition and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of contribution receivables previously written off are recorded when received.

(i) San Diego State University Support

Direct financial support received from the University for the years ended June 30, 2005 and 2004 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2005 and 2004 consists of $4,661,067 and $4,973,528, 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' expenses to certain costs of the SDSU Research 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.

(j) Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby 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 associated with the Community Service Grants awarded in prior years.

The grants are reported in the financial statements as nonoperating revenue. Certain guidelines set by the Corporation for Public Broadcasting 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.

(k) Deferred Revenue

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

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

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 is a campus of the California State University system, which is an agency of the State of California and is treated as a governmental entity for tax purposes. It is generally not subject to federal or state income taxes. The SDSU Research Foundation is generally exempt from income taxes under Sections 50 (C)(3) of the IRC and Section 23701d 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 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. The Stations had no tax liability for the years ended June 30, 2005 and 2004.

(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.

(p) Reclassifications

Certain reclassifications have been made in the 2004 statement of revenues, expenses, and changes in net assets in order to conform with the current year presentation, with no effect on the change in net assets.

(q) Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Stations

- GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries
- GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions
- GASB Statement No. 46, Net Assets Restricted for Enabling Legislation (An Amendment of GASB Statement No. 34)
- GASB Statement No. 47, Accounting for Termination Benefits

(3) Investments

Investments are reported on the statement of net assets as of June 30, 2005 and 2004 as follows:

	2005	2004
Long-term investments	$ 2,424,659	$ 3,140,019
Restricted assets-investments	2,753,215	2,619,116
	$ 5,177,874	$ 5,759,135

KPBS' 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 a 70% equity, 25% fixed income, and 5% real estate asset mix.

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. The average maturity of the investment pool managed by the SDSU Research foundation is approximately 2 years.

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. The internal investment pool of the SDSU Research Foundation is unrated.

(4) Accounts Receivable

Accounts receivable at June 30, 2005 and 2004 consisted of the following:

	2005	
	Current	Noncurrent
Underwriter receivables	$ 2,095,810	$ 706,250
Other trade receivables	113,514	-
	$ 2,209,324	$ 706,250

	2004 Current	2004 Noncurrent
Underwriter receivables	$ 1,659,011	$ 136,000
Other trade receivables	144,766	-
	$ 1,803,777	$ 136,000

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 and 2004 consisted of the following:

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Nondepreciable capital assets and intangibles:					
Deposit on capital assets in construction	$ -	$ 216,358	$ -	$ (100,000)	$ 116,358
KQVO radio station license	-	1,455,000	-	100,000	1,555,000
Total nondepreciable capital assets	-	1,671,358	-	-	1,671,358
Depreciable capital assets:					
Buildings under capital lease	9,664,197	-	-	-	9,664,197
Studio/broadcast equipment	9,566,617	64,064	(289,915)	-	9,340,766
Furniture and fixtures	1,777,008	52,147	(591,250)	-	1,237,905
Transmission/antenna/tower	2,698,930	21,257	(307,265)	-	2,412,922
Goodwill	-	390,000	-	-	390,000
Total depreciable capital assets	23,706,752	527,468	(1,188,430)	-	23,045,790
Total before depreciation	23,706,752	2,198,826	(1,188,430)	-	24,717,148
Less accumulated depreciation:					
Buildings under capital lease	3,114,019	322,140	-	-	3,436,159
Studio/broadcast equipment	6,868,770	946,125	(281,149)	-	7,533,746
Furniture and fixtures	1,258,637	157,496	(570,957)	892	846,068
Transmission/antenna/tower	1,193,571	165,541	(302,837)	(892)	1,055,383
Total accumulated depreciation	12,434,997	1,591,302	(1,154,943)	-	12,871,356
Net capital assets	$ 11,271,755	$ 607,524	$ (33,487)	$ -	$ 11,845,792

	Balance June 30, 2003	Additions	Retirements	Transfers	Balance June 30, 2004
Nondepreciable capital assets:					
Work in progress	$ 228,565	$ -	$ -	$ (228,565)	$ -
Total nondepreciable capital assets	228,565	-	-	(228,565)	-
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	2,656,250	60,979	(18,299)	-	2,698,930
Total depreciable capital assets	23,249,548	463,302	(234,663)	228,565	23,706,752
Total before depreciation	23,478,113	463,302	(234,663)	-	23,706,752
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	1,057,666	154,204	(18,299)	-	1,193,571
Total accumulated depreciation	11,087,769	1,579,765	(232,537)	-	12,434,997
Net capital assets	$ 12,390,344	$ (1,116,463)	$ (2,126)	$ -	$ 11,271,755

