KPBS FM/TV

(A Department of San Diego State University)

Financial Report

June 30, 2006 and 2005

KPBS FM/TV

(A Department of San Diego State University)

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McGladrey & Pullen
Certified Public Accountants

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, 2006 and 2005, 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, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2006 and 2005, and the changes in its financial position or, where applicable, 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, 2006 and 2005, and the 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

October 31, 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, 2006 and 2005. 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.

KPBS FM/TV

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2006 and 2005

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, 2006 and 2005. 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, 2006, 2005, and 2004 are as follows:

Condensed Summary of Net Assets

	June 30,		
	2006	**2005**	**2004**
Assets:			
Current assets	$ 6,512,569	$ 6,320,789	$ 4,510,581
Capital assets	11,397,070	11,845,792	11,271,755
Other noncurrent assets	5,777,292	5,904,128	5,905,364
Total assets	23,686,931	24,070,709	21,687,700
Liabilities:			
Current liabilities	2,873,271	3,528,032	2,497,400
Noncurrent liabilities	4,586,781	4,882,310	5,136,619
Total liabilities	7,460,052	8,410,342	7,634,019
Net assets:			
Invested in capital assets, net of related debt	6,540,886	6,720,844	5,887,837
Restricted - nonexpendable	689,867	682,045	680,217
Restricted - expendable	1,736,180	2,023,892	1,938,899
Unrestricted	7,259,946	6,233,586	5,546,728
Total net assets	$ 16,226,879	$ 15,660,367	$ 14,053,681

<u>Assets</u>

Total assets increased approximately $2.4 million, or 11%, from 2004 to 2005 primarily due to an increase in the amount due from SDSU Research Foundation and receivables. Total assets decreased insignificantly, approximately $383,000, or 2%, from 2005 to 2006.

Current assets increased approximately $1.8 million, or 40%, from 2004 to 2005 due to an increase in the amount due from SDSU Research Foundation as well as trade and grants receivable. Current assets increased insignificantly, approximately $192,000, or 3%, from 2005 to 2006 due to a slight increase in the amount due from SDSU Research Foundation.

Capital assets increased approximately $574,000, or 5%, from 2004 to 2005 due to depreciation of approximately $1.6 million and the offset of the purchase of property and equipment and KQVO, a radio station in California's Imperial Valley. Capital assets decreased approximately $449,000, or 4%, from 2005 to 2006 due to depreciation of approximately $1.3 million and the offset of the purchase of property and equipment.

Liabilities

Total liabilities increased approximately $776,000, or 10%, from 2004 to 2005 primarily due to an increase in accounts payable. Total liabilities decreased approximately $950,000, or 11%, from 2005 to 2006 due primarily to decrease in accounts payable and the payment of principal on long-term debt.

Current liabilities increased by approximately $1 million, or 41%, from 2004 to 2005 principally due to a payable to the University. A portion of the Stations' expenses are processed through the University and reimbursed to the University by KPBS funds held at SDSU Research Foundation. 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.

Noncurrent liabilities decreased approximately $254,000, or 5%, from 2004 to 2005 and approximately $295,000, or 6%, from 2005 to 2006 due to the payment of principal on long-term debt.

Net Assets

Total net assets increased approximately $1.6 million, or 11%, from 2004 to 2005 resulting primarily from an increase of approximately $500,000 in noncurrent accounts receivable and the excess value of $830,000 (over the cost of $1,115,000) for the acquisition and donation of KQVO, a radio station in California's Imperial Valley. This increase mainly impacted unrestricted net assets. Total net assets increased approximately $567,000, or 4%, from 2005 to 2006 primarily due to the payment of principal on long-term debt offset by the purchase of property and equipment offset by capital asset depreciation.

