

KPBS FM/TV

(A Department of San Diego State University)

Financial Report
June 30, 2012 and 2011

KPBS FM/TV

(A Department of San Diego State University)

Table of Contents

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-12
Financial Statements:	
Statements of Net Assets	13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15-16
Notes to Financial Statements	17-32
Supplementary Information:	
Supplementary Schedule of Direct and Indirect Support	33

Independent Auditor's Report

Tom Karlo, General Manager
KPBS FM/TV
San Diego, CA

We have audited the accompanying statements of net assets of KPBS FM/TV (KPBS), a department of San Diego State University (the University), as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2012 and 2011, 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 (U.S. GAAP).

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KPBS FM/TV as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. GAAP. 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.

Our audit for the year ended June 30, 2012 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, 2012 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.

McGladrey LLP

San Diego, CA
November 19, 2012

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. 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. Long-term investments are reported at fair value 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.

Statements 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.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. 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 fiscal years June 30, 2012, 2011 and 2010, respectively, are as follows:

Condensed Summary of Net Assets

	June 30,		
	2012	2011	2010
Assets:			
Current assets	\$ 6,260,477	\$ 6,778,164	\$ 5,742,190
Capital assets, net	12,603,910	10,923,485	7,389,375
Other noncurrent assets	5,522,632	6,004,500	5,356,985
Total assets	<u>24,387,019</u>	<u>23,706,149</u>	<u>18,488,550</u>
Liabilities:			
Current liabilities	3,830,755	4,735,603	3,063,391
Noncurrent liabilities	5,500,079	5,978,281	4,508,086
Total liabilities	<u>9,330,834</u>	<u>10,713,884</u>	<u>7,571,477</u>
Net assets:			
Invested in capital assets, net of related debt	6,516,483	4,452,986	2,733,800
Restricted - nonexpendable	736,787	689,406	681,286
Restricted - expendable	1,294,840	1,423,040	1,243,325
Unrestricted	6,508,075	6,426,833	6,258,662
Total net assets	<u>\$ 15,056,185</u>	<u>\$ 12,992,265</u>	<u>\$ 10,917,073</u>

Assets

Total assets increased \$5,218,000 and \$681,000 from 2010 to 2011 and from 2011 to 2012, respectively. The increase in total assets for 2011 was due to the significant investment in capital projects and improved investment performance during the period. The increase in total assets for 2012 was primarily due to the continued investment in capital projects offset by a reduction in the value of investments resulting from market conditions and a decrease in noncurrent accounts receivable.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

Capital assets increased approximately \$3,534,000 from 2010 to 2011 primarily due to investments in digital studio and broadcast equipment and remodel of the Gateway Center newsroom and administrative offices. Capital assets increased approximately \$1,680,000 from 2011 to 2012 primarily due to completion of the Gateway Center remodel and investment in the Mount Soledad radio transmitter and tower relocated from Mount San Miguel.

Other noncurrent assets increased by \$648,000 from 2010 to 2011 due to positive changes in the fair market value of the managed investment portfolio. Other noncurrent assets decreased by \$482,000 from 2011 to 2012 due to a decrease in the fair market value of the managed investment portfolio and a decrease in noncurrent accounts receivable.

Liabilities

Total liabilities increased from 2010 to 2011 by \$3,142,000. The increase during 2010 to 2011 primarily resulted from both an increase in deferred revenues of approximately \$900,000 and the \$2,000,000 loan from San Diego State University to finance the Station's investment in digital studio and broadcast equipment. Total liabilities decreased from 2011 to 2012 by \$1,383,000 primarily due to a decrease in deferred revenues of approximately \$1,277,000 resulting from completion of the Gateway Center remodel and scheduled payments made against outstanding notes payable and capital lease obligations.

Net Assets

Total net assets increased \$2,075,000 from 2010 to 2011 primarily due to the \$1,151,000 operating income (net of San Diego State University transfers), the net increase in the fair market value of investments of \$791,000 and net interest and other income of \$133,000. Total net assets increased \$2,064,000 from 2011 to 2012 primarily due to the \$2,217,000 operating income (net of San Diego State University transfers), the net decrease in the fair market value of investments of \$296,000 and net interest and other income of \$143,000.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

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:

	June 30,		
	2012	2011	2010
Nonexpendable	\$ <u>736,787</u>	\$ <u>689,406</u>	\$ <u>681,286</u>
Expendable:			
Capital campaign	\$ 619,226	\$ 647,745	\$ 678,412
Annuity trust agreements	77,164	108,111	117,391
Program production and airing	416,285	472,106	294,099
Scholarship activities	<u>182,165</u>	<u>195,078</u>	<u>153,423</u>
Total restricted expendable net assets	<u>\$ 1,294,840</u>	<u>\$ 1,423,040</u>	<u>\$ 1,243,325</u>

The Capital campaign fund was a result of contributions donated for expenditures of the Gateway Center. The Program production and airing fund was a result of a contribution for the KPBS Radio Reading Service. The decrease in the restricted expendable net assets resulted from the general decrease in investment market values during the year and the maturity of annuity trust agreements, including several that under donor requirement were reclassified as nonexpendable.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

The Stations' condensed summary of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2012, 2011 and 2010, respectively, are as follows:

