KPBS FM/TV

(A Department of San Diego State University)

Financial Report

June 30, 2008 and 2007

KPBS FM/TV

(A Department of San Diego State University)

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's 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, 2008 and 2007, 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KPBS FM/TV as of June 30, 2008 and 2007, 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 2 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

San Diego, California
December 3, 2008

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2008 and 2007

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, 2008 and 2007. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the Stations' financial activities as of and for the years ended June 30, 2008 and 2007. 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, 2008, 2007, and 2006 are as follows:

Condensed Summary of Net Assets

	June 30,		
	2008	**2007**	**2006**
Assets:			
Current assets	$ 5,024,492	$ 5,600,554	$ 6,512,569
Capital assets	10,315,848	11,550,201	11,397,070
Other noncurrent assets	5,968,392	6,470,251	5,777,292
Total assets	21,308,732	23,621,006	23,686,931
Liabilities:			
Current liabilities	2,559,154	2,872,600	2,873,271
Noncurrent liabilities	4,961,421	5,593,741	4,586,781
Total liabilities	7,520,575	8,466,341	7,460,052
Net assets:			
Invested in capital assets, net of related debt	4,743,262	5,469,393	6,540,886
Restricted - nonexpendable	688,018	695,600	689,867
Restricted - expendable	1,334,769	1,414,028	1,736,180
Unrestricted	7,022,108	7,575,644	7,259,946
Total net assets	$ 13,788,157	$ 15,154,665	$ 16,226,879

Assets

Total assets decreased by $66,000, or less than 1%, from 2006 to 2007 and by $2,312,000, or 10%, from 2007 to 2008. The decrease from 2007 to 2008 was due primarily to the depreciation in capital assets and decrease in the market value of investments.

Other noncurrent assets increased by $693,000, or 12%, from 2006 to 2007 due to the increased fair market value of investments but decreased by $502,000, or 8%, from 2007 to 2008 due to decreased value of the fair market value of investments and the reduction of long-term underwriting agreements. The weak economic conditions during the year reflected in lower investment values and a slowdown in underwriting activity.

Liabilities

Total liabilities increased from 2006 to 2007 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. Total liabilities decreased from 2007 to 2008 by approximately $946,000, or 11%, due to payment of debt and lease obligations.

Net Assets

Total net assets decreased by approximately $1,072,000, or 7%, from 2006 to 2007, primarily due to capital asset depreciation and the increase in capital lease obligation, partially offset by the purchase of property and equipment. Total net assets decreased by approximately $1,367,000, or 9%, from 2007 to 2008, primarily due to operating loss, and lower non-operating income.

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, 2008	June 30, 2007	June 30, 2006
Nonexpendable	$ 688,018	$ 695,600	$ 689,867
Expendable:			
Capital campaign	$ 661,132	$ 670,463	$ 660,818
Annuity trust agreements	163,231	165,156	165,800
Program production and airing	324,444	377,706	752,572
Scholarship activities	185,962	200,703	156,990
Total restricted expendable net assets	$ 1,334,769	$ 1,414,028	$ 1,736,180

The nonexpendable portion of net assets decreased from market fluctuations. The Capital campaign fund was a result of contributions donated for expenditure of the Gateway building. The Capital campaign decreased 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 decreased due market fluctuations. Scholarship activities decreased from market fluctuations.

The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007, and 2006 are as follows:

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

	Year Ended June 30,		
	2008	**2007**	**2006**
Operating revenues:			
Contributions	$ 15,769,646	$ 15,840,847	$ 16,746,419
Corporation for Public Broadcasting support	2,649,099	2,759,017	3,461,039
Stations generated support	965,724	1,354,338	1,184,333
Other operating revenues	-	1,343	5,312
Total operating revenues	19,384,469	19,955,545	21,397,103
Operating expenses:			
Program services	16,178,543	18,077,926	18,824,738
Support services	12,017,231	11,672,012	10,218,334
Total operating expenses	28,195,774	29,749,938	29,043,072
Total operating loss	(8,811,305)	(9,794,393)	(7,645,969)
Nonoperating revenues (expenses):			
Interest expense	(301,673)	(281,953)	(273,484)
Interest income, net	328,565	369,097	170,065
Net increase in fair value of investments	(570,255)	588,099	499,262
Other nonoperating expense	-	(14,375)	-
Total nonoperating income	(543,363)	660,868	395,843
Loss before transfers	(9,354,668)	(9,133,525)	(7,250,126)
San Diego State University support	7,988,160	8,061,311	7,816,638
Change in net assets	(1,366,508)	(1,072,214)	566,512
Beginning net assets	15,154,665	16,226,879	15,660,367
Ending net assets	$ 13,788,157	$ 15,154,665	$ 16,226,879