Restrictions on Net Assets

Net assets of the Stations include funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction and the amount:

Restricted Net Assets

	June 30,		
	2006	**2005**	**2004**
Nonexpendable	$ 689,867	$ 682,045	$ 680,217
Expendable:			
Capital campaign	$ 660,818	$ 810,634	$ 973,895
Annuity trust agreements	165,800	181,545	292,592
Program production and airing	752,572	890,695	627,054
Scholarship activities	156,990	141,018	45,358
Total restricted expendable net assets	$ 1,736,180	$ 2,023,892	$ 1,938,899

The Capital campaign fund was a result of contributions donated for expenditure of the Gateway building. The Capital campaign decreased due to the annual debt service payments from this fund. Annuity trust agreements fluctuate as a result of payments to annuitants, the receipt of new funds and market fluctuations. The Program production and airing decreased due to the transfer of gifts no longer restricted. Scholarship activities increased from market fluctuations.

The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2006, 2005, and 2004 are as follows:

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

	Year Ended June 30,		
	2006	**2005**	**2004**
Operating revenues:			
Contributions	$ 16,746,419	$ 16,653,912	$ 21,442,114
San Diego State University support	7,816,638	6,825,504	7,186,004
Stations generated support	1,184,333	1,647,492	2,854,888
Other operating revenues	5,312	4,625	24,082
Total operating revenues	25,752,702	25,131,533	31,507,088
Operating expenses:			
Program services	18,824,738	16,895,639	18,474,084
Support services	10,218,334	9,391,887	10,057,023
Total operating expenses	29,043,072	26,287,526	28,531,107
Nonoperating revenues (expenses):			
Corporation for Public Broadcasting support	3,461,039	2,492,348	2,503,504
Interest expense	(273,484)	(354,244)	(322,901)
Interest income, net	170,065	115,721	86,325
Net increase in fair value of investments	499,262	542,340	126,621
Other nonoperating expense	—	(33,486)	(2,126)
Total nonoperating income	3,856,882	2,762,679	2,391,423
Change in net assets	566,512	1,606,686	5,367,404
Beginning net assets	15,660,367	14,053,681	8,686,277
Ending net assets	$ 16,226,879	$ 15,660,367	$ 14,053,681

Operating Revenues and Expenses

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

Operating Revenues

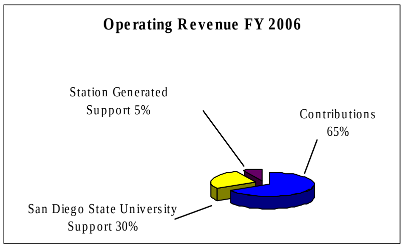
Contributions decreased approximately $4.8 million or, 22%, from 2004 to 2005 due to the absence of two significant bequests from 2004. Despite the absence of these bequests, the Stations were able to maintain a portion of the prior year increase due to significant increases in grant and underwriting revenue for 2005. Contributions increased insignificantly $93,000, or 1%, from 2005 to 2006.

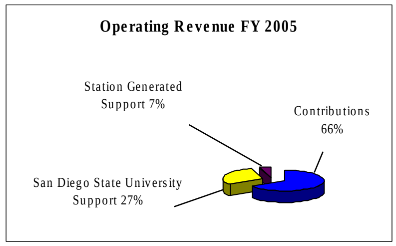
Support from the University decreased approximately $361,000, or 5%, from fiscal year 2004 to 2005. This amount represents direct financial support and indirect support received from the University. Direct financial support received from the University decreased approximately $48,000 from 2004 to 2005. Direct support consisted primarily of salaries, space rental and utilities. Indirect support received from the University decreased approximately $312,000 from 2004 to 2005. Support from the University increased approximately $991,000, or 14.5%, from 2005 to 2006. The direct financial support received from the University increased approximately $127,000, or 6% from 2005 to 2006. Indirect support received from the University increased approximately $864,000, or 18% from 2005 to 2006. 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.

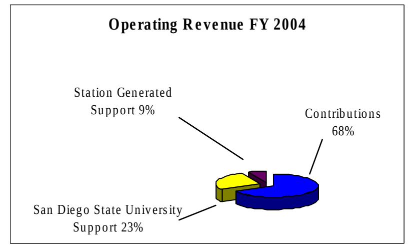
The station-generated support decrease of approximately $1.2 million, or 42%, from 2004 to 2005 was due to the Police Officers Standard Training (POST) contract which expired in 2004. Station generated support decreased approximately $463,000, or 28%, from fiscal year 2005 to 2006 due to a decrease of revenue for a project supported by four public broadcasting stations in the state of California. The project, California Connected, is a series of TV and radio shows discussing issues facing all Californians.

