

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Independent Auditor's Report and Financial Statements
August 31, 2016 and 2015



HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statements of Net Position	14
Statements of Revenues, Expenses and Changes in Net Position	16
Statements of Cash Flows	17
Notes to Basic Financial Statements	19
Required Supplementary Information	
Schedule of Houston Public Media's Proportionate Share of the Net Pension Liability	41
Schedule of Houston Public Media's Contributions	42
Supplementary Information	
Schedule 1 – Schedule of Functional Expenses – 2016	43
Schedule 2 – Component Unit (HPMF) Schedule of Functional Expenses – 2016	44
Schedule 3 – Schedule of Functional Expenses – 2015	45
Schedule 4 – Component Unit (HPMF) Schedule of Functional Expenses – 2015	46

Independent Auditor's Report

Board of Regents
University of Houston System
Houston, Texas

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Houston Public Media (the Stations), a division of the University of Houston System (the UH System), as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Stations' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Stations as of August 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the financial statements of the Stations, and do not purport to, and do not, present fairly the financial position of the UH System as of August 31, 2016 and 2015, the changes in its financial position or its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 3 to the financial statements, the 2015 financial statements of the business-type activities have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stations' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Houston, Texas
March 13, 2017

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of Houston Public Media (the Stations), a Division of the University of Houston (UH) System (the UH System), as of and for the years ended August 31, 2016 and 2015. This MD&A offers a summary of significant current year activities of the Stations, resulting changes in net position and currently known economic conditions and facts. This analysis should be read in conjunction with the Stations' financial statements and the notes to the financial statements. Responsibility of the financial statements, related note disclosures and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the UH System, are located at the UH System's Central campus, and are a division of UH. Houston Public Media Foundation (HPMF) is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received, or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Overview of the Financial Statements

The Stations herewith present its financial statements for fiscal years ended August 31, 2016 and 2015. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB), which establishes accounting principles generally accepted in the United States of America for state and local governments. The three primary financial statements presented are the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. The information contained in the financial statements of the Stations is incorporated within the UH System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

The *statement of net position* reflects the Stations' assets, deferred outflows of resources, liabilities and deferred inflows of resources using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Unrestricted net position is available to the Stations for any lawful purpose. Unrestricted net position often has constraints imposed by management, which can be removed or modified. Net investment in capital assets represents the original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

The *statement of revenues, expenses and changes in net position* identifies operating revenues received by the Stations. Additionally, the operating expenses incurred by the Stations during the fiscal year are displayed. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

The *statement of cash flows* reflects the inflows and outflows of cash and cash equivalents and shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the statement of net position, described above. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the statement of revenues, expenses and changes in net position described above.

This MD&A uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the Stations' financial health may have improved or deteriorated.

Condensed Financial Information

During 2015, the Stations adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended. Financial information for 2014 has not been restated for adoption of GASB 68. As discussed in Note 3 to the financial statements, the 2015 financial statements of the business-type activities have been restated to correct a misstatement.

Summary of Net Position		(Restated)	
		2016	2015
		2014	
Assets:			
Current assets	\$	668,387	1,389,903
Capital assets, net		5,503,009	15,741,181
Other noncurrent assets		1,573,143	1,590,346
Total assets		7,744,539	18,721,430
Deferred outflows of resources - pension		640,992	531,412
Total assets and deferred outflows of resources	\$	8,385,531	19,252,842
Liabilities:			
Current liabilities	\$	10,152,816	8,350,933
Noncurrent liabilities		3,686,266	11,911,693
Total liabilities		13,839,082	20,262,626
Deferred inflows of resources - pension		546,822	908,600
Total liabilities and deferred inflows of resources	\$	14,385,904	21,171,226
Net position:			
Net investment in capital assets	\$	5,209,693	6,526,768
Restricted for endowment funds		1,439,795	1,458,060
Unrestricted		(12,649,861)	(9,903,212)
Total net position	\$	(6,000,373)	(1,918,384)
		2,439,497	

