

KPBS FM/TV

(A Department of San Diego State University)

Financial Report

June 30, 2007 and 2006

KPBS FM/TV

(A Department of San Diego State University)

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Independent Auditors' Report

Doug Myrland, General Manager
KPBS FM/TV
San Diego, California

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, 2007 and 2006, 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 audit.

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

As discussed in note 1, the financial statements of KPBS are intended to present the financial position, the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of KPBS. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2007 and 2006, 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 financial position of KPBS FM/TV as of June 30, 2007 and 2006, and the 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 11 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
December 28, 2007

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Management's Discussion and Analysis

June 30, 2007 and 2006

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, 2007 and 2006. 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.

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Management's Discussion and Analysis

June 30, 2007 and 2006

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, 2007 and 2006. 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, 2007, 2006, and 2005 are as follows:

Condensed Summary of Net Assets

	June 30,		
	2007	2006	2005
Assets:			
Current assets	\$ 5,600,554	\$ 6,512,569	\$ 6,320,789
Capital assets	11,550,201	11,397,070	11,845,792
Other noncurrent assets	6,470,251	5,777,292	5,904,128
Total assets	<u>23,621,006</u>	<u>23,686,931</u>	<u>24,070,709</u>
Liabilities:			
Current liabilities	2,872,600	2,873,271	3,528,032
Noncurrent liabilities	5,593,741	4,586,781	4,882,310
Total liabilities	<u>8,466,341</u>	<u>7,460,052</u>	<u>8,410,342</u>
Net assets:			
Invested in capital assets, net of related debt	5,469,393	6,540,886	6,720,844
Restricted - nonexpendable	695,600	689,867	682,045
Restricted - expendable	1,414,028	1,736,180	2,023,892
Unrestricted	7,575,644	7,259,946	6,233,586
Total net assets	<u>\$ 15,154,665</u>	<u>\$ 16,226,879</u>	<u>\$ 15,660,367</u>

Assets

Total assets decreased by \$384,000, or 2%, from 2005 to 2006 and by \$66,000, or less than 1%, from 2006 to 2007.

Current assets increased by \$192,000, or 3%, from 2005 to 2006 due to a slight increase in the amount due from SDSU Research Foundation. Current assets decreased by approximately \$912,000, or 14%, from 2006 to 2007 due to a decrease in the amount due from SDSU Research Foundation.

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Management's Discussion and Analysis

June 30, 2007 and 2006

Capital assets decreased by approximately \$449,000, or 4%, from 2005 to 2006 due to depreciation of approximately \$1.3 million partially offset by the purchase of property and equipment. Capital assets increased by approximately \$153,000, or 1%, from 2006 to 2007.

Other noncurrent assets decreased by approximately \$127,000, or 2%, from 2005 to 2006. Other noncurrent assets increased by \$693,000, or 12%, due to the increased fair market value of investments.

Liabilities

Total liabilities decreased by approximately by \$950,000, or 11%, from 2005 to 2006 due primarily to a decrease in accounts payable and the payment of principal on long-term debt. Total liabilities increased by approximately \$1,006,000, or 13%, due primarily to new capital lease obligation and deferred revenues from a single major donor offset by decrease in the amount due San Diego State University.

Current liabilities decreased \$655,000, or 19%, from 2005 to 2006 primarily due to a decrease in accounts payable. The decrease in accounts payable is due to the portion of the Stations' expenses that are processed through the University. The Stations' transferred funds on a quarterly basis to cover these expenses. Therefore, at the end of the fiscal year the amount owed to the University was less than in previous years. Current liabilities are substantially unchanged from 2006 to 2007.

Noncurrent liabilities decreased by approximately \$296,000, or 6%, from 2005 to 2006 due to the payment of principal on long-term debt. Noncurrent liabilities increased by approximately \$1,007,000, or 22%, from 2006 to 2007 due to the new capital lease obligation.

Net Assets

Total net assets increased by approximately \$567,000, or 4%, from 2005 to 2006 and decreased by approximately \$1,072,000, or 7%, from 2006 to 2007 due to the net change in operating losses, non-operating income and transfers from San Diego State University.

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Management's Discussion and Analysis

June 30, 2007 and 2006

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,		
	2007	2006	2005
Nonexpendable	\$ 695,600	\$ 689,867	\$ 682,045
Expendable:			
Capital campaign	\$ 670,463	\$ 660,818	\$ 810,634
Annuity trust agreements	165,156	165,800	181,545
Program production and airing	377,706	752,572	890,695
Scholarship activities	200,703	156,990	141,018
Total restricted expendable net assets	\$ 1,414,028	\$ 1,736,180	\$ 2,023,892

The Capital campaign fund was a result of contributions donated for expenditure of the Gateway building. The Capital campaign increased due to market fluctuations. Annuity trust agreements fluctuate as a result of payments to annuitants, the receipt of new funds and market fluctuations. The Program production and airing increased due to new funds and market fluctuations. Scholarship activities increased from receipt of new funds and market fluctuations.