Other operating revenue decreased by approximately $19,000, or 81%, from fiscal year 2004 to 2005 due to the decision of the Stations to no longer produce in-house documentary projects, therefore significantly reducing royalties. Other operating revenue increased by $700, or 15% from 2005 to 2006.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2006, 2005, and 2004:





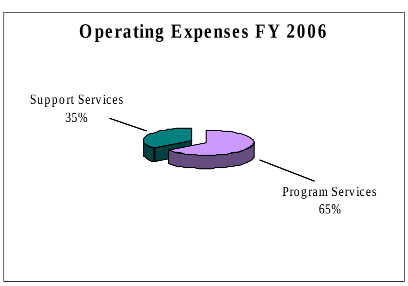


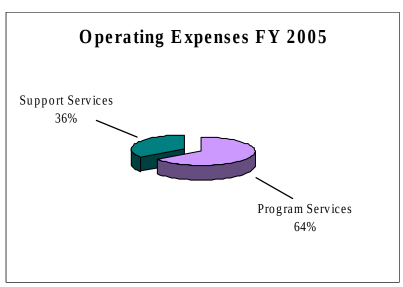
Operating Expenses

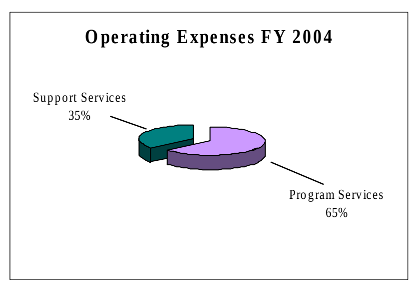
Program service expenses decreased approximately $1.6 million, or 8%, from fiscal year 2004 to 2005. The completion of the POST contract discussed earlier was the primary reason for the 2005 decrease. The program service category contains expenses relating to program and production, broadcasting and public information. The majority of the increase is related to program and production expenses. A portion of the fluctuation coincides with the related increases discussed previously for San Diego State University support revenue. The increase in program service expenses of approximately $1.9 million, or 11%, from 2005 to 2006 is primarily related to the increase in San Diego State University support revenue.

Support service expenses decreased approximately $665,000, or 7% from 2004 to 2005. This decrease is a result of a decrease in donated services and indirect support from the University. Support service expenses increased approximately $826,000, or 9%, primarily due to the increase in San Diego State University support revenue.

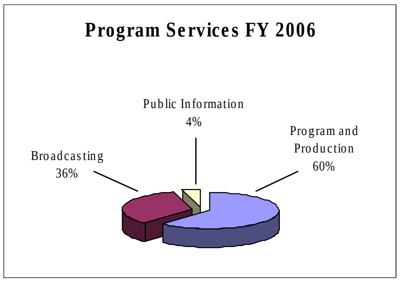
The following charts present the distribution of resources in support of the Stations for fiscal years 2006, 2005, and 2004:

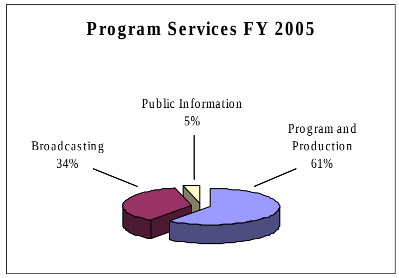


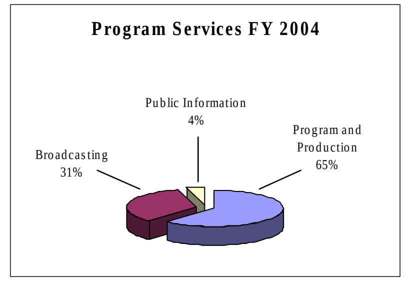




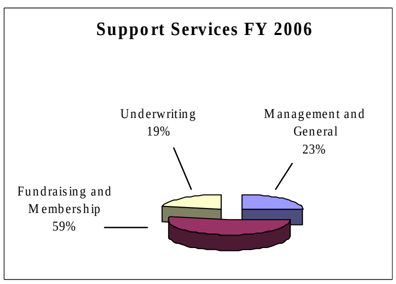
A further breakdown of the Program Services is provided as follows:

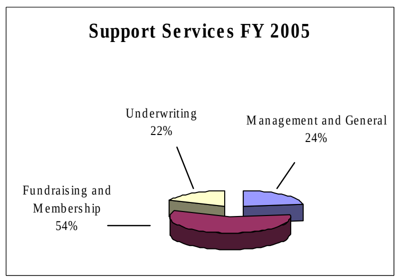


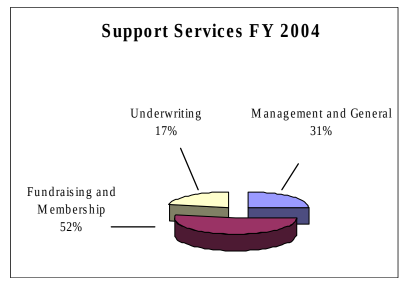




A further breakdown of the Support Services is provided as follows**:**







Nonoperating Revenues and Expenses

Nonoperating revenues and expenses increased approximately $371,000, or 16%, from 2004 to 2005 and approximately $1.0 million, or 39% from 2005 to 2006. Nonoperating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are funding from the Corporation for Public Broadcasting, investment income, changes in the fair value of investments and interest expense.

Funding received by the Corporation for Public Broadcasting increased approximately $970,000, or 39%, from fiscal year 2005 to 2006 due to an increase in the Stations' nonfederal financial support. The grants received from CPB are based on nonfederal financial support received during 2004. Funding received by CPB remained fairly constant from 2004 to 2005.

The net increase in fair value of investments increased approximately $416,000, or 328%, from 2004 to 2005 due to an increase in the amount of investments. The net increase in fair value decreased approximately $43,000, or 8%, due to general market fluctuations. Interest income for the Stations increased approximately $29,000, or 34%, from 2004 to 2005 and increased $54,000, or 47%, from 2005 to 2006 due to the increase in the amount due from SDSU Research Foundation. Interest expense increased approximately $31,000, or 10%, from 2004 to 2005, and decreased approximately $81,000, or 22.8%, from 2005 to 2006.

Capital Assets

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

	June 30, 2006	June 30, 2005	June 30, 2004
Building under capital lease	$ 5,905,898	$ 6,228,038	$ 6,550,178
Studio/broadcast equipment	1,506,677	1,807,020	2,697,847
Furniture and fixtures	346,309	391,837	518,371
Transmission/antenna/tower	1,693,186	1,357,539	1,505,359
Work in Progress	-	116,358	-
KQVO radio station license	1,945,000	1,945,000	-
Total capital assets, net of accumulated depreciation	$ 11,397,070	$ 11,845,792	$ 11,271,755

Capital assets and intangible assets increased approximately $574,000, or 5%, from 2004 to 2005 due to depreciation of approximately $1.6 million offset by the purchase of property and equipment and the KQVO radio station license. Capital assets decreased approximately $449,000, or 4%, from 2005 to 2006 due to depreciation of approximately $1.3 million offset by the purchase of property and equipment.

Long-Term Debt Obligations

Debt outstanding at June 30, 2006, 2005 and 2004 are summarized below by type of debt instrument:

	June 30, 2006	June 30, 2005	June 30, 2004
Capital lease obligation	$ 4,151,615	$ 4,293,242	$ 4,429,315
Note payable	704,569	831,706	954,604
Total	4,856,184	5,124,948	5,383,919
Less current portion	(284,257)	(268,764)	(258,971)
Total long-term debt	$ 4,571,927	$ 4,856,184	$ 5,124,948

During 2004, the University refinanced an equipment loan of which KPBS is responsible for a portion of that loan to the University. The loan term was extended by two years, the interest rate was reduced by one hundred and eleven basis points and the annual payment decreased by $58,000. Long-term debt decreased approximately $269,000, or 5%, from 2004 to 2005 and $284,000, or 6%, from 2005 to 2006, due to the payment of principal on long-term debt.