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,		
	2012	2011	2010
Operating revenues:			
Contributions	\$ 19,542,732	\$ 17,160,247	\$ 14,847,953
Corporation for Public Broadcasting grants	2,590,006	2,523,830	2,470,033
Stations-generated support	688,999	1,489,714	855,988
Total operating revenues	<u>22,821,737</u>	<u>21,173,791</u>	<u>18,173,974</u>
Operating expenses:			
Program services	14,818,161	14,102,699	13,330,272
Support services	12,240,172	12,815,164	11,859,519
Total operating expenses	<u>27,058,333</u>	<u>26,917,863</u>	<u>25,189,791</u>
Operating loss	<u>(4,236,596)</u>	<u>(5,744,072)</u>	<u>(7,015,817)</u>
Nonoperating revenues (expenses):			
Interest expense	(177,302)	(189,957)	(114,709)
Interest income, net	322,087	327,856	324,341
Net increase (decrease) in fair value of investments	(296,150)	790,588	396,064
Other nonoperating expense	(2,159)	(3,990)	(18,500)
Total nonoperating revenue (expense), net	<u>(153,524)</u>	<u>924,497</u>	<u>587,196</u>
Loss before transfers	(4,390,120)	(4,819,575)	(6,428,621)
San Diego State University transfers	6,454,040	6,894,767	6,280,209
Change in net assets	2,063,920	2,075,192	(148,412)
Net assets, beginning of year	<u>12,992,265</u>	<u>10,917,073</u>	<u>11,065,485</u>
Net assets, end of year	<u>\$ 15,056,185</u>	<u>\$ 12,992,265</u>	<u>\$ 10,917,073</u>

Operating Revenues and Expenses

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

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

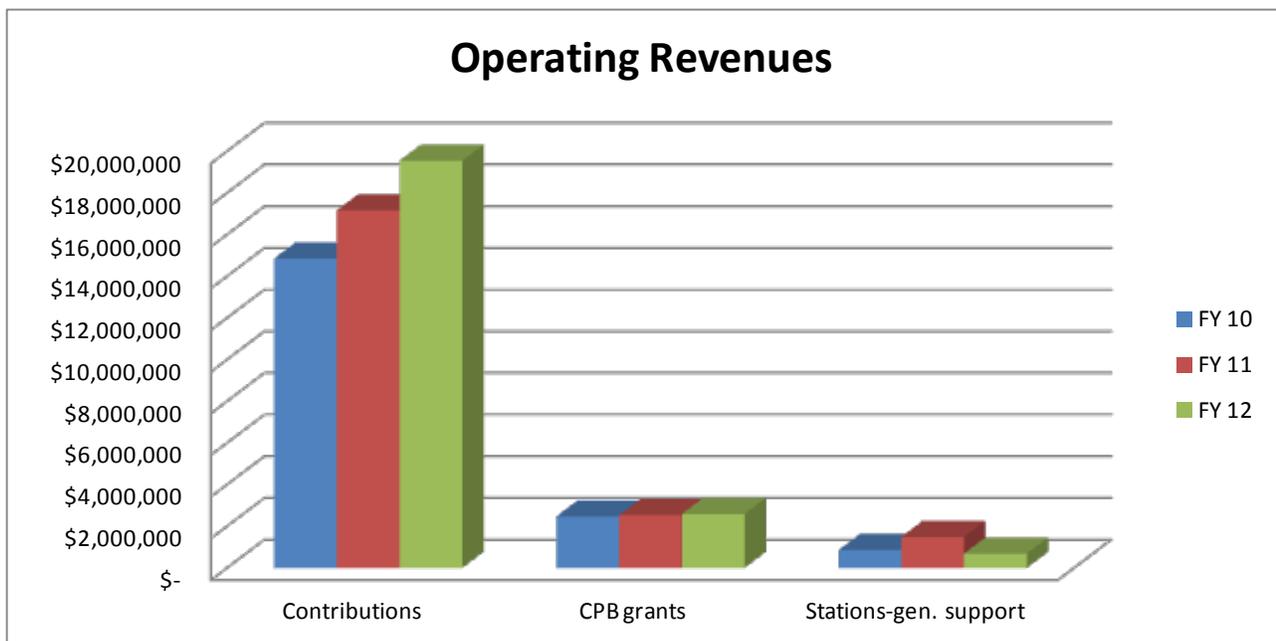
Operating Revenues

Contributions increased \$2,312,000 from 2010 to 2011 resulting from recognition of major gift revenues of \$1,434,000 related to the remodel of the Gateway Center newsroom and administrative offices, \$514,000 of revenue related to investments in digital studio and broadcast equipment and \$364,000 net revenue due to various new programs. Contributions increased \$2,382,000 from 2011 to 2012 resulting from general increases in several areas including grants \$496,000, underwriting \$524,000, planned giving \$670,000, major gifts \$528,000 and other \$164,000.

Funding received from the Corporation for Public Broadcasting (CPB) increased \$54,000 and \$66,000 during 2010 to 2011 and 2011 to 2012, respectively, due to relative changes in nonfederal financial support during 2009 and 2010. CPB grants are calculated based on nonfederal financial support measured during the fiscal year period which is two fiscal years prior to the grant.

Stations-generated support increased \$634,000 from 2010 to 2011 primarily resulting from receipts designated for investments in digital studio and broadcast equipment. This amount decreased approximately \$801,000 from 2011 to 2012 primarily due to completion of the digital studio and broadcast equipment project of \$586,000 and a general decrease in other areas of \$215,000 including the one-time receipt of \$66,000 from investment property insurance proceeds.