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Management's Discussion and Analysis

June 30, 2007 and 2006

The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007, 2006, and 2005 are as follows:

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

	Year Ended June 30,		
	2007	2006	2005
Operating revenues:			
Contributions	\$ 15,796,196	\$ 16,746,419	\$ 16,653,912
Corporation for Public Broadcasting support	2,759,017	3,461,039	2,492,348
Stations generated support	1,354,338	1,184,333	1,647,492
Other operating revenues	1,343	5,312	4,625
Total operating revenues	<u>19,910,894</u>	<u>21,397,103</u>	<u>20,798,377</u>
Operating expenses:			
Program services	18,077,926	18,824,738	16,895,639
Support services	11,672,012	10,218,334	9,391,887
Total operating expenses	<u>29,749,938</u>	<u>29,043,072</u>	<u>26,287,526</u>
Nonoperating revenues (expenses):			
Interest expense	(281,953)	(273,484)	(354,244)
Interest income, net	182,843	170,065	115,721
Net increase in fair value of investments	819,004	499,262	542,340
Other nonoperating expense	(14,375)	-	(33,486)
Total nonoperating income	<u>705,519</u>	<u>395,843</u>	<u>270,331</u>
Income (loss) before transfers	<u>(9,133,525)</u>	<u>(7,250,126)</u>	<u>(5,218,818)</u>
San Diego State University transfers	8,061,311	7,816,638	6,825,504
Change in net assets	<u>(1,072,214)</u>	<u>566,512</u>	<u>1,606,686</u>
Beginning net assets	<u>16,226,879</u>	<u>15,660,367</u>	<u>14,053,681</u>
Ending net assets	<u>\$ 15,154,665</u>	<u>\$ 16,226,879</u>	<u>\$ 15,660,367</u>

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 \$93,000, or 1%, from 2005 to 2006. Contribution decreased by \$950,000, or 6%, from 2006 to 2007 primarily due to lower major gifts revenues.

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Management’s Discussion and Analysis

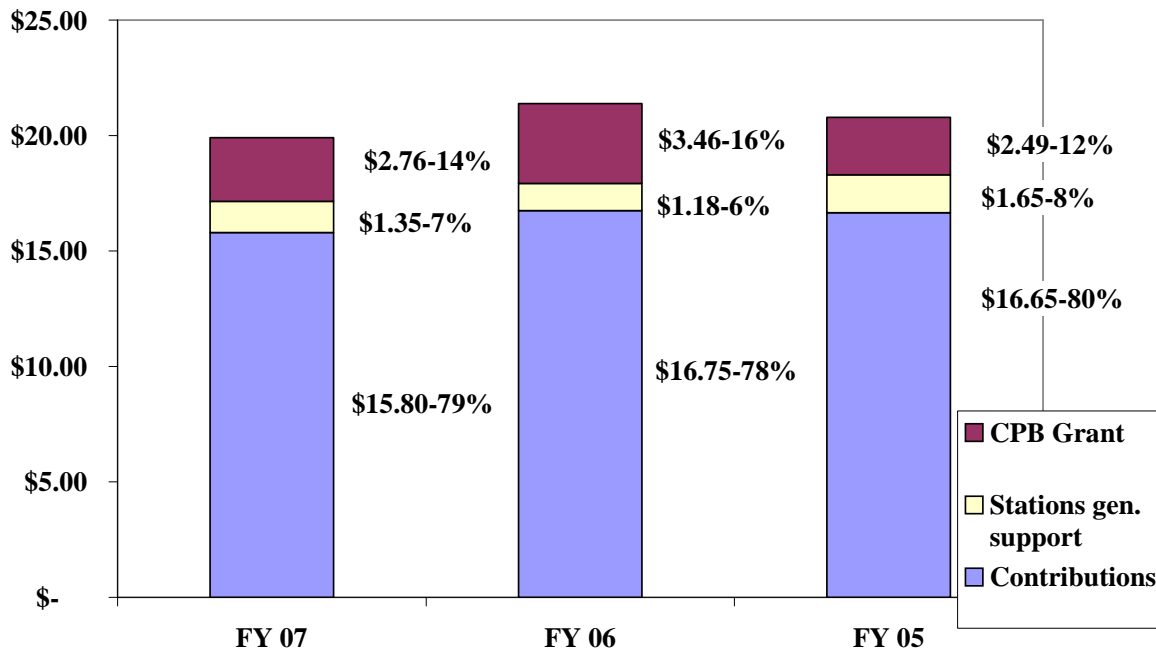
June 30, 2007 and 2006

Funding received by the Corporation for Public Broadcasting increased by approximately \$969,000, or 39%, from 2005 to 2006 due to an increase in the Stations’ nonfederal financial support during 2004. Funding received by the Corporation for Public Broadcasting decreased by approximately \$702,000, or 20%, from fiscal year 2006 to 2007 due to a decrease in the Stations’ nonfederal financial support during 2005. The grants are based on nonfederal financial support for the year 2 years prior to the grant.