KPBS FM/TV
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Statements of Net Assets

June 30, 2006 and 2005

Assets		**2006**		**2005**
Current assets:				
Due from San Diego State University Research Foundation	$	3,814,113	$	3,616,849
Accounts receivable (note 4)		2,215,955		2,209,324
Grants receivable		467,430		445,611
Prepaid expenses		15,071		49,005
Total current assets		6,512,569		6,320,789
Noncurrent assets:				
Accounts receivable (note 4)		383,128		706,250
Long-term investments (note 3)		2,911,135		2,424,659
Restricted assets-investments (note 3)		2,463,025		2,753,215
Capital assets, net (notes 5, 7 and 11)		11,397,070		11,845,792
Other assets		20,004		20,004
Total noncurrent assets		17,174,362		17,749,920
Total assets		23,686,931		24,070,709
Liabilities				
Current liabilities				
Due to San Diego State University		681,435		1,025,575
Accounts payable		381,430		498,746
Accrued expenses		718,719		746,461
Deferred revenue		807,430		988,486
Note payable-current portion (note 6)		131,522		127,137
Capital lease obligation-current portion (note 7)		152,735		141,627
Total current liabilities		2,873,271		3,528,032
Noncurrent liabilities				
Note payable, net of current portion (note 6)		573,047		704,569
Capital lease obligation, net of current portion (note 7)		3,998,880		4,151,615
Other liabilities		14,854		26,126
Total noncurrent liabilities		4,586,781		4,882,310
Total liabilities		7,460,052		8,410,342
Commitments and contingencies (notes 5, 7, 8 and 9)				
Net assets				
Net assets:				
Invested in capital assets, net of related debt		6,540,886		6,720,844
Restricted for:				
Nonexpendable - endowments		689,867		682,045
Expendable:				
Capital campaign		660,818		810,634
Annuity trust agreements		165,800		181,545
Program production and airing		752,572		890,695
Scholarship activities		156,990		141,018
Unrestricted		7,259,946		6,233,586
Total net assets	$	16,226,879	$	15,660,367

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, 2006 and 2005

	2006	2005
Operating revenues (note 2):		
Contributions	$ 16,746,419	$ 16,653,912
San Diego State University support:		
Direct financial support	2,291,558	2,164,437
Indirect noncash support	5,525,080	4,661,067
Stations-generated support	1,184,333	1,647,492
Other operating revenues	5,312	4,625
Total operating revenues	25,752,702	25,131,533
Operating expenses (notes 5, 7, 8 and 10):		
Program services:		
Programming and production	11,308,904	10,407,033
Broadcasting	6,807,380	5,804,707
Program information and promotion	708,454	683,899
Total program services	18,824,738	16,895,639
Support services:		
Management and general	2,477,086	2,282,771
Fundraising and membership development	5,880,484	5,079,507
Underwriting	1,860,764	2,029,609
Total support services	10,218,334	9,391,887
Total operating expenses	29,043,072	26,287,526
Operating loss	(3,290,370)	(1,155,993)
Nonoperating revenues (expenses):		
Corporation for Public Broadcasting grants (note 2)	3,461,039	2,492,348
Interest expense (notes 6 and 7)	(273,484)	(354,244)
Investment income, net	170,065	115,721
Net increase in fair value of investments	499,262	542,340
Other nonoperating expense	—	(33,486)
Total nonoperating revenues, net	3,856,882	2,762,679
Change in net assets	566,512	1,606,686
Net assets, beginning of year	15,660,367	14,053,681
Net assets, end of year	$ 16,226,879	$ 15,660,367

See accompanying notes to financial statements.