The following chart presents the proportional share that each category of operating revenues contributed to the totals for fiscal years 2012, 2011 and 2010:



KPBS FM/TV

(A Department of San Diego State University)

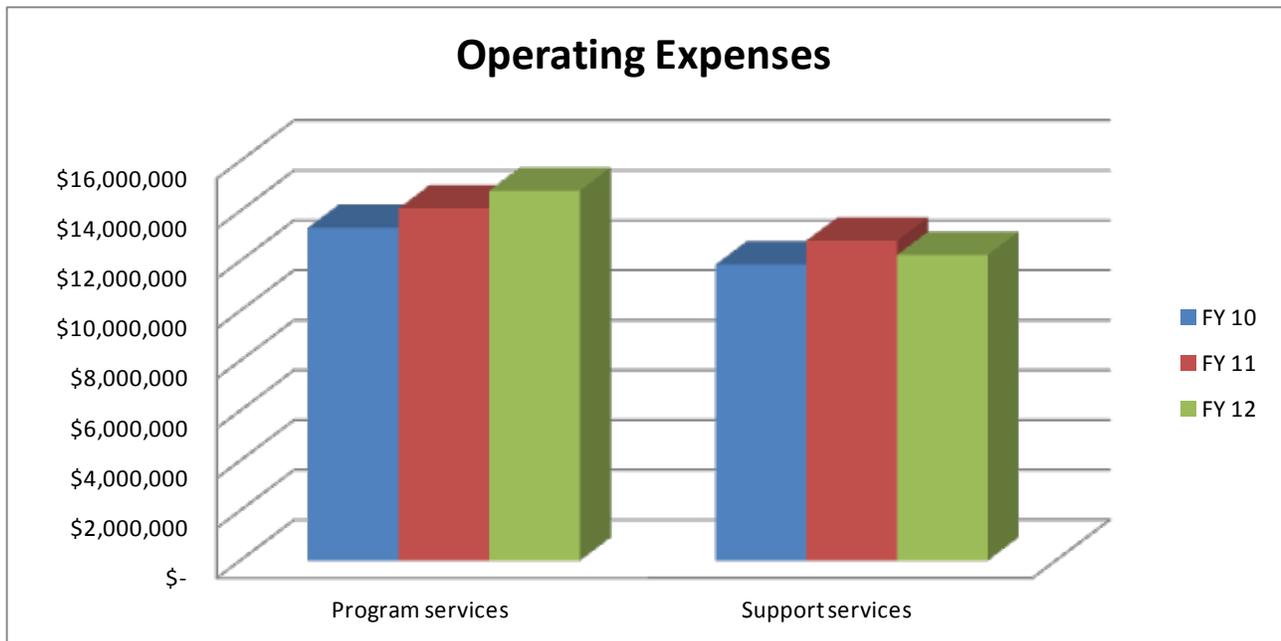
Management's Discussion and Analysis

June 30, 2012 and 2011

Operating Expenses

Program services expenses increased by \$772,000 and \$715,000 from 2010 to 2011 and 2011 to 2012, respectively, due to new programs and initiatives and expenditure allocations related to San Diego State University indirect financial support.

Support services expenses increased by \$956,000 during 2011 primarily due to expenditure increases in direct mail, the addition of new events including the KPBS Gala and San Diego State University indirect financial support expenditure allocations. Support services expenses decreased \$575,000 during 2012 due primarily to expenditure decreases in professional services, moving expenses relative to the Gateway building and San Diego State University indirect financial support expenditure allocations. The following chart presents the distribution of resources in support of the Stations for fiscal years 2012, 2011 and 2010:



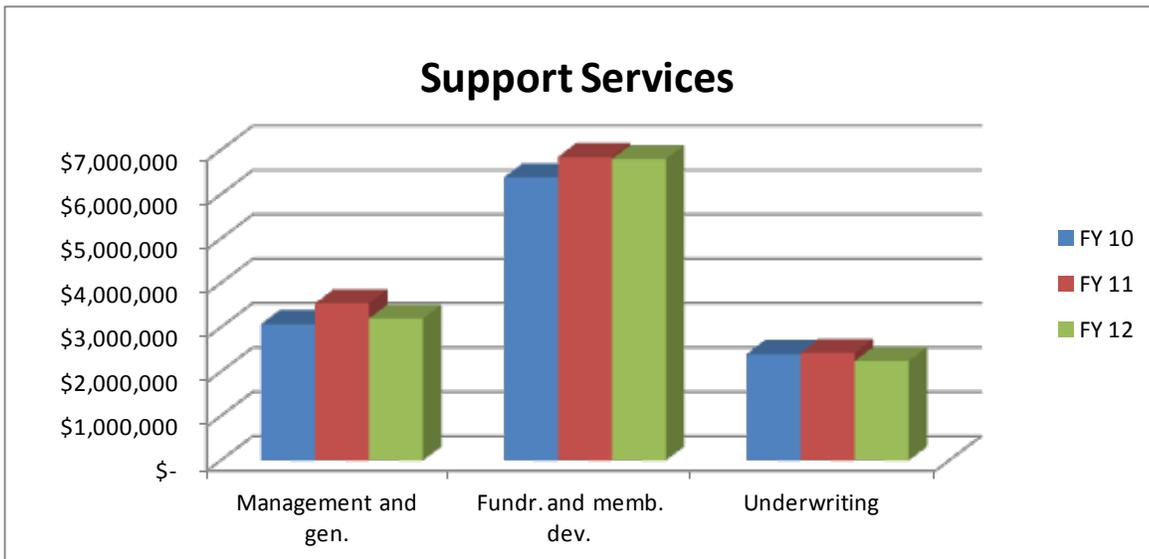
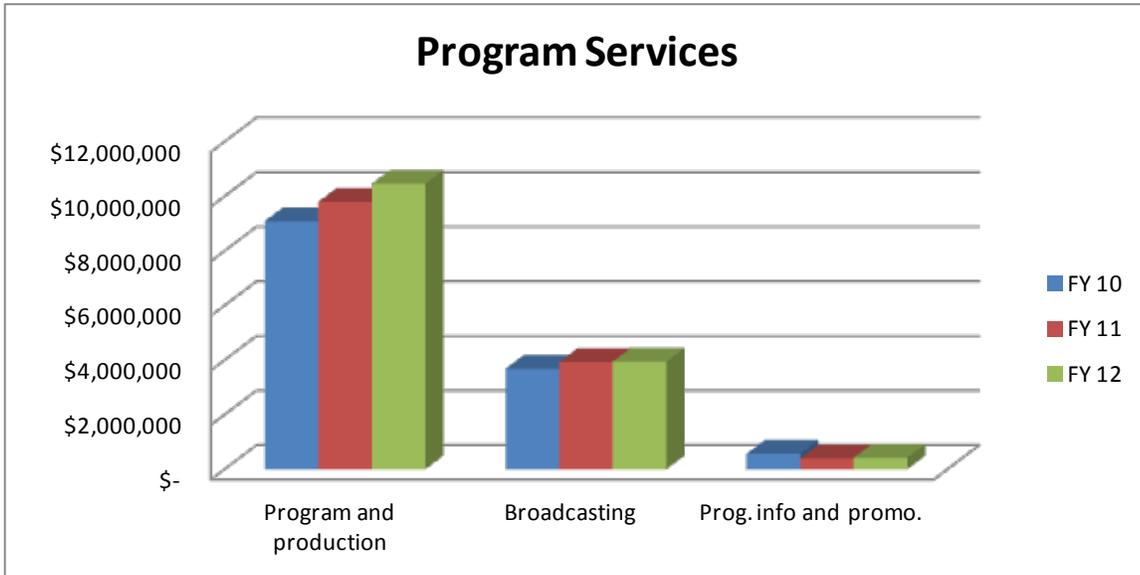
KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

