

# KPBS FM/TV

## (A Department of San Diego State University)

Financial Report  
June 30, 2009 and 2008

**McGladrey & Pullen**  
Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,  
an affiliation of separate and independent legal entities.

# **KPBS FM/TV**

(A Department of San Diego State University)

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying statements of net assets of KPBS FM/TV (KPBS), a department of San Diego State University (the University), as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of KPBS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of KPBS are intended to present the financial position, the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of KPBS. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2009 and 2008, 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, 2009 and 2008, 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, CA  
November 19, 2009

## **KPBS FM/TV**

(A Department of San Diego State University)

Management's Discussion and Analysis

June 30, 2009 and 2008

### **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, 2009 and 2008. 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

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Management's Discussion and Analysis

June 30, 2009 and 2008

### 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, 2009 and 2008. 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, 2009, 2008 and 2007 are as follows:

#### Condensed Summary of Net Assets

	<u>June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets:</b>			
Current assets	\$ 5,744,577	\$ 5,024,492	\$ 5,600,554
Capital assets	8,039,677	10,315,848	11,550,201
Other noncurrent assets	4,729,987	5,968,392	6,470,251
Total assets	<u>18,514,241</u>	<u>21,308,732</u>	<u>23,621,006</u>
<b>Liabilities:</b>			
Current liabilities	2,783,367	2,318,434	2,872,600
Noncurrent liabilities	4,665,389	5,202,141	5,593,741
Total liabilities	<u>7,448,756</u>	<u>7,520,575</u>	<u>8,466,341</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,850,266	4,743,262	5,469,393
Restricted - nonexpendable	658,812	688,018	695,600
Restricted - expendable	1,127,714	1,334,769	1,414,028
Unrestricted	6,428,693	7,022,108	7,575,644
Total net assets	<u>\$ 11,065,485</u>	<u>\$ 13,788,157</u>	<u>\$ 15,154,665</u>

#### Assets

Total assets decreased by \$2,312,000, or 10%, from 2007 to 2008 and by \$2,795,000, or 13%, from 2008 to 2009. The decrease in both years was due primarily to the depreciation in capital assets and decrease in the market value of investments. Additionally, the carrying value of KPBS's license with KQVO was written down by \$1,275,000 to its appraised value of \$670,000 during 2009.

Capital assets decreased by approximately \$1,234,000, or 11%, from 2007 to 2008 due primarily to depreciation exceeding acquisitions. Capital assets decreased by approximately \$2,276,000, or 22%, from 2008 to 2009 due to depreciation expense as well as the write-down of the KQVO license.

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Other noncurrent assets decreased by \$502,000, or 8%, from 2007 to 2008 and by \$1,238,000, or 21%, from 2008 to 2009 due to the decreased fair market value of investments as investment values dropped significantly during a very weak economic period.

**Liabilities**

Total liabilities decreased by approximately \$946,000, or 11%, from 2007 to 2008, and by \$72,000, or 1%, from 2008 to 2009 due primarily to payment of debt and lease obligations. The decrease during 2009 was less than in 2008 because it was partially offset by an increase in deferred revenues.

**Net Assets**

Total net assets decreased by approximately \$1,367,000, or 9%, from 2007 to 2008 and by \$2,723,000, or 20%, from 2008 to 2009 primarily due to capital asset depreciation, and the decrease in the fair market value of investments. The write-down of the KQVO license during 2009 also negatively affected the change in net assets from 2008 to 2009.

**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:

	<b>June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Nonexpendable	\$ 658,812	\$ 688,018	\$ 695,600
Expendable:			
Capital campaign	\$ 666,473	\$ 661,132	\$ 670,463
Annuity trust agreements	130,269	163,231	165,156
Program production and airing	183,188	324,444	377,706
Scholarship activities	147,784	185,962	200,703
Total restricted expendable net assets	\$ 1,127,714	\$ 1,334,769	\$ 1,414,028

The capital campaign fund was a result of contributions donated for expenditure of the Gateway building. The program production and airing fund was a result of a contribution for the KPBS Radio Reading Service. The decrease in the restricted expendable net assets resulted from the significant decrease in investment market values during the year.