Station generated support decreased by approximately \$463,000, or 28%, from fiscal year 2005 to 2006 due to a decrease of revenue for a project supported by four public broadcasting stations in the state of California. The project, California Connected, was a series of TV and radio shows that discussed issues facing all Californians. Station generated support increased by approximately \$170,000, or 14%, from fiscal 2006 to 2007 due to donations received for the Jacobs Fund for Reporting Excellence project.

The following chart present the proportional share that each category of operating revenues contributed to the totals for fiscal years 2007, 2006, and 2005:

Operating Revenues (\$ Millions)



Operating Expenses

The increase in program services expenses by \$1,929,000, or 11%, from 2005 to 2006 was primarily related to the increase in San Diego State University support revenue. The program services expenses decreased by \$747,000, or 4%, from 2006 to 2007 due to lower broadcasting and programming and production costs.

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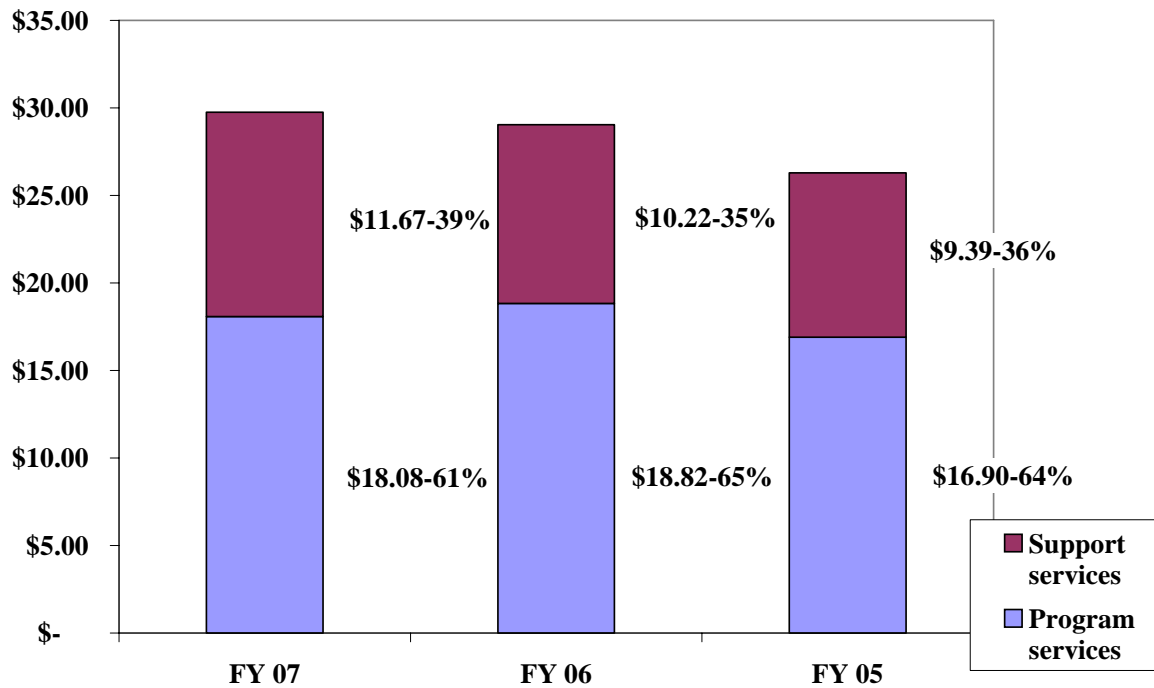
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Management's Discussion and Analysis

June 30, 2007 and 2006

Support services expenses increased by approximately \$827,000, or 9%, from 2005 to 2006 primarily related to the increase in San Diego State University support revenue. Support services expenses increased by approximately \$1,454,000 or 14%, from 2006 to 2007 primarily related to the increase in Fundraising and membership development expenses and allocation of San Diego State University support revenue. The following chart presents the distribution of resources in support of the Stations for fiscal years 2007, 2006, and 2005:

Operating Expenses (\$ Millions)