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



KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

Nonoperating Revenues and Expenses

Nonoperating 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. Nonoperating revenues exceeded expenses in 2011 and net results in this category increased by \$337,000 from 2010 to 2011 due primarily to improved results in the fair value of investments. Nonoperating expenses exceeded revenues in 2012 and the net results in this category decreased by \$1,078,000 from 2011 to 2012 due primarily to the impact of unfavorable market results on the fair value of investments.

San Diego State University Transfers

Support from the University increased from 2010 to 2011 by \$615,000 and decreased by \$441,000 from 2011 to 2012. These services were provided without cost and have been allocated to the Stations. 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 increased \$31,000 from 2010 to 2011 and decreased \$295,000 from 2011 to 2012. Direct support consisted primarily of salaries, space rental and utilities. The decrease in direct support from 2011 to 2012 resulted from a headcount reduction of KPBS personnel. Indirect support received from the University increased \$583,000 from 2010 to 2011 and decreased \$146,000 from 2011 to 2012. Indirect support relates to a portion of the University's general overhead costs and benefits the programs of the Stations. Such items, allocated based upon square footage percentage and proportionate costs, include administration, maintenance and repairs.

Capital Assets

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

	June 30,		
	2012	2011	2010
Building under capital lease	\$ 7,051,643	\$ 4,557,463	\$ 4,617,338
Studio/broadcast equipment	2,999,345	2,724,309	907,946
Furniture and fixtures	192,856	262,173	93,095
Transmission/antenna/tower	698,569	837,108	987,129
Construction in progress	991,497	1,872,432	113,867
KQVO radio station license	670,000	670,000	670,000
Total capital assets, net of accumulated depreciation	<u>\$ 12,603,910</u>	<u>\$ 10,923,485</u>	<u>\$ 7,389,375</u>

Capital assets increased approximately \$3,534,000 from 2010 to 2011 due to investments in digital studio and broadcast equipment and remodel of the Gateway Center newsroom and administrative offices. Capital assets increased approximately \$1,680,000 from 2011 to 2012 primarily due to completion of the Gateway Center remodel and construction in progress relative to the Mount Soledad radio transmitter and tower relocated from Mount San Miguel.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2012 and 2011

Long-Term Debt Obligations

Debt outstanding at June 30, 2012, 2011 and 2010 is summarized below by type of debt instrument:

	June 30,		
	2012	2011	2010
Capital lease obligations	\$ 4,192,483	\$ 4,323,460	\$ 4,508,536
Notes payable	1,894,944	2,147,038	147,039
Total	6,087,427	6,470,498	4,655,575
Less current portion	(687,219)	(570,840)	(196,581)
Total long-term debt	\$ 5,400,208	\$ 5,899,658	\$ 4,458,994

Total debt outstanding increased during 2011 primarily from a \$2,000,000 loan provided by San Diego State University to finance the Station's investment in digital studio and broadcast equipment. Total debt decreased approximately \$383,000 during 2011 to 2012 due to the payment of scheduled obligations net of the purchase of capitalized licensed software.