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Management's Discussion and Analysis

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The Stations' condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2009, 2008 and 2007 are as follows:

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

	<b>Year Ended June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating revenues:</b>			
Contributions	\$ 14,696,872	\$ 15,769,646	\$ 15,840,847
Corporation for Public Broadcasting support	2,505,026	2,649,099	2,759,017
Stations-generated support	340,650	965,724	1,354,338
Other operating revenues	51	0	1,343
Total operating revenues	<u>17,542,599</u>	<u>19,384,469</u>	<u>19,955,545</u>
<b>Operating expenses:</b>			
Program services	13,844,403	16,178,543	18,077,926
Support services	10,747,125	12,047,898	11,672,012
Total operating expenses	<u>24,591,528</u>	<u>28,226,441</u>	<u>29,749,938</u>
Operating loss	<u>(7,048,929)</u>	<u>(8,841,972)</u>	<u>(9,794,393)</u>
<b>Nonoperating revenues (expenses):</b>			
Interest expense	(191,618)	(301,674)	(281,953)
Interest income, net	287,867	328,566	369,097
Net increase (decrease) in fair value of investments	(1,085,851)	(539,588)	588,099
Other nonoperating expense	(1,275,000)	0	(14,375)
Total nonoperating revenue (expense), net	<u>(2,264,602)</u>	<u>(512,696)</u>	<u>660,868</u>
Loss before transfers	(9,313,531)	(9,354,668)	(9,133,525)
San Diego State University transfers	6,590,859	7,988,160	8,061,311
Change in net assets	<u>(2,722,672)</u>	<u>(1,366,508)</u>	<u>(1,072,214)</u>
Beginning net assets	<u>13,788,157</u>	<u>15,154,665</u>	<u>16,226,879</u>
Ending net assets	\$ <u><u>11,065,485</u></u>	\$ <u><u>13,788,157</u></u>	\$ <u><u>15,154,665</u></u>

***Operating Revenues and Expenses***

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

## KPBS FM/TV

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Management's Discussion and Analysis

June 30, 2009 and 2008

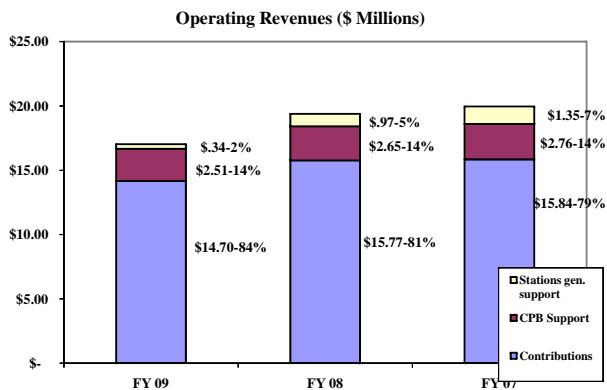
### *Operating Revenues*

Contributions decreased by \$71,000, or less than 1%, from 2007 to 2008. Increases in membership revenues, planned giving and major gifts were offset by weaker underwriting and advertising revenues during 2008. Contributions decreased by \$1,073,000, or 7%, from 2008 to 2009 due to the poor economic conditions during the period.

Funding received from the Corporation for Public Broadcasting decreased by approximately \$110,000, or 4%, from fiscal year 2007 to 2008 due to a decrease in the Stations' nonfederal financial support during 2006. The grants are based on nonfederal financial support for the two years prior to the grant. Funding received from the Corporation for Public Broadcasting decreased by \$144,000, or 5%, from 2008 to 2009 due to a combination of lower nonfederal financial support during 2007.

Stations-generated support decreased by approximately \$389,000, or 29%, from fiscal year 2007 to 2008 and by \$625,000, or 65%, from fiscal year 2008 to 2009 due primarily to the poor economic conditions during both periods.

The following chart present the proportional share that each category of operating revenues contributed to the totals for fiscal years 2009, 2008 and 2007:





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Management's Discussion and Analysis

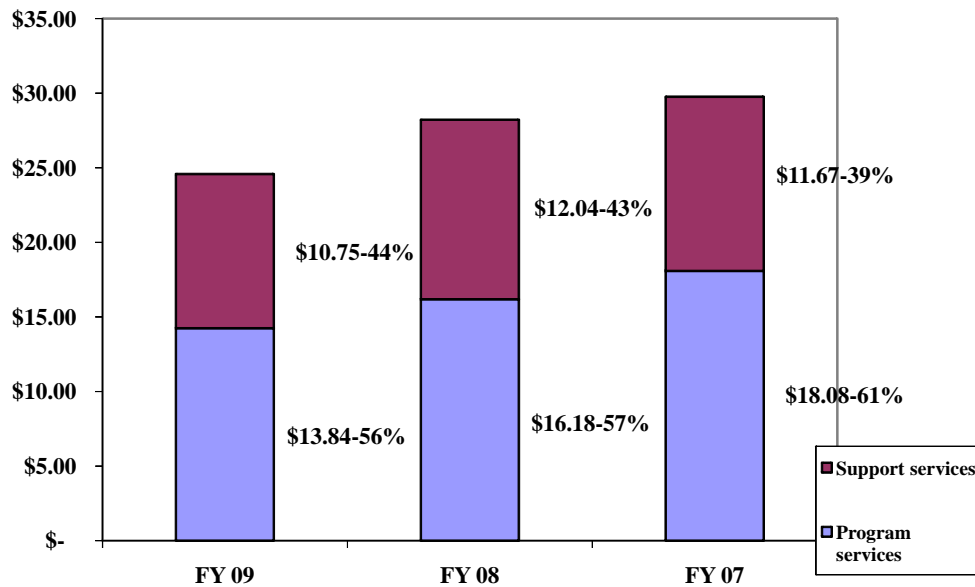
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### *Operating Expenses*