Operating Revenues and Expenses

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

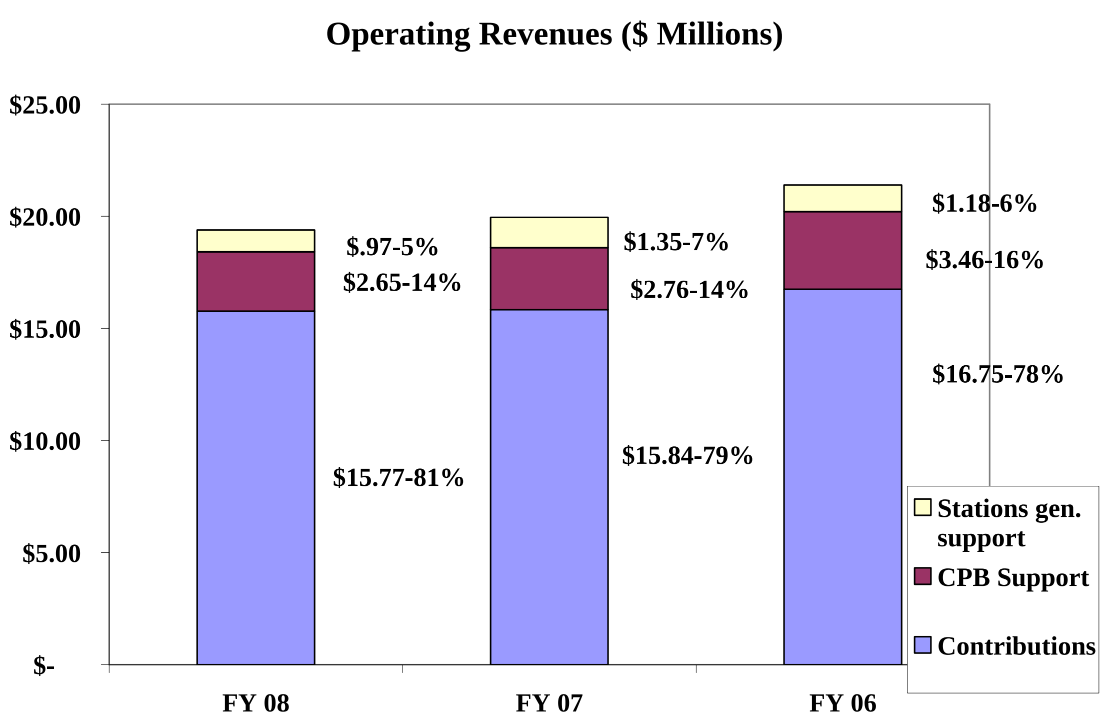
Operating Revenues

Contributions decreased by $906,000, or 5%, from 2006 to 2007 primarily due to lower major gifts revenues. Contributions also decreased by $71,000, or less than 1%, from 2007 and 2008. Increases in membership revenues, planned giving and major gifts were offset by weaker underwriting and advertising revenues during 2008.

Funding received from 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, two years prior to the grant. Funding received from the Corporation for Public Broadcasting decreased by $110,000, or 4%, from 2007 to 2008 due to a combination of lower nonfederal financial support during 2006 and a lower distribution rate by the Corporation for Public Broadcasting.

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. Station-generated support decreased by approximately $389,000, or 29%, from fiscal 2007 to 2008 due to decrease in 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 2008, 2007, and 2006:

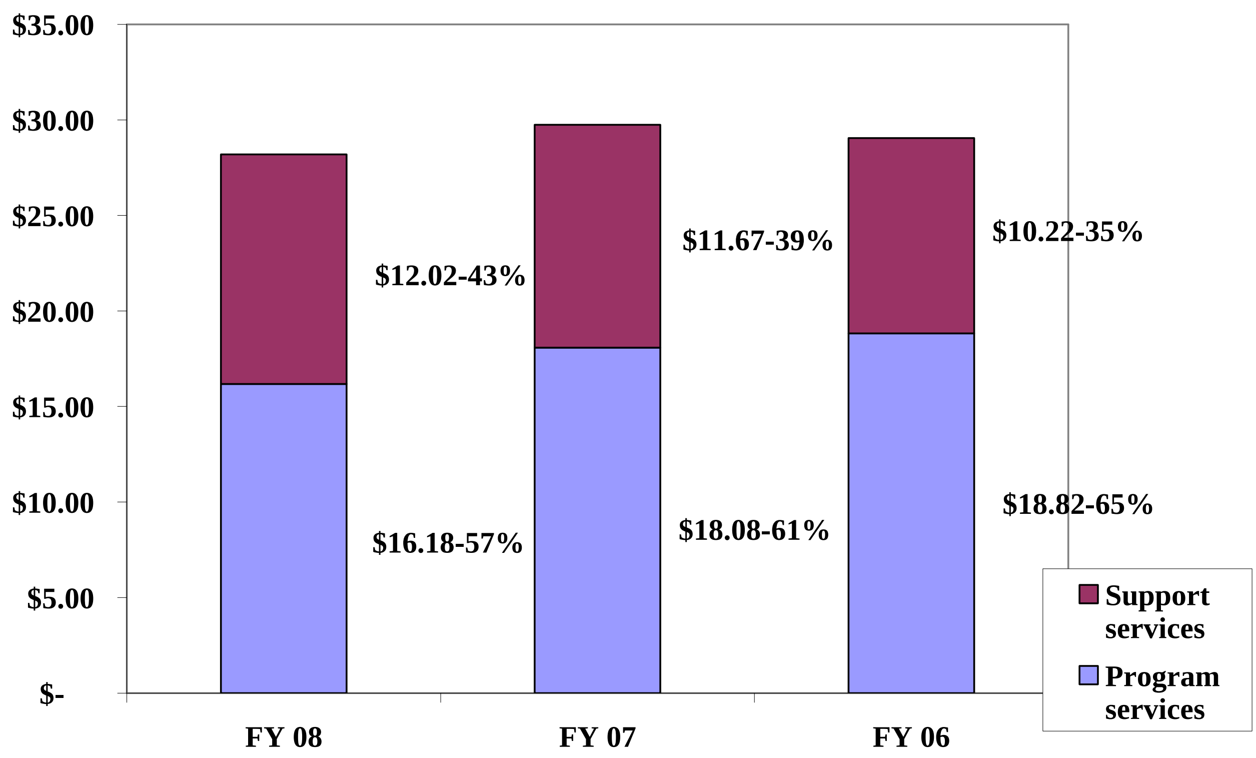


Operating Expenses

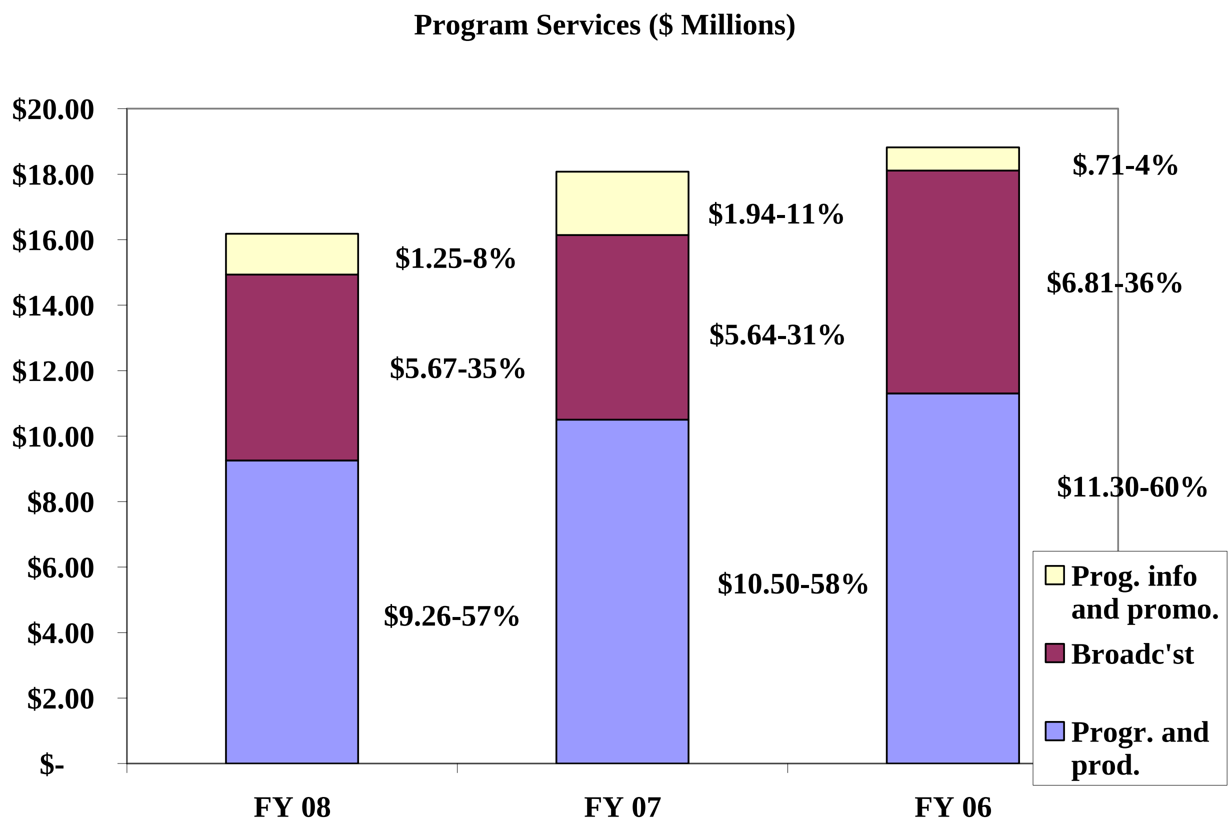
The program services expenses decreased by $747,000, or 4%, from 2006 to 2007 due to lower broadcasting and programming and production costs. Program services expenses decreased by $1,899,000, or 11%, from 2007 to 2008. This was due primarily to the Stations' discontinuing local broadcast productions of *Full Focus* and *A Way with Words*.