KPBS FM/TV
(A Department of San Diego State University)
Statements of Net Assets
June 30, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Current assets:		
Cash held by San Diego State University	\$ -	\$ 1,156,870
Due from San Diego State University Research Foundation	2,929,405	3,038,570
Accounts receivable (note 4)	3,168,272	2,082,477
Grants receivable	147,231	421,065
Prepaid expenses	15,569	79,182
Total current assets	<u>6,260,477</u>	<u>6,778,164</u>
Noncurrent assets:		
Accounts receivable (note 4)	83,200	229,381
Long-term investments (note 3)	3,222,416	3,440,083
Restricted investments (note 3)	2,031,626	2,112,446
Capital assets, net (notes 5 and 8)	12,603,910	10,923,485
Other assets (note 6)	185,390	222,590
Total noncurrent assets	<u>18,126,542</u>	<u>16,927,985</u>
Total assets	<u>24,387,019</u>	<u>23,706,149</u>
Liabilities		
Current liabilities:		
Due to San Diego State University	151,397	-
Accounts payable	802,036	638,345
Accrued expenses	784,396	843,895
Deferred revenue	1,405,707	2,682,522
Notes payable, current portion (note 7)	313,569	252,095
Capital lease obligations, current portion (note 8)	373,650	318,746
Total current liabilities	<u>3,830,755</u>	<u>4,735,603</u>
Noncurrent liabilities:		
Notes payable, net of current portion (note 7)	1,581,375	1,894,944
Capital lease obligations, net of current portion (note 8)	3,818,833	4,004,714
Other liabilities	99,871	78,623
Total noncurrent liabilities	<u>5,500,079</u>	<u>5,978,281</u>
Total liabilities	<u>9,330,834</u>	<u>10,713,884</u>
Commitments and contingencies (notes 5, 8, 9, 10 and 11)		
Net assets		
Net assets:		
Invested in capital assets, net of related debt	6,516,483	4,452,986
Restricted for:		
Nonexpendable - endowments	736,787	689,406
Expendable:		
Capital campaign	619,226	647,745
Annuity trust agreements	77,164	108,111
Program production and airing	416,285	472,106
Scholarship activities	182,165	195,078
Unrestricted	6,508,075	6,426,833
Total net assets	<u>\$ 15,056,185</u>	<u>\$ 12,992,265</u>

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

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Contributions	\$ 19,542,732	\$ 17,160,247
Corporation for Public Broadcasting grants (note 2)	2,590,006	2,523,830
Stations-generated support	688,999	1,489,714
Total operating revenues	<u>22,821,737</u>	<u>21,173,791</u>
Operating expenses (notes 5, 6, 8, 9 and 11):		
Program services:		
Programming and production	10,462,148	9,792,401
Broadcasting	3,937,369	3,918,946
Program information and promotion	418,644	391,352
Total program services	<u>14,818,161</u>	<u>14,102,699</u>
Support services:		
Management and general	3,200,830	3,543,287
Fundraising and membership development	6,798,074	6,845,278
Underwriting	2,241,268	2,426,599
Total support services	<u>12,240,172</u>	<u>12,815,164</u>
Total operating expenses	<u>27,058,333</u>	<u>26,917,863</u>
Operating loss	<u>(4,236,596)</u>	<u>(5,744,072)</u>
Nonoperating revenues (expenses):		
Interest expense (notes 7 and 8)	(177,302)	(189,957)
Interest income, net	322,087	327,856
Net increase (decrease) in fair value of investments	(296,150)	790,588
Other nonoperating expense	(2,159)	(3,990)
Total nonoperating revenues (expenses), net	<u>(153,524)</u>	<u>924,497</u>
Loss before transfers	<u>(4,390,120)</u>	<u>(4,819,575)</u>
San Diego State University transfers (note 2):		
Direct financial support	1,908,709	2,203,472
Indirect financial support	4,545,331	4,691,295
Total San Diego State University transfers	<u>6,454,040</u>	<u>6,894,767</u>
Change in net assets	2,063,920	2,075,192
Net assets, beginning of year	<u>12,992,265</u>	<u>10,917,073</u>
Net assets, end of year	\$ <u><u>15,056,185</u></u>	\$ <u><u>12,992,265</u></u>

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Statements of Cash Flows

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Contributions	\$ 17,602,795	\$ 17,382,713
Stations-generated support	688,999	1,489,714
Other operating revenues	-	-
Payments to suppliers	(10,053,154)	(11,694,870)
Payments to employees	(9,940,339)	(8,594,653)
Administrative fees paid to San Diego State University Research Foundation	(769,637)	(713,725)
Corporation for Public Broadcasting grants	2,590,006	2,523,830
Net cash provided by operating activities	<u>118,670</u>	<u>393,009</u>
Cash flows from noncapital and related financing activities:		
Transfers from San Diego State University	1,908,709	2,203,472
Decrease in amounts due from San Diego State University Research Foundation	109,165	902,489
Net cash provided by noncapital and related financing activities	<u>2,017,874</u>	<u>3,105,961</u>
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital leases	(569,979)	(196,581)
Additions to long-term debt and capital leases	-	2,000,000
Interest paid	(313,177)	(137,424)
Purchase of capital assets	(2,734,681)	(4,339,123)
Net cash used in capital and related financing activities	<u>(3,617,837)</u>	<u>(2,673,128)</u>
Cash flows from investing activities:		
Interest income, net	322,087	327,856
Sale of investments	2,336	3,172
Purchase of investments	-	-
Net cash provided by investing activities	<u>324,423</u>	<u>331,028</u>
Net increase (decrease) in cash and cash equivalents	(1,156,870)	1,156,870
Cash and cash equivalents held by San Diego State University, beginning of year	<u>1,156,870</u>	<u>-</u>
Cash and cash equivalents held by San Diego State University, end of year	<u>\$ -</u>	<u>\$ 1,156,870</u>

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Statements of Cash Flows, Continued