KPBS FM/TV

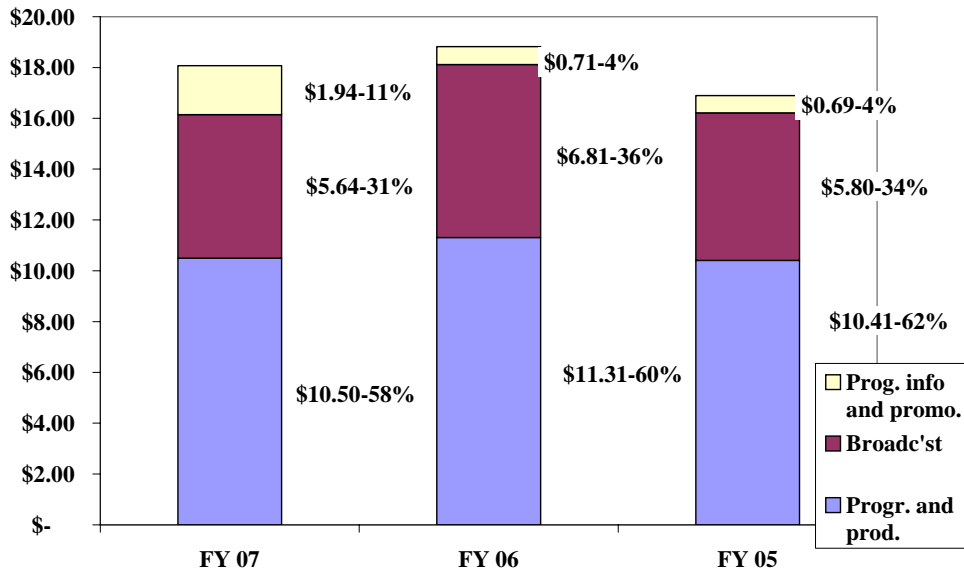
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Management's Discussion and Analysis

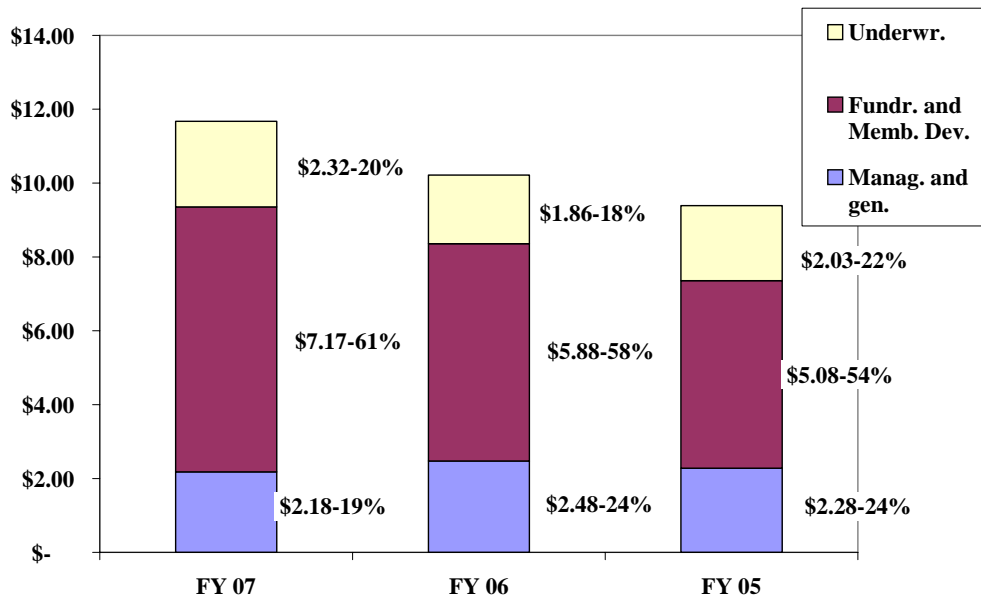
June 30, 2007 and 2006

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

Program Services (\$ Millions)



Support Services (\$ Millions)



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Management's Discussion and Analysis

June 30, 2007 and 2006

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses increased by approximately \$126,000, or 46%, from 2005 to 2006 and increased by approximately \$310,000, or 78%, from 2006 to 2007. Nonoperating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are investment income, changes in the fair value of investments and interest expense.

The net increase in fair value decreased by approximately \$43,000, or 8%, from 2005 to 2006 due to general market fluctuations. The net increase in fair value increased by approximately \$320,000, or 64%, from 2006 to 2007 due to favorable market conditions. Interest income for the Stations increased \$54,000, or 47%, from 2005 to 2006 and \$13,000, or 8%, from 2006 to 2007 due to the increase in the amount due from SDSU Research Foundation. Interest expense decreased by approximately \$81,000, or 23%, from 2005 to 2006 and increased \$9,000 or 3%, from 2006 to 2007 due to general market fluctuations.

Transfers

Support from the University increased by approximately \$991,000, or 15%, from fiscal year 2005 to 2006. This amount represents direct financial support and indirect support received from the University. Direct financial support received from the University increased approximately \$127,000, or 6%, from 2005 to 2006. Direct support consisted primarily of salaries, space rental and utilities. Indirect support received from the University increased \$864,000, or 18%, from 2005 to 2006. Support from the University increased by approximately \$245,000, or 3%, from 2006 to 2007. The direct financial support received from the University increased \$154,000, or 7% from 2006 to 2007. Indirect support received from the University increased \$91,000, or 2%, from 2006 to 2007. 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.