KPBS FM/TV
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Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Contributions	$ 16,860,035	$ 13,704,588
San Diego State University support	2,291,558	2,164,437
Stations generated support	1,184,333	1,659,875
Other operating receipts	5,312	4,625
Payments to suppliers	(12,485,346)	(8,515,360)
Payments to employees	(9,500,097)	(9,102,903)
Administrative fees paid to San Diego State University Research Foundation	(707,605)	(680,528)
Corporation for Public Broadcasting support	3,461,039	2,492,348
Net cash provided by operating activities	1,109,229	1,727,082
Cash flows from noncapital and related financing:		
Increase in amounts paid to San Diego State University Research Foundation	(197,264)	(1,298,940)
Net cash used in provided by noncapital and related financing activities	(197,264)	(1,298,940)
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital lease	(268,764)	(258,971)
Interest paid	(273,484)	(354,244)
Purchase of intangible assets	—	(1,115,000)
Purchase of capital assets	(842,758)	(202,428)
Net cash used in capital and related financing activities	(1,385,006)	(1,930,643)
Cash flows from investing activities:		
Investment income	483,041	432,683
Proceeds from sale of investments	—	1,148,731
Purchase of investments	(10,000)	(342,096)
Net cash used in investing activities	473,041	1,239,318
Net increase in cash and cash equivalents	—	(263,183)
Cash funds held by San Diego State University, beginning of year	—	263,183
Cash funds held by San Diego State University, end of year	$ —	$ —

See accompanying notes to financial statements.

KPBS FM/TV

(A Department of San Diego State University)

Statements of Cash Flows

Years ended June 30, 2006 and 2005

		2006		2005
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$	(3,290,371)	$	(1,155,993)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Corporation for Public Broadcasting grants		3,461,039		2,492,348
Depreciation and amortization		1,291,484		1,591,303
Donated equipment		—		(51,400)
Noncash contribution		—		(830,000)
(Increase) decrease in assets:				
Accounts receivable		316,491		(975,797)
Grants receivable		(21,819)		(388,874)
Prepaid expenses		33,934		19,969
Other assets		—		(9,773)
Increase (decrease) in liabilities:				
Accounts payable		(461,457)		829,905
Accrued expenses		(27,743)		(71,503)
Deferred revenue		(181,056)		262,437
Other liabilities		(11,273)		14,460
Net cash provided by operating activities	$	1,109,229	$	1,727,082
Supplemental disclosure of noncash investing activity:				
Increase in fair value of investments	$	488,960	$	542,340

See accompanying notes to financial statements.

(1) Organization

KPBS FM/TV (the Stations) is engaged in the production and broadcast of public television and radio programs. KPBS TV is licensed to the Board of Trustees of The California State University (CSU) for San Diego State University (the University). KPBS FM is licensed to The State of California on behalf of the University. San Diego State University Research Foundation, (SDSU Research Foundation), a not-for-profit California corporation, which is an auxiliary organization of CSU, provides administrative support to the Stations and includes all of the Stations' accounts, except for cash, certain capital assets, the note payable and related interest and expenses related to certain State employees in its financial statements. KPBS is considered a department of the University. Administrative fees paid to the SDSU Research Foundation were approximately $708,000 and $681,000 for the years ended June 30, 2006 and 2005, 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 Station is related to auxiliaries of the University, including San Diego State University Research Foundation, Associated Students of San Diego State University, Aztec Shops, Ltd. and The Campanile Foundation. The auxiliaries and the University periodically provide various services for one another and collaborate on projects

(2) Summary of Significant Accounting Policies

A summary of the significant accounting policies utilized by the Stations follows:

(a) Basis of Accounting and Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Stations' financial statements are presented in accordance with the requirements of enterprise funds.

(b) Election of Applicable FASB Statements

The Stations 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 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, 2006 and 2005.

(e) Due from San Diego State University Research Foundation

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

(f) Investments

Investments represent the Stations' share of the internal investment pool of SDSU Research Foundation. 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 using 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.

Capital assets 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 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.

(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. Unpaid compensated absences of approximately $398,000 and $461,000 as of June 30, 2006 and 2005, 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 65% and 67% of their revenue from contributions in the years ended June 30, 2006 and 2005, 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, 2006 and 2005 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2006 and 2005 consists of $5,525,080 and $4,661,067, 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, then the proportion is applied to certain administration, maintenance, and repair costs of the University.

These services were provided without cost and have been allocated to the Stations. The costs of the services are reported as revenue and expense in the accompanying statements.