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,236,596)	\$ (5,744,072)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Allocated San Diego State University expenses	4,545,331	4,691,295
Depreciation and amortization	1,317,288	890,801
(Increase) decrease in assets:		
Accounts receivable	(939,614)	(378,368)
Grants receivable	273,834	(296,421)
Prepaid expenses	63,613	6,853
Other assets	6,523	(4,423)
Increase (decrease) in liabilities:		
Due to San Diego State University	151,397	
Accounts payable	163,691	265,586
Accrued expenses	28,770	34,972
Deferred revenue	(1,276,815)	897,255
Other liabilities	21,248	29,531
Net cash provided by operating activities	<u>\$ 118,670</u>	<u>\$ 393,009</u>
Supplemental disclosure of noncash financing and related capital activity:		
Noncash refinancing of capital lease	<u>\$ 234,513</u>	<u>\$ 59,111</u>
Supplemental disclosures of noncash investing and capital activity:		
Increase (decrease) in fair value of investments	<u>\$ (296,150)</u>	<u>\$ 790,588</u>

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(1) Organization

KPBS FM/TV (KPBS or 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 (the CSU) for San Diego State University (SDSU or 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 the CSU, provides 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 considered a department of the University. Administrative fees paid to SDSU Research Foundation were approximately \$770,000 and \$714,000 for fiscal years ending June 30, 2012 and 2011, 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.

(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 (U.S. GAAP), 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 apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(c) Classification of Current and Noncurrent 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 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 had \$1,157,000 in cash or cash equivalents on hand at June 30, 2011. There was no cash on hand at June 30, 2012.

(e) 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 assets.

(f) Accounts 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 for uncollectible amounts.

(g) 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 assets as nonoperating revenues (expenses).

(h) 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.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

Intangible assets are recorded at the lower of cost or fair value. Intangible assets consist of 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, 2012 and June 30, 2011.

(i) *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 absences of approximately \$380,000 and \$417,000 for the years ended June 30, 2012 and 2011, respectively, are included in accrued expenses.

(j) *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 deferred revenue. The Stations received approximately 86% and 81% of their operating revenue from contributions in the years ended June 30, 2012 and 2011, 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.

(k) *University Support*

Direct financial support received from the University for the years ended June 30, 2012 and 2011 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2012 and 2011 was approximately \$4,545,000 and \$4,691,000, 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.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(l) 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. The CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby enhance the quality of programming and expand the scope of public broadcasting services. 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 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, 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. The Stations received and recorded approximately \$2,590,000 and \$2,524,000 in grant revenue from the CPB in the years ended June 30, 2012 and 2011, respectively.

(m) 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.

(n) Fundraising and Membership Development

Fundraising and membership development expenses are from fundraising activities.

(o) 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 to retain them in perpetuity.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

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.

(p) *Classification of Revenues and Expenses*

The Stations consider operating revenues and expenses in the statements 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 interest expense, investment income, changes in the fair value of investments and gains (losses) from the disposal of capital assets.

(q) *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 a 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, 2012 and 2011.

(r) *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 revenues, gains, and other support and expenditures and deductions during the reporting period. Actual results could differ from those estimates.

(s) *Reclassifications*

Certain reclassifications have been made to the June 30, 2011 financial statements in order to conform to the current year presentation. These reclassifications had no effect on results of operations or net assets as previously reported.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(t) Pronouncements Issued

The GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (effective for the year ending June 30, 2013); GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (effective for the year ending June 30, 2013); and GASB Statement No. 68, *Accounting and Reporting for Pensions—an amendment of GASB Statement No. 27* (effective for the year ending June 30, 2013). Management has not currently determined what, if any, impact implementation of these standards may have on the financial statements of KPBS.

(3) Investments

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

	<u>2012</u>	<u>2011</u>
Long-term investments	\$ 3,222,416	\$ 3,440,083
Restricted assets, investments	<u>2,031,626</u>	<u>2,112,446</u>
	<u>\$ 5,254,042</u>	<u>\$ 5,552,529</u>

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 a 58% stock, 27% fixed income, 15% alternative investments and real estate, and 0% cash equivalent asset mix as of June 30, 2012.

(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 investments, 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. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. The investment pool managed by SDSU Research Foundation does not have a rating provided by a nationally recognized statistical rating organization.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(4) Accounts Receivable

Accounts receivable at June 30 consisted of the following:

	2012	
	Current	Noncurrent
Underwriter receivables	\$ 2,436,240	\$ 83,200
Other receivable	762,032	-
Allowance	(30,000)	-
	<u>\$ 3,168,272</u>	<u>\$ 83,200</u>

	2011	
	Current	Noncurrent
Underwriter receivables	\$ 2,006,830	\$ 229,381
Other receivable	110,647	-
Allowance	(35,000)	-
	<u>\$ 2,082,477</u>	<u>\$ 229,381</u>

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(5) Capital Assets

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

	Balance June 30, 2011	Additions	Retirements/ Transfers	Balance June 30, 2012
Nondepreciable capital assets:				
Construction in progress ^(b)	\$ 1,872,432	\$ 2,264,746	\$ (3,145,681)	\$ 991,497
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	<u>2,542,432</u>	<u>2,264,746</u>	<u>(3,145,681)</u>	<u>1,661,497</u>
Depreciable capital assets:				
Building under capital lease ^(a)	9,926,462	2,978,134	-	12,904,596
Studio/broadcast equipment	12,420,008	858,266	(482,723)	12,795,551
Furniture and fixtures	1,638,052	13,730	(46,596)	1,605,186
Transmission/antenna/tower	2,883,538	-	-	2,883,538
Total depreciable capital assets	<u>26,868,060</u>	<u>3,850,130</u>	<u>(529,319)</u>	<u>30,188,871</u>
Less accumulated depreciation:				
Building under capital lease	5,368,999	483,954	-	5,852,953
Studio/broadcast equipment	9,695,699	581,073	(480,566)	9,796,206
Furniture and fixtures	1,375,879	83,047	(46,596)	1,412,330
Transmission/antenna/tower	2,046,430	138,539	-	2,184,969
Total accumulated depreciation	<u>18,487,007</u>	<u>1,286,613</u>	<u>(527,162)</u>	<u>19,246,458</u>
Total depreciable assets	<u>8,381,053</u>	<u>2,563,517</u>	<u>(2,157)</u>	<u>10,942,413</u>
Net capital assets	<u>\$ 10,923,485</u>	<u>\$ 4,828,263</u>	<u>\$ (3,147,838)</u>	<u>\$ 12,603,910</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, 2012 and 2011 was approximately \$4,665,000 and \$4,990,000, respectively.