Capital Assets

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

	June 30,		
	2007	2006	2005
Building under capital lease	\$ 5,583,758	\$ 5,905,898	\$ 6,228,038
Studio/broadcast equipment	2,305,593	1,506,677	1,807,020
Furniture and fixtures	222,847	346,310	391,837
Transmission/antenna/tower	1,493,003	1,693,185	1,357,539
Work in Progress	-	-	116,358
KQVO radio station license	1,945,000	1,945,000	1,945,000
Total capital assets, net of accumulated depreciation	<u>\$ 11,550,201</u>	<u>\$ 11,397,070</u>	<u>\$ 11,845,792</u>

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Management's Discussion and Analysis

June 30, 2007 and 2006

Capital assets decreased by approximately \$449,000, or 4%, from 2005 to 2006 due to depreciation of approximately \$1.3 million was substantially equal to the purchase of property and equipment. Capital assets increased insignificantly by approximately \$153,000, or 1%, from 2006 to 2007.

Long-Term Debt Obligations

Debt outstanding at June 30, 2007, 2006 and 2005 are summarized below by type of debt instrument:

	June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital lease obligation	\$ 5,507,760	\$ 4,151,615	\$ 4,293,242
Note payable	573,048	704,569	831,706
Total	<u>6,080,808</u>	<u>4,856,184</u>	<u>5,124,948</u>
Less current portion	<u>(508,221)</u>	<u>(284,257)</u>	<u>(268,764)</u>
Total long-term debt	<u><u>\$ 5,572,587</u></u>	<u><u>\$ 4,571,927</u></u>	<u><u>\$ 4,856,184</u></u>

Long-term debt decreased by approximately \$284,000, or 6%, from 2005 to 2006 due to the payment of principal on long-term debt. Long-term debt increased by approximately \$1,001,000, or 22%, due to new capital lease obligation, partially offset by payments of principal on long-term debt.

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Statements of Net Assets
June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Due from San Diego State University Research Foundation	\$ 2,770,545	\$ 3,814,113
Accounts receivable (note 4)	2,339,506	2,215,955
Grants receivable	464,118	467,430
Prepaid expenses	26,385	15,071
Total current assets	<u>5,600,554</u>	<u>6,512,569</u>
Noncurrent assets:		
Accounts receivable (note 4)	465,208	383,128
Long-term investments (note 3)	3,358,471	2,911,135
Restricted assets-investments (note 3)	2,624,628	2,463,025
Capital assets, net (notes 5 and 7)	11,550,201	11,397,070
Other assets	21,944	20,004
Total noncurrent assets	<u>18,020,452</u>	<u>17,174,362</u>
Total assets	<u>23,621,006</u>	<u>23,686,931</u>
Liabilities		
Current liabilities		
Due to San Diego State University	270,295	681,435
Accounts payable	336,062	381,430
Accrued expenses	723,353	718,719
Deferred revenue	1,034,669	807,430
Note payable-current portion (note 6)	136,059	131,522
Capital lease obligation-current portion (note 7)	372,162	152,735
Total current liabilities	<u>2,872,600</u>	<u>2,873,271</u>
Noncurrent liabilities		
Note payable, net of current portion (note 6)	436,989	573,047
Capital lease obligation, net of current portion (note 7)	5,135,598	3,998,880
Other liabilities	21,154	14,854
Total noncurrent liabilities	<u>5,593,741</u>	<u>4,586,781</u>
Total liabilities	<u>8,466,341</u>	<u>7,460,052</u>
Commitments and contingencies (notes 5, 7, 8, 9 and 10)		
Net assets		
Net assets:		
Invested in capital assets, net of related debt	5,469,393	6,540,886
Restricted for:		
Nonexpendable-endowments	695,600	689,867
Expendable:		
Capital campaign	670,463	660,818
Annuity trust agreements	165,156	165,800
Program production and airing	377,706	752,572
Scholarship activities	200,703	156,990
Unrestricted	7,575,644	7,259,946
Total net assets	<u>\$ 15,154,665</u>	<u>\$ 16,226,879</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
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues (note 2):		
Contributions	\$ 15,796,196	\$ 16,746,419
Corporation for Public Broadcasting grants	2,759,017	3,461,039
Stations-generated support	1,354,338	1,184,333
Other operating revenues	1,343	5,312
Total operating revenues	<u>19,910,894</u>	<u>21,397,103</u>
Operating expenses (notes 5, 7, 8 and 10):		
Program services		
Programming and production	10,501,879	11,308,904
Broadcasting	5,639,030	6,807,380
Program information and promotion	1,937,017	708,454
Total program services	<u>18,077,926</u>	<u>18,824,738</u>
Support services:		
Management and general	2,180,276	2,477,086
Fundraising and membership development	7,170,804	5,880,484
Underwriting	2,320,932	1,860,764
Total support services	<u>11,672,012</u>	<u>10,218,334</u>
Total operating expenses	<u>29,749,938</u>	<u>29,043,072</u>
Operating loss	<u>(9,839,044)</u>	<u>(7,645,969)</u>
Nonoperating revenues (expenses):		
Interest expense (notes 6 and 7)	(281,953)	(273,484)
Interest income, net	182,843	170,065
Net increase in fair value of investments	819,004	499,262
Other nonoperating expense	(14,375)	-
Total nonoperating revenues, net	<u>705,519</u>	<u>395,843</u>
Loss before transfers	<u>(9,133,525)</u>	<u>(7,250,126)</u>
San Diego State University transfers (note 2):		
Direct financial support	2,445,629	2,291,558
Indirect financial support	5,615,682	5,525,080
Total transfers	<u>8,061,311</u>	<u>7,816,638</u>
Change in net assets	<u>(1,072,214)</u>	<u>566,512</u>
Net assets, beginning of year	<u>16,226,879</u>	<u>15,660,367</u>
Net assets, end of year	<u>\$ 15,154,665</u>	<u>\$ 16,226,879</u>

See accompanying notes to financial statements.