The program services expenses decreased by \$1,899,000, or 11%, from 2007 to 2008 due primarily to the Stations discontinuing its local broadcast productions, *Full Focus* and *A Way with Words*. From 2008 to 2009, program services expenses decreased an additional \$2,334,000, or 14%, as a result of cost containment measures during the year.

Support services expenses increased by approximately \$376,000, or 3%, from 2007 to 2008 due to higher fundraising expenses. Support services expenses decreased by approximately \$1,301,000, or 11%, from 2008 to 2009 as a result of cost containment measures. The following chart presents the distribution of resources in support of the Stations for fiscal years 2009, 2008 and 2007:

Operating Expenses (\$ Millions)



# KPBS FM/TV

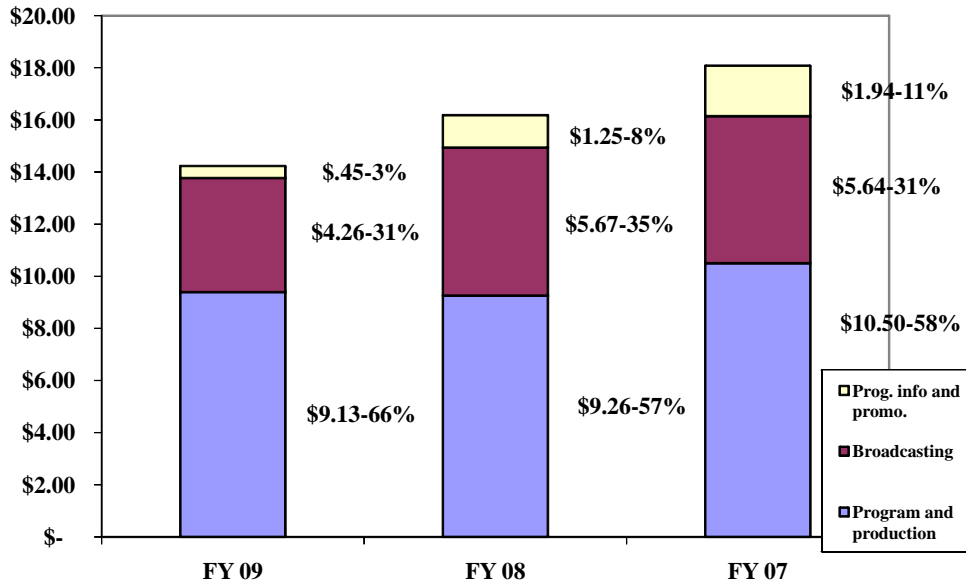
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A further breakdown of the Program Services and Support Services is provided as follows:

Program Services (\$ Millions)