(a) The building under capital lease represents the Station-occupied portion of the Gateway Center and is pledged as collateral for debt issued by the SDSU Research Foundation whose outstanding balance at June 30, 2005 and 2004 was approximately $8,035,000 and $8,305,000, respectively.

Depreciation expense totaled $1,591,302 and $1,579,765 for the years ended June 30, 2005 and 2004, respectively, and was allocated among expenses in the accompanying statement of revenues, expenses, and changes in net assets as follows:

	2005	2004
Program Services	$ 322,140	$ 322,140
Support Services	1,269,162	1,257,625
Total depreciation	$ 1,591,302	$ 1,579,765

(6) Long-Term Debt Obligations

Long-term debt obligations activity for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Current portion
Note payable	$ 954,604	$ -	$ (122,898)	$ 831,706	$ 127,137

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

	Principal	Interest	Total
Year Ended June 30:			
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	145,607	10,218	155,825
2011	150,629	5,196	155,825
	$ 831,706	$ 103,245	$ 934,951

Interest incurred on the note payable amounted to $30,102 and $39,965 for the years ended June 30, 2005 and 2004, respectively.

(7) 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 the 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 is to be paid through the term of the capital lease.

Capital lease obligations activity for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Current portion
Capital lease obligation	$ 4,429,315	$ -	$ (136,073)	$ 4,293,242	$ 141,627

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, 2005:

	Principal	Interest	Total
Year Ended June 30:			
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
	$ 4,293,242	$ 2,644,887	$ 6,938,129

(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 $75 to $8,934 and several of the agreements allow for annual increases in the base rent. The Stations' incurred rental expense for the years ended June 30, 2005 and 2004 of $328,742 and $307,509, respectively.

The total minimum rental commitment at June 30, 2005 under the leases mentioned above is due as follows:

Year ending June 30:		
2006	$	203,248
2007		116,422
2008		120,580
2009		126,564
2010		139,327
	$	706,141

(8) Pension and Postretirement Benefits

For Stations' staff employed through the 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 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 years of service as eligible employees, 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 employed by the 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 eligible employees, 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. All pension plan liabilities are fully funded through individually owned annuity contracts. 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 insurance 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 $92,005 and $91,472 for the years ended June 30, 2005 and 2004, 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.

For Stations' staff employed through San Diego State 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. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which 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 Care Act (PEMHCA) for medical benefits.

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 of the plan members are established and may be amended by CalPERS. Amounts charged to KPBS from the University totaled $212,684 and $183,260 for the years ended June 30, 2005 and 2004, respectively, and are recorded as direct support and program services or support services expense, depending upon the employee's function.

(9) 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 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 California State University risk management pool for most of its insurance needs. However, the 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 $1,000,000 and excess workers' compensation coverage for claims in excess of $250,000 per occurrence.

Insurance through the University is included in San Diego State University indirect support and allocated to program and support services on the statement of revenue, expenses, and changes in net assets. There were no settlements in excess of insurance coverage. Premiums to SDSU Research Foundation for insurance policies totaled approximately $87,000 and $90,000 for the years ended June 30, 2005 and 2004, respectively.

(10) Purchase of KQVO

On 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 was in effect until the FCC issued a final order on the transfer of the radio license. In May 2005 the final order was issued and the purchase of the FM radio station KQVO was finalized. As stated in the Asset Purchase Agreement the purchase price of $1.1 million was intended to be a bargain sale acknowledged by the buyer and the seller. As a result, the asset was recorded as an intangible broadcast license asset and goodwill of $1,555,000 and $390,000, respectively, and a contribution was recorded in the amount of $830,000. The broadcast license is renewable every eight years at a nominal fee to the Stations. As a result, there was no amortization recorded during the year ended June 30, 2005 and the asset will be reviewed on an annual basis for impairment. The goodwill will be amortized over 40 years.