KPBS FM/TV
(A Department of San Diego State University)
Statements of Cash Flows
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Contributions	\$ 15,821,116	\$ 16,860,035
Stations generated support	1,354,338	1,184,333
Other operating receipts	1,343	5,312
Payments to suppliers	(14,513,276)	(12,485,346)
Payments to employees	(7,901,004)	(9,500,097)
Administrative fees paid to		
San Diego State University Research Foundation	(792,004)	(707,605)
Corporation for Public Broadcasting support	2,759,017	3,461,039
Net cash used in operating activities	<u>(3,270,470)</u>	<u>(1,182,329)</u>
Cash flows from noncapital and related financing:		
Transfers from San Diego State University	2,445,629	2,291,558
Net (payments to)/receipts from San Diego State		
University Research Foundation	<u>1,043,568</u>	<u>(197,264)</u>
Net cash provided by noncapital and related		
financing activities	<u>3,489,197</u>	<u>2,094,294</u>
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital lease	(284,255)	(268,764)
Interest paid	(281,953)	(273,484)
Purchase of capital assets	<u>(45,427)</u>	<u>(842,758)</u>
Net cash used in capital and related		
financing activities	<u>(611,635)</u>	<u>(1,385,006)</u>
Cash flows from investing activities:		
Investment income	402,908	483,041
Purchase of investments	<u>(10,000)</u>	<u>(10,000)</u>
Net cash provided by investing activities	<u>392,908</u>	<u>473,041</u>
Net increase in cash and cash equivalents	-	-
Cash funds held by San Diego State University, beginning of year	<u>-</u>	<u>-</u>
Cash funds held by San Diego State University, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

KPBS FM/TV
(A Department of San Diego State University)
Statements of Cash Flows
Years ended June 30, 2007 and 2006

	2007	2006
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (9,839,044)	\$ (7,645,969)
Adjustments to reconcile operating income to net cash used in operating activities:		
Allocated San Diego State University expenses	5,615,683	5,525,079
Depreciation and amortization	1,266,644	1,291,484
(Increase) decrease in assets:		
Accounts receivable	(205,631)	316,491
Grants receivable	3,312	(21,819)
Prepaid expenses	(11,314)	33,934
Other assets	(1,940)	-
Increase (decrease) in liabilities		
Accounts payable	(336,353)	(461,457)
Accrued expenses	4,634	(27,743)
Deferred revenue	227,239	(181,056)
Other liabilities	6,300	(11,273)
Net cash used in operating activities	\$ (3,270,470)	\$ (1,182,329)
Supplemental disclosure of noncash investing activity:		
Increase in fair value of investments	\$ 619,369	\$ 488,960
Capital assets purchased with capital leases	\$ 1,388,723	\$ -
Items purchased with capital leases and expensed	\$ 120,156	\$ -

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2007 and 2006

(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 (the 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. Administrative fees paid to the SDSU Research Foundation were approximately \$792,000 and \$708,000 at June 30, 2007 and 2006, 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 or 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 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 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.

(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

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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 no cash on hand at June 30, 2007 and 2006.

(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. The fair value of the position in the pool is the same as the value of the pooled shares. Change in 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
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 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 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.

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(h) *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 \$360,000 and \$398,000 for the years ended June 30, 2007 and 2006, respectively, are included in accrued expenses.

(i) *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 63% and 65% of their operating revenue from contributions in the years ended June 30, 2007 and 2006, respectively.

Underwriting revenue is recognized as contributions at the time KPBS has met the eligibility requirements. 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.

(j) *San Diego State University Support*

Direct financial support received from the University for the years ended June 30, 2007 and 2006 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2007 and 2006 was \$5,616,000 and \$5,525,000, 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 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 transfers and expense in the accompanying statements.

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(k) 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 which began with the Community Service Grants awarded in prior years.

The grants are reported in the financial statements as operating 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 when the eligibility requirements have been met. The stations received and recorded approximately \$2,759,000 and \$3,461,000 in grant revenue from the CPB in the years ended June 30, 2007 and 2006, respectively.

(l) 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.

(m) 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.

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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.

(n) *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, CPB Grants or from other activities that are connected directly to the Stations' primary functions. Certain other transactions are reported as nonoperating revenues and expenses, interest expense, investment income, changes in the fair value of investments and gains (losses) from the disposal of capital assets.