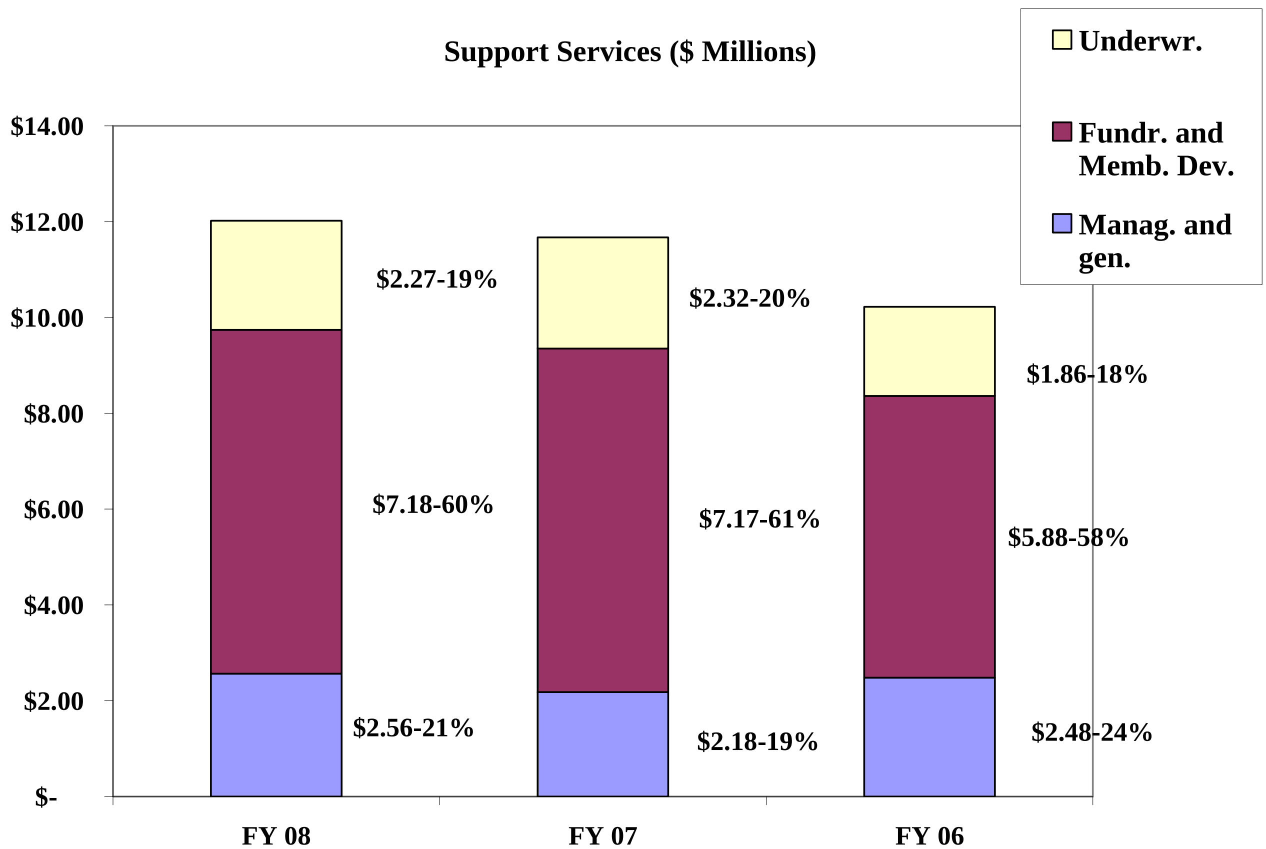
Support services expenses increased by approximately $1,454,000 or 14%, from 2006 to 2007, primarily related to the increase in Fundraising and membership development expenses and allocation of San Diego State University support revenue. Support services expenses increased by approximately $345,000, or 3%, from 2007 to 2008 due to higher Fundraising expenses. The following chart presents the distribution of resources in support of the Stations for fiscal years 2008, 2007, and 2006:

Operating Expenses ($ Millions)



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





Nonoperating Revenues and Expenses

Nonoperating revenues and expenses increased by approximately $265,000, or 67%, from 2006 to 2007, reflecting the increase in fair market value of investments. However, nonoperating revenues and expenses decreased by approximately $1,204,000, or 182%, from 2007 to 2008, due mostly due to the downturn in investment values. 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.

San Diego State University Transfers

Support from the University increased by approximately $245,000, or 3%, from 2006 to 2007 and decreased by $75,000, or 1%, from 2007 to 2008. 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 statements. The direct financial support received from the University increased $154,000, or 7% from 2006 to 2007 and by $206,000, or 8%, from 2007 to 2008. Direct support consisted primarily of salaries, space rental and utilities. Indirect support received from the University increased $91,000, or 2%, from 2006 to 2007 but decreased by

$280,000, or 5%, from 2007 to 2008. 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.

Capital Assets

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

	June 30, 2008	June 30, 2007	June 30, 2006
Building under capital lease	$ 5,261,618	$ 5,583,758	$ 5,905,898
Studio/broadcast equipment	1,658,687	2,305,593	1,506,677
Furniture and fixtures	141,170	222,847	346,310
Transmission/antenna/tower	1,309,373	1,493,003	1,693,185
KQVO radio station license	1,945,000	1,945,000	1,945,000
Total capital assets, net of accumulated depreciation	$ 10,315,848	$ 11,550,201	$ 11,397,070

Capital assets increased by approximately $153,000, or 1%, from 2006 to 2007, as acquisitions exceeded depreciation. However Capital assets decreased by $1,234,000, or 11%, from 2007 to 2008, due primarily to the low level of Capital asset acquisitions during the year not keeping pace with depreciation.

Long-Term Debt Obligations

Debt outstanding at June 30, 2008, 2007 and 2006 are summarized below by type of debt instrument:

	June 30, 2008	June 30, 2007	June 30, 2006
Capital lease obligation	$ 5,135,597	$ 5,507,760	$ 4,151,615
Note payable	436,989	573,048	704,569
Total	5,572,586	6,080,808	4,856,184
Less current portion	(623,895)	(508,221)	(284,257)
Long-term debt	$ 4,948,691	$ 5,572,587	$ 4,571,927

Long-term debt increased during 2007 by approximately $1,001,000, or 22%, due to new capital lease obligation, partially offset by payments of principal on long-term debt. However, long-term debt decreased during 2008 by approximately $624,000, or 11%, due to payment of debt obligations.

KPBS FM/TV
(A Department of San Diego State University)
Statements of Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash	$ 76,339	$ -
Due from San Diego State University Research Foundation	2,319,976	2,770,545
Accounts receivable, net (note 4)	2,551,767	2,339,506
Grants receivable	66,665	464,118
Prepaid expenses	9,745	26,385
Total current assets	5,024,492	5,600,554
Noncurrent assets:		
Accounts receivable (note 4)	541,720	465,208
Long-term investments (note 3)	3,388,477	3,358,471
Restricted assets-investments (note 3)	2,022,678	2,624,628
Capital assets, net (notes 5 and 7)	10,315,848	11,550,201
Other assets	15,517	21,944
Total noncurrent assets	16,284,240	18,020,452
Total assets	21,308,732	23,621,006
Liabilities		
Current liabilities		
Due to San Diego State University	-	270,295
Accounts payable	308,139	336,062
Accrued expenses	649,305	723,353
Deferred revenue	977,815	1,034,669
Note payable-current portion (note 6)	140,752	136,059
Capital lease obligation-current portion (note 7)	483,143	372,162
Total current liabilities	2,559,154	2,872,600
Noncurrent liabilities		
Note payable, net of current portion (note 6)	296,237	436,989
Capital lease obligation, net of current portion (note 7)	4,652,454	5,135,598
Other liabilities	12,730	21,154
Total noncurrent liabilities	4,961,421	5,593,741
Total liabilities	7,520,575	8,466,341
Commitments and contingencies (notes 5, 7, 8, 9 and 10)		
Net assets		
Net assets:		
Invested in capital assets, net of related debt	4,743,262	5,469,393
Restricted for:		
Nonexpendable - endowments	688,018	695,600
Expendable:		
Capital campaign	661,132	670,463
Annuity trust agreements	163,231	165,156
Program production and airing	324,444	377,706
Scholarship activities	185,962	200,703
Unrestricted	7,022,108	7,575,644
Total net assets	$ 13,788,157	$ 15,154,665