(b) Construction in progress at June 30, 2011 represents the remodel of the Gateway Center newsroom and administrative offices. Construction in progress at June 30, 2012 primarily represents the Mount Soledad radio tower and transmitter project.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

	<u>Balance</u>				<u>Balance</u>
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>		<u>June 30, 2011</u>
Nondepreciable capital assets:					
Construction in progress ^(b)	\$ 113,867	\$ 1,758,565	\$ -		\$ 1,872,432
KQVO radio station license	<u>670,000</u>	<u>-</u>	<u>-</u>		<u>670,000</u>
Total nondepreciable capital assets	<u>783,867</u>	<u>1,758,565</u>	<u>-</u>		<u>2,542,432</u>
Depreciable capital assets:					
Building under capital lease ^(a)	9,664,197	262,265	-		9,926,462
Studio/broadcast equipment	10,535,040	2,134,243	(249,275)		12,420,008
Furniture and fixtures	1,394,891	243,161	-		1,638,052
Transmission/antenna/tower	<u>2,926,320</u>	<u>-</u>	<u>(42,782)</u>		<u>2,883,538</u>
Total depreciable capital assets	<u>24,520,448</u>	<u>2,639,669</u>	<u>(292,057)</u>		<u>26,868,060</u>
Less accumulated depreciation:					
Building under capital lease	5,046,859	322,140	-		5,368,999
Studio/broadcast equipment	9,627,094	315,458	(246,853)		9,695,699
Furniture and fixtures	1,301,796	74,083	-		1,375,879
Transmission/antenna/tower	<u>1,939,191</u>	<u>148,453</u>	<u>(41,214)</u>		<u>2,046,430</u>
Total accumulated depreciation	<u>17,914,940</u>	<u>860,134</u>	<u>(288,067)</u>		<u>18,487,007</u>
Total depreciable assets	<u>6,605,508</u>	<u>1,779,535</u>	<u>(3,990)</u>		<u>8,381,053</u>
Net capital assets	<u>\$ 7,389,375</u>	<u>\$ 3,538,100</u>	<u>\$ (3,990)</u>		<u>\$ 10,923,485</u>

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

Depreciation expense totaled \$1,286,613 and \$860,134 for the years ended June 30, 2012 and 2011, respectively, and was allocated among expenses in the accompanying statements of revenues, expenses and changes in net assets, as follows:

	<u>2012</u>		<u>2011</u>
Program Services	\$ 321,653	\$	215,034
Support Services	964,960		645,101
Total depreciation	<u>\$ 1,286,613</u>	\$	<u>860,135</u>

(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 2017. The Stations are amortizing the contributed value of the building over that time. Amortization expense totaled \$30,677 and \$30,667 for the years ended June 30, 2012 and 2011, respectively. The unamortized value included in other assets totaled approximately \$153,000 and \$184,000 at June 30, 2012 and 2011, respectively.

(7) Long-Term Debt Obligations

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

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Notes payable	\$ <u>2,147,039</u>	\$ <u>-</u>	\$ <u>(252,095)</u>	\$ <u>1,894,944</u>	\$ <u>313,569</u>
	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Note payable	\$ <u>147,039</u>	\$ <u>2,000,000</u>	\$ <u>-</u>	\$ <u>2,147,039</u>	\$ <u>252,095</u>

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

In 2002 the University obtained a loan for the purchase of equipment, of which the Stations received certain of the equipment in return for payment to the University on a portion of the loan. The University paid the loan in full in 2008 and simultaneously entered into an agreement with the Stations that allowed them to pay their outstanding note balance to the University in annual principal and interest installments of \$155,825 due in March of each year. In July 2010, the University amended the note payment schedule, deferred the March 2011 payment, and extended the term of the loan through 2013. The unsecured note payable bears interest at a fixed rate of 3.5%. Aggregate annual principal payments are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 77,191	\$ 2,702	\$ 79,893
	\$ <u>77,191</u>	\$ <u>2,702</u>	\$ <u>79,893</u>

Interest incurred on the note payable amounted to \$4,761 and \$4,279 for the years ended June 30, 2012 and 2011, respectively.

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>
2013	\$ 236,378	\$ 63,622	\$ 300,000
2014	244,652	55,348	300,000
2015	253,215	46,785	300,000
2016	262,077	37,923	300,000
2017	271,250	28,750	300,000
2018	280,743	19,257	300,000
2019	269,438	9,429	278,867
	\$ <u>1,817,753</u>	\$ <u>261,114</u>	\$ <u>2,078,867</u>

Interest incurred on the note payable amounted to \$68,226 and \$68,324 for the years ended June 30, 2012 and 2011, respectively.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(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 the SDSU Research Foundation's 1999 Revenue Refunding Bonds. On April 5, 2010, The California State University system issued system-wide revenue 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, 2012 and 2011.

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.