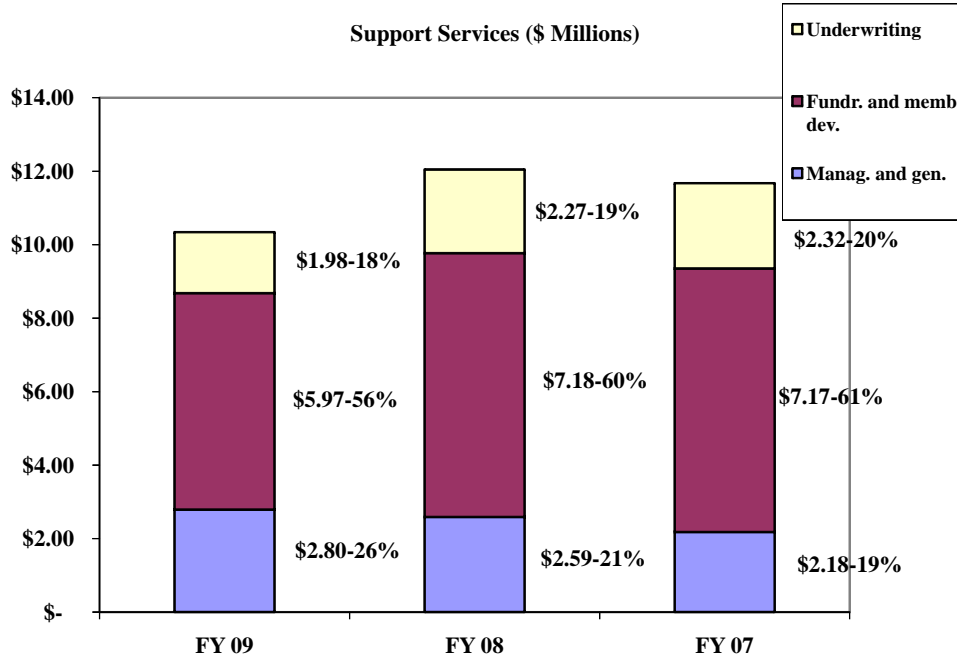


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***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses come from sources that are not part of the Stations’ primary business functions. Included in this classification are changes in the fair value of investments and interest expense. Nonoperating revenues and expenses decreased by approximately \$1,174,000 from 2007 to 2008, due mostly to the downturn in investment values. Nonoperating revenues and expenses decreased by an additional \$1,752,000 due to the write-down of the KQVO license and the continuing slide in investment values.

***San Diego State University Transfers***

Support from the University decreased by approximately \$73,000, or 1%, from 2007 to 2008 and decreased by \$1,397,000, or 18%, from 2008 to 2009. 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 \$206,000, or 8%, from 2007 to 2008 and decreased by \$103,000, or 4%, from 2008 to 2009. Direct support consisted primarily of salaries, space rental and utilities. The decrease in direct support from 2008 to 2009 resulted from a headcount reduction of KPBS personnel. Indirect support received from the University decreased \$280,000, or 5%, from 2007 to 2008 and by \$1,294,000, or 24%, from 2008 to 2009. 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.

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**Capital Assets**

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

	<b>June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Building under capital lease	\$ 4,845,299	\$ 5,261,618	\$ 5,583,758
Studio/broadcast equipment	1,317,056	1,658,687	2,305,593
Furniture and fixtures	75,727	141,170	222,847
Transmission/antenna/tower	1,131,595	1,309,373	1,493,003
KQVO radio station license	670,000	1,945,000	1,945,000
Total capital assets, net of accumulated depreciation	<u>\$ 8,039,677</u>	<u>\$ 10,315,848</u>	<u>\$ 11,550,201</u>

Capital assets decreased by approximately \$1,234,000, or 11%, from 2007 to 2008, and by \$2,276,000, or 22%, from 2008 to 2009 as depreciation exceeded acquisitions in each year. Additionally, the KQVO radio station license was written down by \$1,275,000 during 2009.

**Long-Term Debt Obligations**

Debt outstanding at June 30, 2009, 2008 and 2007 are summarized below by type of debt instrument:

	<b>June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Capital lease obligation	\$ 4,893,174	\$ 5,135,597	\$ 5,507,760
Note payable	296,237	436,989	573,048
Total	5,189,411	5,572,586	6,080,808
Less current portion	<u>(537,641)</u>	<u>(383,175)</u>	<u>(508,222)</u>
Total long-term debt	<u>\$ 4,651,770</u>	<u>\$ 5,189,411</u>	<u>\$ 5,572,586</u>

Long-term debt decreased by approximately \$383,000, or 7%, during 2008, and by \$538,000, or 10%, during 2009 due to payment of debt obligations.

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(A Department of San Diego State University)  
Statements of Net Assets  
June 30, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current assets:		
Cash held by San Diego State University	\$ -	\$ 76,339
Due from San Diego State University Research Foundation	3,844,548	2,319,976
Accounts receivable (note 4)	1,756,391	2,551,767
Grants receivable	117,590	66,665
Prepaid expenses	26,048	9,745
Total current assets	<u>5,744,577</u>	<u>5,024,492</u>
Noncurrent assets:		
Accounts receivable (note 4)	403,272	541,720
Long-term investments (note 3)	2,302,262	3,112,489
Restricted assets-investments (note 3)	1,755,751	2,022,678
Capital assets, net (notes 5 and 8)	8,039,677	10,315,848
Other assets (note 6)	268,702	291,505
Total noncurrent assets	<u>12,769,664</u>	<u>16,284,240</u>
Total assets	<u>18,514,241</u>	<u>21,308,732</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	300,948	308,139
Accrued expenses	585,740	649,305
Deferred revenue	1,359,038	977,815
Note payable-current portion (note 7)	145,607	140,752
Capital lease obligation-current portion (note 8)	392,034	242,423
Total current liabilities	<u>2,783,367</u>	<u>2,318,434</u>
Noncurrent liabilities		
Note payable, net of current portion (note 7)	150,630	296,237
Capital lease obligation, net of current portion (note 8)	4,501,140	4,893,174
Other liabilities	13,619	12,730
Total noncurrent liabilities	<u>4,665,389</u>	<u>5,202,141</u>
Total liabilities	<u>7,448,756</u>	<u>7,520,575</u>
Commitments and contingencies (notes 5, 8, 9, 10 and 11)		
<b>Net assets</b>		
Net assets:		
Invested in capital assets, net of related debt	2,850,266	4,743,262
Restricted for:		
Nonexpendable - endowments	658,812	688,018
Expendable:		
Capital campaign	666,473	661,132
Annuity trust agreements	130,269	163,231
Program production and airing	183,188	324,444
Scholarship activities	147,784	185,962
Unrestricted	6,428,693	7,022,108
Total net assets	<u>\$ 11,065,485</u>	<u>\$ 13,788,157</u>