KPBS FM/TV

(A Department of San Diego State University)

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenues (note 2):		
Contributions	$ 15,769,646	$ 15,840,847
Corporation for Public Broadcasting grants	2,649,099	2,759,017
Stations-generated support	965,724	1,354,338
Other operating revenues	-	1,343
Total operating revenues	19,384,469	19,955,545
Operating expenses (notes 5, 7, 8 and 10):		
Program services		
Programming and production	9,255,945	10,501,879
Broadcasting	5,674,953	5,639,030
Program information and promotion	1,247,645	1,937,017
Total program services	16,178,543	18,077,926
Support services:		
Management and general	2,561,858	2,180,276
Fundraising and membership development	7,180,981	7,170,804
Underwriting	2,274,392	2,320,932
Total support services	12,017,231	11,672,012
Total operating expenses	28,195,774	29,749,938
Operating loss	(8,811,305)	(9,794,393)
Nonoperating revenues (expenses):		
Interest expense (notes 6 and 7)	(301,673)	(281,953)
Interest income, net	328,565	369,097
Net increase (decrease) in fair value of investments	(570,255)	588,099
Other nonoperating expense	-	(14,375)
Total nonoperating revenues, net	(543,363)	660,868
Loss before transfers	(9,354,668)	(9,133,525)
San Diego State University transfers		
Direct financial support	2,651,918	2,445,629
Indirect financial support	5,336,242	5,615,682
Total transfers	7,988,160	8,061,311
Change in net assets	(1,366,508)	(1,072,214)
Net assets, beginning of year	15,154,665	16,226,879
Net assets, end of year	$ 13,788,157	$ 15,154,665

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Contributions	$ 15,821,475	$ 15,865,767
Stations generated support	965,724	1,354,338
Other operating receipts	-	1,343
Payments to suppliers	(10,955,959)	(12,249,767)
Payments to employees	(10,236,850)	(10,164,513)
Administrative fees paid to San Diego State University Research Foundation	(757,827)	(792,004)
Corporation for Public Broadcasting support	2,649,099	2,759,017
Net cash used in operating activities	(2,514,338)	(3,225,819)
Cash flows from noncapital and related financing:		
Transfers from San Diego State University	2,651,918	2,445,629
Increase in receipts from San Diego State University Research Foundation	450,569	1,043,568
Net cash provided by noncapital and related financing activities	3,102,487	3,489,197
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital lease	(508,222)	(284,255)
Interest paid	(301,673)	(281,953)
Purchase of capital assets	(32,169)	(45,427)
Net cash used in capital and related financing activities	(842,064)	(611,635)
Cash flows from investing activities:		
Investment income	330,254	358,257
Purchase of investments	-	(10,000)
Net cash provided by investing activities	330,254	348,257
Net increase in cash and cash equivalents	76,339	-
Cash funds held by San Diego State University, end of year	$ 76,339	$ -

See accompanying notes to financial statements.

KPBS FM/TV
(A Department of San Diego State University)
Statements of Cash Flows
Years ended June 30, 2008 and 2007

	2008	2007
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (8,811,305)	$ (9,794,393)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Allocated San Diego State University expenses	5,336,242	5,615,683
Depreciation and amortization	1,266,522	1,266,644
(Increase) decrease in assets:		
Accounts receivable	(288,773)	(205,631)
Grants receivable	397,453	3,312
Prepaid expenses	16,640	(11,314)
Other assets	6,427	(1,940)
Increase (decrease) in liabilities		
Accounts payable	(298,218)	(336,353)
Accrued expenses	(74,048)	4,634
Deferred revenue	(56,854)	227,239
Other liabilities	(8,424)	6,300
Net cash used in operating activities	$ (2,514,338)	$ (3,225,819)
Supplemental disclosure of noncash investing activity:		
Increase (decrease) in fair value of investments	$ (543,363)	$ 660,868
Capital assets purchased with capital leases	$ -	$ 1,388,723
Items purchased with capital leases and expensed	$ -	$ 120,156

See accompanying notes to financial statements.