Capitalized Licensed Software

During the year ended June 30, 2009, the University purchased software with payments due through 2011, which was extended during the year ended June 30, 2011 with payments due through 2013. During the year ended June 30 2012, the University purchased a software package for KPBS broadcasting and radio needs. Payments are due annually through 2017 for the use of the software.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

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

	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2011</u>						<u>June 30, 2012</u>		<u>Portion</u>
Capital lease obligation	\$ 3,752,192	\$	234,513	\$	(317,884)	\$	3,668,821	\$	373,650
Unamortized refinancing gain	571,268		-		(47,606)		523,662		-
	<u>\$ 4,323,460</u>	<u>\$</u>	<u>234,513</u>	<u>\$</u>	<u>(365,490)</u>	<u>\$</u>	<u>4,192,483</u>	<u>\$</u>	<u>373,650</u>

	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2010</u>						<u>June 30, 2011</u>		<u>Portion</u>
Capital lease obligation	\$ 3,889,662	\$	59,111	\$	(196,581)	\$	3,752,192	\$	318,746
Unamortized refinancing gain	618,874		-		(47,606)		571,268		-
	<u>\$ 4,508,536</u>	<u>\$</u>	<u>59,111</u>	<u>\$</u>	<u>(244,187)</u>	<u>\$</u>	<u>4,323,460</u>	<u>\$</u>	<u>318,746</u>

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, 2012:

<u>Years Ending June 30:</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$ 373,650	\$	146,532	\$	520,182
2014	347,963		142,215		490,178
2015	361,885		127,210		489,095
2016	378,789		112,333		491,122
2017	390,351		96,689		487,040
Thereafter	1,816,184		256,021		2,072,204
	<u>3,668,821</u>	<u>\$</u>	<u>881,000</u>	<u>\$</u>	<u>4,549,821</u>
Unamortized refinancing gain	523,662				
	<u>\$ 4,192,483</u>				

(b) Operating Leases

KPBS leases certain land, buildings and transmitter space under noncancelable operating leases, which expire on various dates through January 2099. The current monthly rental payments range from approximately \$237 to \$12,570, and several of the agreements allow for annual increases in the base rent. KPBS incurred rental expense for the years ended June 30, 2012 and 2011 of \$256,100 and \$251,700, respectively.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

The total minimum rental commitment at June 30, 2012 under the leases mentioned above is due as follows:

<u>Years Ending June 30:</u>	
2013	\$ 385,523
2014	391,030
2015	401,707
2016	414,598
2017	427,276
Thereafter	<u>2,920,408</u>
	<u>\$ 4,940,542</u>

(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 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 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 contracts. The obligation for the payment of benefits has been transferred from SDSU Research Foundation to TIAA-CREF.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

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 \$87,549 and \$106,934 for the years ended June 30, 2012 and 2011, 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.

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 \$154,531 and \$191,242 for the years ended June 30, 2012 and 2011, 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.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2012 and 2011

(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 assets as a result of these matters.

(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 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, 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 \$94,100 and \$93,300 for the years ended June 30, 2012 and 2011, respectively.

KPBS FM/TV

(A Department of San Diego State University)

Supplementary Schedule of Direct and Indirect Support

Year Ended June 30, 2012

	KPBS Excluding Direct and Indirect Transfers	SDSU Transfers Direct	SDSU Transfers Indirect	KPBS Combined
Operating revenues:				
Contributions	\$ 19,542,732	\$ -	\$ -	\$ 19,542,732
Corporation for Public Broadcasting grants	2,590,006	-	-	2,590,006
Stations-generated support	688,999	-	-	688,999
Total operating revenues	<u>22,821,737</u>	<u>-</u>	<u>-</u>	<u>22,821,737</u>
Operating expenses:				
Program services:				
Programming and production	8,727,586	-	1,734,562	10,462,148
Broadcasting	2,708,996	549,544	678,829	3,937,369
Program information and promotion	347,387	-	71,257	418,644
Total program services	<u>11,783,969</u>	<u>549,544</u>	<u>2,484,648</u>	<u>14,818,161</u>
Support services:				
Management and general	1,811,341	848,321	541,168	3,200,830
Fundraising and membership development	5,136,504	510,844	1,150,726	6,798,074
Underwriting	1,872,479	-	368,789	2,241,268
Total support services	<u>8,820,324</u>	<u>1,359,165</u>	<u>2,060,683</u>	<u>12,240,172</u>
Total operating expenses	<u>20,604,293</u>	<u>1,908,709</u>	<u>4,545,331</u>	<u>27,058,333</u>
Operating income (loss)	<u>2,217,444</u>	<u>(1,908,709)</u>	<u>(4,545,331)</u>	<u>(4,236,596)</u>
Nonoperating revenues (expenses):				
Interest expense	(177,302)	-	-	(177,302)
Interest income, net	322,087	-	-	322,087
Net increase (decrease) in fair value of investments	(296,150)	-	-	(296,150)
Other nonoperating expense	(2,159)	-	-	(2,159)
Total nonoperating revenues (expenses), net	<u>(153,524)</u>	<u>-</u>	<u>-</u>	<u>(153,524)</u>
Income (loss) before transfers	<u>2,063,920</u>	<u>(1,908,709)</u>	<u>(4,545,331)</u>	<u>(4,390,120)</u>
San Diego State University transfers:				
Direct financial support	-	1,908,709	-	1,908,709
Indirect financial support	-	-	4,545,331	4,545,331
Total San Diego State University transfers	<u>-</u>	<u>1,908,709</u>	<u>4,545,331</u>	<u>6,454,040</u>
Change in net assets	\$ <u>2,063,920</u>	\$ <u>-</u>	\$ <u>-</u>	2,063,920
Net assets, beginning of year				12,992,265
Net assets, end of year				\$ <u>15,056,185</u>