See accompanying notes to financial statements.

**KPBS FM/TV**  
(A Department of San Diego State University)  
Statements of Revenues, Expenses, and Changes in Net Assets  
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues (note 2):		
Contributions	\$ 14,696,872	\$ 15,769,646
Corporation for Public Broadcasting grants	2,505,026	2,649,099
Stations-generated support	340,650	965,724
Other operating revenues	<u>51</u>	<u>-</u>
Total operating revenues	<u>17,542,599</u>	<u>19,384,469</u>
Operating expenses (notes 5, 8, 9 and 11):		
Program services		
Programming and production	9,133,721	9,255,945
Broadcasting	4,261,376	5,674,953
Program information and promotion	<u>449,306</u>	<u>1,247,645</u>
Total program services	<u>13,844,403</u>	<u>16,178,543</u>
Support services:		
Management and general	2,804,254	2,592,525
Fundraising and membership development	5,967,143	7,180,981
Underwriting	<u>1,975,728</u>	<u>2,274,392</u>
Total support services	<u>10,747,125</u>	<u>12,047,898</u>
Total operating expenses	<u>24,591,528</u>	<u>28,226,441</u>
Operating loss	<u>(7,048,929)</u>	<u>(8,841,972)</u>
Nonoperating revenues (expenses):		
Interest expense (notes 7 and 8)	(191,618)	(301,674)
Interest income, net	287,867	328,566
Net decrease in fair value of investments	(1,085,851)	(539,588)
Other nonoperating expense	<u>(1,275,000)</u>	<u>-</u>
Total nonoperating expense, net	<u>(2,264,602)</u>	<u>(512,696)</u>
Loss before transfers	(9,313,531)	(9,354,668)
San Diego State University transfers		
Direct financial support	2,548,946	2,651,918
Indirect financial support	<u>4,041,913</u>	<u>5,336,242</u>
Total transfers	<u>6,590,859</u>	<u>7,988,160</u>
Change in net assets	(2,722,672)	(1,366,508)
Net assets, beginning of year	<u>13,788,157</u>	<u>15,154,665</u>
Net assets, end of year	<u>\$ 11,065,485</u>	<u>\$ 13,788,157</u>

See accompanying notes to financial statements.

**KPBS FM/TV**  
(A Department of San Diego State University)  
Statements of Cash Flows  
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Contributions	\$ 15,960,994	\$ 15,821,475
Stations-generated support	340,650	965,724
Other operating receipts	51	-
Payments to suppliers	(11,216,661)	(10,955,959)
Payments to employees	(7,718,124)	(10,236,850)
Administrative fees paid to		
San Diego State University Research Foundation	(604,241)	(757,827)
Corporation for Public Broadcasting support	<u>2,505,026</u>	<u>2,649,099</u>
Net cash used in operating activities	<u>(732,305)</u>	<u>(2,514,338)</u>
Cash flows from noncapital and related financing:		
Transfers from San Diego State University	2,548,946	2,651,918
Increase (decrease) in amounts paid to San Diego State University		
Research Foundation	<u>(1,524,572)</u>	<u>450,569</u>
Net cash provided by noncapital and related		
financing activities	<u>1,024,374</u>	<u>3,102,487</u>
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital lease	(383,175)	(508,222)
Interest paid	(238,089)	(301,673)
Purchase of capital assets	<u>(26,314)</u>	<u>(32,169)</u>
Net cash used in capital and related		
financing activities	<u>(647,578)</u>	<u>(842,064)</u>
Cash flows from investing activities:		
Investment income	289,170	330,254
Purchase of investments	<u>(10,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>279,170</u>	<u>330,254</u>
Net increase (decrease) in cash and cash equivalents	(76,339)	76,339
Cash funds held by San Diego State University, beginning of year	<u>76,339</u>	<u>-</u>
Cash funds held by San Diego State University, end of year	<u>\$ -</u>	<u>\$ 76,339</u>

See accompanying notes to financial statements.