(1) Organization

KPBS FM/TV (the Stations) is engaged in the production and broadcast of public television and radio programs. KPBS TV is licensed to the Board of Trustees of The California State University (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 $758,000 and $792,000 for 2008 and 2007, 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 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

Cash includes funds held by the University. The stations had no cash on hand at June 30, 2007.

(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. 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 the 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 asset has an indefinite life and is not amortized. It is the Stations' policy to review the asset annually for impairment and adjust the asset to fair value if impairment has occurred. The Station has determined that there is no impairment as of June 30, 2008 and 2007.

(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 $295,000 and $360,000 for the years ended June 30, 2008 and 2007, 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 81% and 79% of their operating revenue from contributions in the years ended June 30, 2008 and 2007, respectively.

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

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

(j) San Diego State University Support

Direct financial support received from the University for the year ended June 30, 2008 and 2007 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the year ended June 30, 2008 and 2007 was $5,336,000 and $5,616,000, 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' 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 operating expense in the accompanying statements.

(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 as the funds are received and management's policy is to expend the money in the year received. The stations received and recorded approximately $2,649,000 and $2,759,000 in grant revenue from the CPB in the years ended June 30, 2008 and 2007, 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.

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

(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. However, since the Stations are not a separate legal entity, any tax liability as a result of their operations will be owed and paid by the University or the SDSU Research Foundation, and thus the Stations had no tax liability for the years ended June 30, 2008 and 2007.

(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) Reclassification

Certain reclassifications have been made in the 2007 statement of revenues, expenses, and changes in net assets and 2007 statements of cash flows in order to conform to the current year presentation, with no effect on the change in net assets.

(r) Pronouncements Issued

KPBS has elected to implement the following GASB statements early:

- 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).

KPBS has implemented the following GASB statements that became effective for the year ended June 30, 2008.

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

The implementation of the above GASB statements did not have a significant impact on the financial statements.

The GASB has issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, (effective for the year ending June 30, 2009), and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, (effective for the year ending June 30, 2010), that may impact future financial presentations. Management has not currently determined what, if any, impact implementation may have on the financial statements of KPBS.

(3) Investments and Subsequent Events

Investments are reported on the statement of net assets as of June 30, 2008 and 2007 as follows:

	2008	2007
Long-term investments	$ 3,388,477	$ 3,358,471
Restricted assets-investments	2,022,678	2,624,628
	$ 5,411,155	$ 5,983,099

KPBS' investments are part of a unitized investment pool managed by SDSU Research Foundation and are therefore not separately identifiable. The pool is approved and monitored by the SDSU Research Foundation Board of Directors, and maintains a 70% equity, 25% fixed income, and 5% real estate asset mix. 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 $276,000 and $307,000 at June 30, 2008 and 2007, respectively.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, KPBS's investment in the unitized investment pool managed by SDSU Research Foundation has likely incurred a significant decline in fair value since June 30, 2008.

(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, 2008 and 2007 consisted of the following:

	2008	
	Current	**Noncurrent**
Underwriter receivables	$ 2,064,990	$ 277,987
Other receivable	507,101	263,733
Allowance for doubtful accounts	(20,324)	-
	$ 2,551,767	$ 541,720

	2007	
	Current	**Noncurrent**
Underwriter receivables	$ 2,251,979	$ 465,208
Other receivable	87,527	-
	$ 2,339,506	$ 465,208

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 and 2007 consisted of the following:

		Balance June 30, 2007		Additions		Retirements		Balance June 30, 2008
Nondepreciable capital assets:								
KQVO radio station license	$	1,945,000	$	-	$	-	$	1,945,000
Total nondepreciable capital assets		1,945,000		-		-		1,945,000
Depreciable capital assets:								
Buildings under capital lease (a)		9,664,197		-		-		9,664,197
Studio/broadcast equipment		10,995,546		15,549		(17,800)		10,993,295
Furniture and fixtures		1,300,120		16,620		(7,867)		1,308,873
Transmission/antenna/tower		2,913,595						2,913,595
Total depreciable capital assets		24,873,458		32,169		(25,667)		24,879,960
Less accumulated depreciation:								
Buildings under capital lease (a)		4,080,439		322,140				4,402,579
Studio/broadcast equipment		8,689,953		662,455		(17,800)		9,334,608
Furniture and fixtures		1,077,273		98,297		(7,867)		1,167,703
Transmission/antenna/tower		1,420,592		183,630				1,604,222
Total accumulated depreciation		15,268,257		1,266,522		(25,667)		16,509,112
Total depreciable assets		9,605,201		(1,234,353)		-		8,370,848
Net capital assets	$	11,550,201	$	(1,234,353)	$	-	$	10,315,848