(o) *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, is generally not subject to federal or state income taxes. The SDSU Research Foundation is generally exempt from income taxes under Sections 501(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 sales of certain products and services, and advertising. The Stations had no tax liability for the years ended June 30, 2007 and 2006.

(p) *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.

(q) *Reclassifications*

Certain reclassifications have been made in the 2006 statement of revenues, expenses and changes in net assets in order to conform to the current year presentation, with no effect on the change in net assets.

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(r) 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. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (effective for the year ending June 30, 2008)
- GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues (effective for the year ending June 30, 2008)
- GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations (effective for the year ending June 30, 2009)
- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (effective for the year ending June 30, 2010)

(3) Investments

Investments are reported on the statement of net assets as of June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Long-term investments	\$ 3,358,471	\$ 2,911,135
Restricted assets-investments	<u>2,624,628</u>	<u>2,463,025</u>
	<u>\$ 5,983,099</u>	<u>\$ 5,374,160</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 70% equity, 25% fixed income and 5% real estate asset mix. Included in long-term investments is a building owned by the Stations, held for investment purposes, for which it derives rental income. 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. The amortized value included in investments totaled approximately \$307,000 and \$337,000 at June 30, 2007 and 2006, respectively.

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The SDSU Research Foundation is responsible for the investing policy of KPBS and sets the policy for interest rate risk and credit risk. Accordingly, SDSU Research Foundations basic financial statements should be reviewed for disclosures of polices and risks related to investments.

(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. The average maturity of the investment pool managed by this investment pool is 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 the SDSU Research Foundation does not have a rating provided by a nationally recognized statistical rating organization.

(4) Accounts Receivable

Accounts receivable at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	
	<u>Current</u>	<u>Noncurrent</u>
Underwriter receivables	\$ 2,251,979	\$ 465,208
Other trade receivable	87,527	-
	<u>\$ 2,339,506</u>	<u>\$ 465,208</u>
	<u>2006</u>	
	<u>Current</u>	<u>Noncurrent</u>
Underwriter receivables	\$ 2,145,626	\$ 383,128
Other trade receivable	70,329	-
	<u>\$ 2,215,955</u>	<u>\$ 383,128</u>

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(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 and 2006 consisted of the following:

	<u>Balance</u>				<u>Balance</u>
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>		<u>June 30, 2007</u>
Nondepreciable capital assets:					
KQVO radio station license	\$ 1,945,000	\$ -	\$ -		\$ 1,945,000
Total nondepreciable capital assets	<u>1,945,000</u>	<u>-</u>	<u>-</u>		<u>1,945,000</u>
Depreciable capital assets:					
Buildings under capital lease	9,664,197	-	-		9,664,197
Studio/broadcast equipment	9,675,635	1,409,648	(89,737)		10,995,546
Furniture and fixtures	1,313,504	24,502	(37,886)		1,300,120
Transmission/antenna/tower	2,917,920	-	(4,325)		2,913,595
Total depreciable capital assets	<u>23,571,256</u>	<u>1,434,150</u>	<u>(131,948)</u>		<u>24,873,458</u>
Less accumulated depreciation:					
Buildings under capital lease	3,758,299	322,140	-		4,080,439
Studio/broadcast equipment	8,168,958	597,145	(76,150)		8,689,953
Furniture and fixtures	967,194	147,177	(37,098)		1,077,273
Transmission/antenna/tower	1,224,735	200,182	(4,325)		1,420,592
Total accumulated depreciation	<u>14,119,186</u>	<u>1,266,644</u>	<u>(117,573)</u>		<u>15,268,257</u>
Total depreciable assets	<u>9,452,070</u>	<u>167,506</u>	<u>(14,375)</u>		<u>9,605,201</u>
Net capital assets	<u>\$ 11,397,070</u>	<u>\$ 167,506</u>	<u>\$ (14,375)</u>		<u>\$ 11,550,201</u>

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	<u>Balance</u>					<u>Balance</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>		<u>June 30, 2006</u>
Nondepreciable capital assets:						
Deposit on fixed asset in construction	\$ 116,358	\$ -	\$ -	\$ (116,358)		\$ -
KQVO radio station license	<u>1,945,000</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>1,945,000</u>
Total nondepreciable capital assets	<u>2,061,358</u>	<u>-</u>	<u>-</u>	<u>(116,358)</u>		<u>1,945,000</u>
Depreciable capital assets:						
Buildings under capital lease	9,664,197	-	-	-		9,664,197
Studio/broadcast equipment	9,340,766	229,430	(10,919)	116,358		9,675,635
Furniture and fixtures	1,237,905	108,334	(32,735)	-		1,313,504
Transmission/antenna/tower	<u>2,412,922</u>	<u>504,998</u>	<u>-</u>	<u>-</u>		<u>2,917,920</u>
Total depreciable capital assets	<u>22,655,790</u>	<u>842,762</u>	<u>(43,654)</u>	<u>116,358</u>		<u>23,571,256</u>
Less accumulated depreciation:						
Buildings under capital lease	3,436,159	322,140	-	-		3,758,299
Studio/broadcast equipment	7,533,746	646,130	(10,918)	-		8,168,958
Furniture and fixtures	846,068	153,862	(32,736)	-		967,194
Transmission/antenna/tower	<u>1,055,383</u>	<u>169,352</u>	<u>-</u>	<u>-</u>		<u>1,224,735</u>
Total accumulated depreciation	<u>12,871,356</u>	<u>1,291,484</u>	<u>(43,654)</u>	<u>-</u>		<u>14,119,186</u>
Total depreciable assets	<u>9,784,434</u>	<u>(448,722)</u>	<u>-</u>	<u>116,358</u>		<u>9,452,070</u>
Net capital assets	\$ <u>11,845,792</u>	\$ <u>(448,722)</u>	\$ <u>-</u>	\$ <u>-</u>		\$ <u>11,397,070</u>