**KPBS FM/TV**  
(A Department of San Diego State University)  
Statements of Cash Flows, Continued  
June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (7,048,929)	\$ (8,841,972)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Allocated San Diego State University expenses	4,041,913	5,336,242
Depreciation and amortization	1,058,152	1,297,189
(Increase) decrease in assets:		
Accounts receivable	933,824	(288,773)
Grants receivable	(50,925)	397,453
Prepaid expenses	(16,303)	16,640
Other assets	(7,864)	6,427
Increase (decrease) in liabilities:		
Accounts payable	(7,191)	(298,218)
Accrued expenses	(17,094)	(74,048)
Deferred revenue	381,223	(56,854)
Other liabilities	889	(8,424)
Net cash used in operating activities	\$ (732,305)	\$ (2,514,338)
Supplemental disclosure of noncash investing and capital activity:		
Decrease in fair value of investments	\$ (1,087,154)	\$ (543,363)
Impairment write-down of KQVO license	\$ (1,275,000)	\$ -

See accompanying notes to financial statements.



## **KPBS FM/TV**

(A Department of San Diego State University)

Notes to Financial Statements

June 30, 2009 and 2008

### **(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 \$604,000 and \$758,000 for 2009 and 2008, 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 their normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that can reasonably be expected, as

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part of normal operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(d) Cash and Cash Equivalents**

Cash includes funds held by the University. The Stations consider all highly liquid investments with original maturity dates of three months or less to be cash equivalents. The Stations had no cash on hand at June 30, 2009.

**(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 8) and is being amortized over the life of the lease. Amortization expense for the Gateway Center is included with depreciation on owned assets.

Intangible assets are recorded at the lower of cost or fair value. 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. Based on the Stations' policy to review the asset annually for impairment and adjust the asset to fair value, the Stations reduced their carrying value of KQVO from \$1,945,000 to \$670,000 in line with an independent appraisal of KQVO during the year ended June 30, 2009.

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**(h) *Compensated Absences***

The Stations accrue vacation benefits for eligible employees at various rates depending upon length of service. Eligible full-time employees accrue sick leave at the rate of four hours per pay period. Employees are typically not paid for unused sick leave at the end of employment. However, for certain employees, a portion of accumulated sick leave is paid upon retirement. Liabilities for compensated absences of approximately \$344,000 and \$295,000 for the years ended June 30, 2009 and 2008, 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 recognized as deferred revenue. The Stations received approximately 84% and 81% of their operating revenue from contributions in the years ended June 30, 2009 and 2008, 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, 2009 and 2008 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the year ended June 30, 2009 and 2008 was \$4,042,000 and \$5,336,000, 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 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

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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 CSGs awarded in prior years.

The grants are reported in the financial statements as operating revenue. Certain guidelines set by the CPB must be satisfied in connection with the application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting and licensee status with the Federal Communications Commission. Revenue on these grants is recognized as the funds are received and management's policy is to expend the money in the year received. The Stations received and recorded approximately \$2,505,000 and \$2,649,000 in grant revenue from the CPB in the years ended June 30, 2009 and 2008, 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 to 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.

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**(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 Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code. However, both the University and SDSU Research Foundation are subject to tax on trade or business income earned from an activity which is not in furtherance of their tax-exempt purposes. The Stations are engaged in activities that produce unrelated business income: namely, sales of certain products and services, and advertising. The Stations had no tax liability for the years ended June 30, 2009 and 2008.

**(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 to the June 30, 2008 financial statements in order to conform to the current year presentation. These reclassifications had no effect on results of operations or net assets as previously reported

**(r) *Pronouncements Issued***

The GASB has issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (effective for the year ending June 30, 2010), and GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions* (effective for the year ending June 30, 2011), that may impact future financial presentations. Management has not currently determined what, if any, impact implementation may have on the financial statements of KPBS.

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**(3) Investments**

Investments are reported on the statement of net assets as of June 30, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Long-term investments	\$ 2,302,262	\$ 3,112,489
Restricted assets-investments	<u>1,755,751</u>	<u>2,022,678</u>
	<u>\$ 4,058,013</u>	<u>\$ 5,135,167</u>

KPBS's investments are part of a unitized investment pool managed by SDSU Research Foundation and are therefore not separately identifiable. The pool is approved and monitored by the SDSU Research Foundation Board of Directors, and maintains a 59% stock, 20% fixed income, 19% alternative investments and real estate, and 2% cash equivalent asset mix.