		Balance June 30, 2006		Additions		Retirements		Balance June 30, 2007
Nondepreciable capital assets:								
KQVO radio station license	$	1,945,000	$	-	$	-	$	1,945,000
Total nondepreciable capital assets		1,945,000		-		-		1,945,000
Depreciable capital assets:								
Buildings under capital lease [(a)]		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		23,571,256		1,434,150		(131,948)		24,873,458
Less accumulated depreciation:								
Buildings under capital lease [(a)]		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		14,119,186		1,266,644		(117,573)		15,268,257
Total depreciable assets		9,452,070		167,506		(14,375)		9,605,201
Net capital assets	$	11,397,070	$	167,506	$	(14,375)	$	11,550,201

[(a)] The building under capital lease represents the Stations-occupied portion of the Gateway Center and is pledged as collateral for debt issued by the SDSU Research Foundation, whose outstanding balance at June 30, 2008 and 2007 was approximately $7,150,000 and $7,460,000, respectively.

Depreciation expense totaled $1,266,522 and $1,266,644 for the years ended June 30, 2008 and 2007, respectively, and was allocated among expenses in the accompanying statement of revenues, expenses, and changes in net assets as follows:

		2008		2007
Program Services	$	315,906	$	315,936
Support Services		950,616		950,708
Total depreciation	$	1,266,522	$	1,266,644

(6) Long-Term Debt Obligations

Long-term debt obligations activity for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Current portion
Note payable	$ 573,048	$ -	$ (136,059)	$ 436,989	$ 140,752

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. During 2008 the University paid off the remaining liability owed to the lessor and simultaneously entered into an agreement with KPBS in which KPBS would pay the University under the terms of the original agreement with the lessor. Principal and interest are payable in annual installments of $155,825, due each year in March. The unsecured note payable bears interest at a fixed rate of 3.4%. Aggregate annual principal payments are as follows:

	Principal	Interest	Total
Year Ended June 30:			
2009	140,752	15,073	155,825
2010	145,607	10,218	155,825
2011	150,630	5,195	155,825
	$ 436,989	$ 30,486	$ 467,475

Interest incurred on the note payable amounted to $19,767 and $24,303 for the years ended June 30, 2008 and 2007, respectively.

(7) Commitments

(a) Capital Lease

Gateway Center

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

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

Capital Equipment Lease

During the year ended June 30, 2007, KPBS obtained financing through the University to acquire equipment. During 2008 the University paid off the remaining liability owed to the lessor and simultaneously entered into an agreement with KPBS in which KPBS would pay the University under the terms of the original agreement with the lessor. Under the capital lease, payments are due each March until 2014.

Capital lease obligations activity for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Current portion
Capital lease obligation	$ 5,507,760	$	$ (372,163)	$ 5,135,597	$ 483,143

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, 2008:

	Principal	Interest	Total
Year Ended June 30:			
2009	483,143	268,956	752,099
2010	388,551	251,444	639,995
2011	405,391	232,979	638,370
2012	425,357	213,708	639,065
2013	445,684	193,456	639,140
Thereafter	2,987,471	976,361	3,963,832
	$ 5,135,597	$ 2,136,904	$ 7,272,501

(b) Operating Leases

The Stations lease certain land, buildings, and transmitter space under noncancelable operating leases, which expire on various dates through January 2024. The current monthly rental payments range from approximately $75 to $10,042 and several of the agreements allow for annual increases in the base rent. The Stations' incurred rental expense for the years ended June 30, 2008 and 2007 of $220,588 and $240,818, respectively.

The total minimum rental commitment at June 30, 2008 under the leases mentioned above is due as follows:

Year Ended June 30:		
2009	$	160,735
2010		106,471
2011		28,648
2012		28,648
2013		28,648
Due thereafter		287,080
	$	640,230

(c) ***Consulting Agreement***

The Station's current General Manager is scheduled to retire on December 31, 2008. On June 20, 2008, the University and the Station's General Manager entered into a consulting agreement whereby the University will retain the services of the General Manager, for a period of 12 months starting January 1, 2009, for a fee of $75,000. The fee will be paid by the Station.

(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 $95,949 and $91,160 for the years ended June 30, 2008 and 2007, 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.

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 $272,598 and $238,572 for the years ended June 30, 2008 and 2007, 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 worker's 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. Premiums to SDSU Research Foundation on these insurance policies totaled approximately $89,000 and $99,000 for the years ended June 30, 2008 and 2007, respectively.