(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 nonoperating revenue. Certain guidelines set by the Corporation for Public Broadcasting must be satisfied in connection with the application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission. Revenue on these grants is recognized as the funds are received and management's policy is to expend the money in the year received. The stations received and recorded approximately $3,461,000 and $2,492,000 in grant revenue from the CPB during the years ended June 30, 2006 and 2005, 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 as a campus of the California State University system, which is an agency of the state of California and is treated as a governmental entity for tax purposes, is generally not subject to federal or state income taxes. 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 income from debt-financed rental property, sales of certain products and services, and advertising. The Stations had no tax liability for the years ended June 30, 2006 and 2005.

(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 2005 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.

(r) Pronouncements Issued, Not Yet Effective

KPBS has implemented the following GASB statements that became effective for the year ended June 30, 2006:

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

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

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. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues
- GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations

GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, that has an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation may have on the financial statements of the Stations, as a participant in post-employment benefit plans discussed in Note (8).

(3) Investments

Investments are reported on the statement of net assets as of June 30, 2006 and 2005 as follows:

		2006		2005
Long-term investments	$	2,911,135	$	2,424,659
Restricted assets-investments		2,463,025		2,753,215
	$	5,374,160	$	5,177,874

KPBS follows the investment policies of the SDSU Research Foundation. Those policies are identified in the financial statements of the SDSU Research Foundation.

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 $337,000 and $368,000 at June 30, 2006 and 2005, respectively.

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

(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 credit-worthiness 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, 2006 and 2005 consisted of the following:

	2006	
	Current	**Noncurrent**
Underwriter receivables	$ 2,145,626	$ 383,128
Other trade receivable	70,329	-
	$ 2,215,955	$ 383,128

	2005	
	Current	**Noncurrent**
Underwriter receivables	$ 2,166,320	$ 706,250
Other trade receivable	43,004	-
	$ 2,209,324	$ 706,250

(5) Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005 consisted of the following:

	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Nondepreciable capital assets:					
Deposit on fixed asset in construction	$ 116,358	$ -	$ -	$ (116,358)	$ -
Total nondepreciable capital assets	116,358	-	-	(116,358)	-
Depreciable capital assets:					
Buildings under capital lease	9,664,197	-	-	-	9,664,197
Studio/broadcast equipment and station license	11,285,766	229,429	(10,918)	116,358	11,620,635
Furniture and fixtures	1,237,905	108,334	(32,735)	-	1,313,504
Transmission/antenna/tower	2,412,922	504,998	-	-	2,917,920
Total depreciable capital assets	24,600,790	842,761	(43,653)	116,358	25,516,256
Total before depreciation	24,717,148	842,761	(43,653)	-	25,516,256
Less accumulated depreciation:					
Buildings under capital lease	3,436,159	322,140	-	-	3,758,299
Studio/broadcast equipment and station license	7,533,746	646,130	(10,918)	-	8,168,958
Furniture and fixtures	846,068	153,862	(32,736)	-	967,194
Transmission/antenna/tower	1,055,383	169,352	-	-	1,224,735
Total accumulated depreciation	12,871,356	1,291,484	(43,654)	-	14,119,186
Net capital assets	$ 11,845,792	$ (448,723)	$ -	$ -	$ 11,397,070

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Nondepreciable capital assets:					
Deposit on fixed asset in construction	$ -	$ 216,358	$ (100,000)	$ -	$ 116,358
Total nondepreciable capital assets	-	216,358	(100,000)	-	116,358
Depreciable capital assets:					
Buildings under capital lease[a]	9,664,197	-	-	-	9,664,197
Studio/broadcast equipment and station license	9,566,617	2,009,064	(289,915)	-	11,285,766
Furniture and fixtures	1,777,008	52,147	(591,250)	-	1,237,905
Transmission/antenna/tower	2,698,930	21,257	(307,265)	-	2,412,922
Total depreciable capital assets	23,706,752	2,082,468	(1,188,430)	-	24,600,790
Total before depreciation	23,706,752	2,298,826	(1,288,430)	-	24,717,148
Less accumulated depreciation:					
Studio/broadcast equipment and station license	3,114,019	322,140	-	-	3,436,159
Studio/broadcast equipment	6,868,770	946,126	(281,150)	-	7,533,746
Furniture and fixtures	1,258,637	157,496	(570,957)	892	846,068
Transmission/antenna/tower	1,193,571	165,541	(302,837)	(892)	1,055,383
Total accumulated depreciation	12,434,997	1,591,303	(1,154,944)	-	12,871,356
Net capital assets	$ 11,271,755	$ 707,523	$ (133,486)	$ -	$ 11,845,792

[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, 2006 and 2005 was approximately $7,755,000 and $8,035,000, respectively.