**(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 the 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.

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**(4) Accounts Receivable**

Accounts receivable at June 30, 2009 and 2008 consisted of the following:

	<b>2009</b>	
	<b>Current</b>	<b>Noncurrent</b>
Underwriter receivables	\$ 1,590,439	\$ 226,499
Other receivable	227,810	176,773
Allowance	(61,858)	-
	<u>\$ 1,756,391</u>	<u>\$ 403,272</u>

	<b>2008</b>	
	<b>Current</b>	<b>Noncurrent</b>
Underwriter receivables	\$ 2,064,990	\$ 277,987
Other receivable	507,101	263,733
Allowance	(20,324)	-
	<u>\$ 2,551,767</u>	<u>\$ 541,720</u>

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**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2009 and 2008 consisted of the following:

	<u>Balance</u>				<u>Balance</u>
	<u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>		<u>June 30, 2009</u>
Nondepreciable capital assets:					
Deposit on fixed asset in construction	\$ -	\$ -	\$ -	\$ -	\$ -
KQVO radio station license (b)	1,945,000	-	(1,275,000)		670,000
Total nondepreciable capital assets	<u>1,945,000</u>	<u>-</u>	<u>(1,275,000)</u>		<u>670,000</u>
Depreciable capital assets:					
Buildings under capital lease (a)	9,664,197	-	(94,179)		9,570,018
Studio/broadcast equipment	10,993,295	26,314	(5,265)		11,014,344
Furniture and fixtures	1,308,873	-	-		1,308,873
Transmission/antenna/tower	2,913,595	-	-		2,913,595
Total depreciable capital assets	<u>24,879,960</u>	<u>26,314</u>	<u>(99,444)</u>		<u>24,806,830</u>
Less accumulated depreciation:					
Buildings under capital lease	4,402,579	322,140	-		4,724,719
Studio/broadcast equipment	9,334,608	462,124	(99,444)		9,697,288
Furniture and fixtures	1,167,703	65,443	-		1,233,146
Transmission/antenna/tower	1,604,222	177,778	-		1,782,000
Total accumulated depreciation	<u>16,509,112</u>	<u>1,027,485</u>	<u>(99,444)</u>		<u>17,437,153</u>
Total depreciable assets	<u>8,370,848</u>	<u>(1,001,171)</u>	<u>-</u>		<u>7,369,677</u>
Net capital assets	\$ <u>10,315,848</u>	\$ <u>(1,001,171)</u>	\$ <u>(1,275,000)</u>		\$ <u>8,039,677</u>



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	<u>Balance</u>				<u>Balance</u>
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>		<u>June 30, 2008</u>
Nondepreciable capital assets:					
Deposit on fixed asset in construction	\$ -	\$ -	\$ -		\$ -
KQVO radio station license	1,945,000	-	-		1,945,000
Total nondepreciable capital assets	<u>1,945,000</u>	<u>-</u>	<u>-</u>		<u>1,945,000</u>
Depreciable capital assets:					
Buildings under capital lease (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	<u>24,873,458</u>	<u>32,169</u>	<u>(25,667)</u>		<u>24,879,960</u>
Less accumulated depreciation:					
Buildings under capital lease	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	<u>15,268,257</u>	<u>1,266,522</u>	<u>(25,667)</u>		<u>16,509,112</u>
Total depreciable assets	<u>9,605,201</u>	<u>(1,234,353)</u>	<u>-</u>		<u>8,370,848</u>
Net capital assets	<u>\$ 11,550,201</u>	<u>\$ (1,234,353)</u>	<u>\$ -</u>		<u>\$ 10,315,848</u>

(a) The building under capital lease represents the Stations-occupied portion of the Gateway Center and is pledged as collateral for debt issued by the SDSU Research Foundation whose outstanding balance at June 30, 2009 and 2008 was approximately \$6,825,000 and \$7,150,000, respectively.

(b) The KQVO radio station license was adjusted to fair value at June 30, 2009.

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Depreciation expense totaled \$1,027,485 and \$1,266,522 for the years ended June 30, 2009 and 2008, respectively, and was allocated among expenses in the accompanying statement of revenues, expenses, and changes in net assets as follows:

	<u>2009</u>		<u>2008</u>
Program Services	\$ 256,283	\$	315,906
Support Services	771,202		950,616
Total depreciation	<u>\$ 1,027,485</u>	\$	<u>1,266,522</u>

**(6) Other Assets**

Included in other assets is a building owned by the Stations, for which they derive 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 other assets totaled approximately \$245,000 and \$276,000 at June 30, 2009 and 2008, respectively.

**(7) Long-Term Debt Obligations**

Long-term debt obligations activity for the year ended June 30, 2009 is as follows:

	<u>Balance</u>		<u>Balance</u>		<u>Current</u>
	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>portion</u>
Note payable	\$ <u>436,989</u>	\$ <u>-</u>	\$ <u>(140,752)</u>	\$ <u>296,237</u>	\$ <u>145,607</u>

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:

<u>Year Ended June 30:</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2010	\$	145,607	\$	10,218	\$	155,825
2011		150,630		5,195		155,825
	\$	<u>296,237</u>	\$	<u>15,413</u>	\$	<u>311,650</u>

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Interest incurred on the note payable amounted to \$15,073 and \$19,767 for the years ended June 30, 2009 and 2008, respectively.