The building under capital lease represents the Stations-occupied portion of the Gateway Center and is pledged as collateral for debt issued by the SDSU Research Foundation, whose outstanding balance at June 30, 2007 and 2006 was approximately \$7,460,000 and \$7,755,000, respectively.

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Depreciation expense totaled \$1,266,644 and \$1,291,483 for the years ended June 30, 2007 and 2006, respectively, and was allocated among expenses in the accompanying statement of revenues, expenses and changes in net assets as follows:

	2007	2006
Program Services	\$ 315,936	\$ 322,140
Support Services	950,708	969,343
Total depreciation	\$ 1,266,644	\$ 1,291,483

(6) Long-Term Debt Obligations

Long-term debt obligations activity for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Current portion
Note payable	\$ 704,569	\$ -	\$ (131,521)	\$ 573,048	\$ 136,059

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 Note 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 \$155,825 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:

Year Ended June 30:	Principal	Interest	Total
2008	\$ 136,059	\$ 19,767	\$ 155,826
2009	140,752	15,073	155,825
2010	145,607	10,218	155,825
2011	150,630	5,196	155,826
	\$ 573,048	\$ 50,254	\$ 623,302

Interest incurred on the note payable amounted to \$21,279 and \$25,765 for the years ended June 30, 2007 and 2006, respectively.

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(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.

De Lage Landen Public Finance LLC Capital Equipment Lease

During the year ended June 30, 2007, the CSU, on behalf of KPBS, obtained financing through De Lage Landen Public Finance, LLC for \$1,508,879 to purchase equipment for use by KPBS. Under the agreement, lease payments are due annually from September 2007 until September 2013. Interest incurred on the capital lease amounted to \$26,567 for the year ended June 30, 2007. Upon acceptance of the equipment by KPBS, title to the equipment vests to the CSU. Accordingly, the equipment has been recorded by KPBS and the obligation to De Lage Landen Public Finance, LLC is recorded as a capitalized lease.

Capital lease obligations activity for the year ended June 30, 2007:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>portion</u>
Capital lease obligation	\$ 4,151,615	\$ 1,508,879	\$ (152,734)	\$ 5,507,760	\$ 372,162

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The following is a schedule of the future minimum payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2007:

Year Ended June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 372,162	262,134	\$ 634,296
2009	364,611	268,956	633,567
2010	383,703	251,444	635,147
2011	400,345	232,979	633,324
2012	420,103	213,708	633,811
Thereafter	<u>3,566,836</u>	<u>1,169,815</u>	<u>4,736,651</u>
	<u>\$ 5,507,760</u>	<u>\$ 2,399,036</u>	<u>\$ 7,906,796</u>

(b) Operating Leases

The Stations lease certain land, buildings and transmitter space under noncancelable operating leases, which expire on various dates through January 2010. The current monthly rental payments range from approximately \$75 to \$9,498 and several of the agreements allow for annual increases in the base rent. The Stations' incurred rental expense of \$126,836 and \$140,022 for the years ended June 30, 2007 and 2006, respectively.

The total minimum rental commitment at June 30, 2007 under the leases mentioned above is due as follows:

Year Ended June 30:	
2008	\$ 120,580
2009	126,564
2010	76,919
2011	900
2012	900
Due thereafter	<u>10,500</u>
	<u>\$ 336,363</u>

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(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 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 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 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. 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 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 \$91,160 and \$92,005 for the years ended June 30, 2007 and 2006, 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 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 Act (PEMHCA) for medical benefits.

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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 \$238,572 and \$220,553 for the years ended June 30, 2007 and 2006, respectively, and are recorded as direct support and program services or support services expense, depending upon the employee's function.

(9) Contingencies

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

(10) Risk Management

The Stations are exposed to risks related to general and commercial liability and workers' compensation. The Stations are covered by insurance through SDSU 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 in the last three years. Premiums to SDSU Research Foundation on these insurance policies totaled approximately \$99,000 and \$89,000 for the years ended June 30, 2007 and 2006, respectively.