Depreciation expense totaled $1,291,484 and $1,591,303 for the years ended June 30, 2006 and 2005, respectively, and was allocated among expenses in the accompanying statement of revenues, expenses, and changes in net assets as follows:

	2006	2005
Program Services	$ 322,140	$ 322,140
Support Services	969,344	1,269,163
Total depreciation	$ 1,291,484	$ 1,591,303

(6) Note Payable

Note payable activity for the year ended June 30, 2006:

Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Current portion
$ 831,706	$	$ (127,137)	$ 704,569	$ 131,522

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 $155,826 due each year in November. The unsecured note payable bears interest at a fixed rate of 3.4%. Aggregate annual principal payments are as follows:

	Principal	Interest	Total
Year Ended June 30:			
2007	$ 131,522	$ 24,303	$ 155,825
2008	136,059	19,766	155,825
2009	140,752	15,073	155,825
2010	145,607	10,218	155,825
2011	150,629	5,196	155,825
	$ 704,569	$ 74,556	$ 779,125

Interest incurred on the note payable amounted to $28,869 and $30,102 for the years ended June 30, 2006 and 2005, 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 lease obligations activity for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Current portion
Capital lease obligation	$ 4,293,242	$ -	$ (141,627)	$ 4,151,615	$ 152,735

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, 2006:

	Principal	Interest	Total
Years Ended June 30:			
2007	$ 152,735	$ 233,528	$ 386,263
2008	161,066	224,937	386,003
2009	169,397	215,877	385,274
2010	180,505	206,349	386,854
2011 - 2014	821,992	718,551	1,540,543
2015 - 2019	1,319,075	609,517	1,928,592
2020 - 2023	1,346,845	194,633	1,541,478
	$ 4,151,615	$ 2,403,392	$ 6,555,007

(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 for the years ended June 30, 2006 and 2005 of $276,041 and $328,742, respectively.

The total minimum rental commitment at June 30, 2006 under the leases mentioned above is due as follows:

Year Ended June 30:		
2007	$	116,422
2008		120,580
2009		126,564
2010		76,919
2011		900
Due thereafter		11,400
	$	452,785

(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, 2006 and 2005, 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 of the plan members are established and may be amended by CalPERS. Amounts charged to KPBS from the University totaled $220,553 and $212,684 for the years ended June 30, 2006 and 2005, 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. One such claim is from a vendor who alleges that KPBS didn't follow State of California Public Contract Code and is claiming lost revenues and expenses in excess of $140,000 plus unpaid invoices of approximately $40,000. 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. There were no settlements in excess of insurance coverage. Premiums to SDSU Research Foundation on these insurance policies totaled approximately $83,000 and $87,000 for the years ended June 30, 2006 and 2005, respectively.

(11) Purchase of KQVO

On November 2, 2004, the University, on behalf of KPBS, entered into an Asset Purchase Agreement, a Programming Agreement, and a Sublease Agreement (the Agreements) with Hanson Broadcasting Company of California (Hanson) for the purchase and use of an FM radio station and its FCC license for $1.1 million. The Programming Agreement was in effect until the FCC issues a final order on the transfer of the radio license. In May 2005 the final order was issued and the purchase of the FM radio station KQVO was finalized. As stated in the Asset Purchase Agreement the purchase price of $1.1 million was intended to be a bargain sale acknowledged by the buyer and the seller. As a result, the asset was recorded as an intangible asset within capital assets of $1,945,000 and a contribution was recorded in the amount of $830,000. The broadcast license is renewable every eight years at a nominal fee to the Stations.