**(8) Commitments**

**(a) Capital Lease**

**Gateway Center**

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

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

**Capital Equipment Lease**

During the year ended June 30, 2007, KPBS obtained financing through the University to acquire equipment. Under the capital lease, payments are due annually from September 2007 until March 2014.

Capital lease obligations activity for the year ended June 30, 2009 is as follows:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Current</u> <u>portion</u>
Capital lease obligation	\$ 5,135,597	\$ -	\$ (242,423)	\$ 4,893,174	\$ 392,034

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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, 2009:

<u>Year Ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 392,034	\$ 253,033	\$ 645,067
2011	408,676	235,280	643,956
2012	428,435	216,574	645,009
2013	448,547	196,895	645,442
2014	469,028	176,005	645,033
Thereafter	2,746,454	826,941	3,573,395
	<u>\$ 4,893,174</u>	<u>\$ 1,904,728</u>	<u>\$ 6,797,902</u>

**(b) Operating Leases**

KPBS leases certain land, buildings and transmitter space under noncancelable operating leases, which expire on various dates through January 2020. The current monthly rental payments range from approximately \$75 to \$11,000, and several of the agreements allow for annual increases in the base rent. KPBS incurred rental expense for the years ended June 30, 2009 and 2008 of \$165,000 and \$121,000, respectively.

The total minimum rental commitment at June 30, 2009 under the leases mentioned above is due as follows:

<u>Year Ended June 30:</u>	
2010	\$ 163,860
2011	172,821
2012	177,187
2013	182,651
2014	190,351
Thereafter	2,335,492
	<u>\$ 3,222,362</u>

**(c) Consulting Agreement**

The Stations' former General Manager retired as of December 31, 2008. On June 20, 2008, the University and the former General Manager entered into a consulting agreement for his services for 12 months beginning January 1, 2009 for a fee of \$75,000. The Stations paid \$37,500 of that fee during the year ended June 30, 2009.

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### (9) 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 the SDSU Research Foundation Board of Directors on May 14, 1984.

(ii) **Group 2 Retirees** – individuals who were employed as eligible employees on June 30, 1991 and, at the time of retirement, had 10 years of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 55 (or after attaining age 50 if the individual was employed by the SDSU Research Foundation and covered by PERS on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

(iii) **Group 3 Retirees** – individuals who were employed as eligible employees on or after July 1, 1991 and, at the time of retirement, had 15 years of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 60, or (b) due to permanent total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

SDSU Research Foundation contracts with TIAA/CREF to provide retirement and disability benefits to its employees. 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 \$96,394 and \$95,949 for the years ended June 30, 2009 and 2008, respectively, and are recorded as either program services or support services, depending upon the employee's function, on the accompanying statements of revenues, expenses, and changes in net assets.

For Stations' staff employed through San Diego State University, the University, as an agency of the State of California, contributes to the California Public Employees' Retirement System (CalPERS) on behalf of certain employees of the Stations. The State's plan with CalPERS is an agent multiple-employer defined benefit plan which provides a defined benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital act (PEMHCA) for medical benefits.

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The Stations' University-employed personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate. The contribution requirements (i.e., annual required contribution) of the plan members are established and may be amended by CalPERS. Amounts charged to KPBS for its annual required contribution from the University totaled \$254,067 and \$272,598 for the years ended June 30, 2009 and 2008, respectively, and are recorded as direct support and program services or support services expense, depending upon the employee's function.

### **(10) 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.

### **(11) Risk Management**

The Stations are exposed to risks related to general and commercial liability and workers' compensation. The Stations are covered by insurance through SDSU Research Foundation and the University to mitigate those risks. Insurance policies provide varying levels of coverage with varying deductibles. The University and SDSU Research Foundation participate in the California State University risk management pool for most of its insurance needs. However, the SDSU Research Foundation is partially self-insured for its unemployment and workers' compensation plans. Using insurance policies with commercial carriers to cover these risks of loss, SDSU Research Foundation maintains excess unemployment insurance coverage, in the aggregate, of \$1,000,000 and excess workers' compensation coverage for claims in excess of \$250,000 per occurrence.

Insurance through the University is included in San Diego State University indirect support and allocated to program and support services on the statement of revenue, expenses, and changes in net assets. Premiums to SDSU Research Foundation on these insurance policies totaled approximately \$90,000 and \$89,000 for the years ended June 30, 2009 and 2008, respectively.