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

Summary of Revenues, Expenses and Changes in Net Position

	(Restated)		
	2016	2015	2014
Operating revenues	\$ 23,564,590	24,824,814	21,377,108
Operating expenses	26,968,328	25,704,252	23,394,757
Operating loss	(3,403,738)	(879,438)	(2,017,649)
Nonoperating income (loss)			
Loss from sale of KUHA	(659,988)	-	-
Additions to endowment	(54,336)	-	111,667
Gain (loss) from endowment	36,073	(111,244)	179,399
Change in net position	(4,081,989)	(990,682)	(1,726,583)
Net position, beginning of year, as previously reported	(1,918,384)	18	4,166,080
Adjustment applicable to the year ended August 31, 2015	-	(927,720)	-
Net position, beginning of year, as restated	(1,918,384)	(927,702)	4,166,080
Net position, end of year	\$ (6,000,373)	(1,918,384)	2,439,497

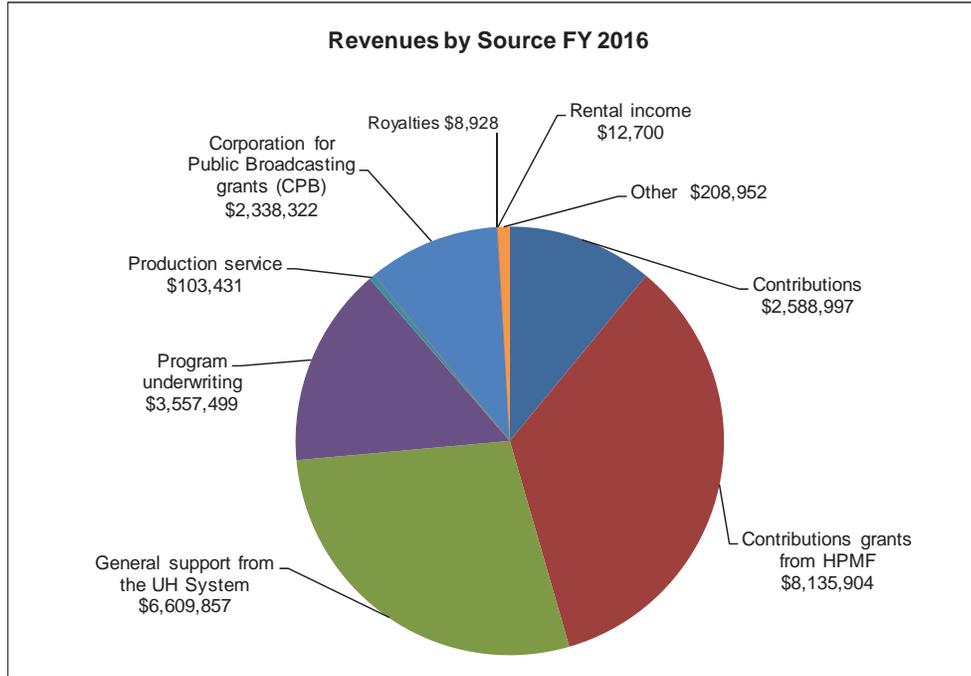
Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2016, 2015 and 2014.

Revenues by Source	(Restated)						2016-2015		2015-2014	
	FY16		FY15		FY14		Increase (Decrease)		Increase (Decrease)	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
Operating revenues:										
Contributions	\$ 2,588,997	11%	2,718,660	11%	2,410,237	11%	(129,663)	10%	308,423	9%
Contribution grants from HPMF	8,135,904	35%	8,852,201	36%	8,031,500	38%	(716,297)	57%	820,701	24%
General support from the										
UH System	6,609,857	28%	5,925,663	24%	3,864,992	18%	684,194	-54%	2,060,671	60%
Program underwriting	3,557,499	15%	3,846,511	15%	3,731,875	17%	(289,012)	23%	114,636	3%
Production service	103,431	0%	105,873	1%	250,430	1%	(2,442)	0%	(144,557)	-4%
Production grants from HPMF	-	0%	175,000	1%	380,000	2%	(175,000)	14%	(205,000)	-6%
Corporation for Public Broadcasting										
(CPB) grants	2,338,322	10%	2,528,008	10%	2,269,552	11%	(189,686)	15%	258,456	7%
Special events	-	0%	78,040	0%	166,840	1%	(78,040)	6%	(88,800)	-3%
Other	230,580	1%	594,858	2%	271,682	1%	(364,278)	29%	323,176	9%
Total operating revenues	\$ 23,564,590	100%	24,824,814	100%	21,377,108	100%	(1,260,224)	-5%	3,447,706	16%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015



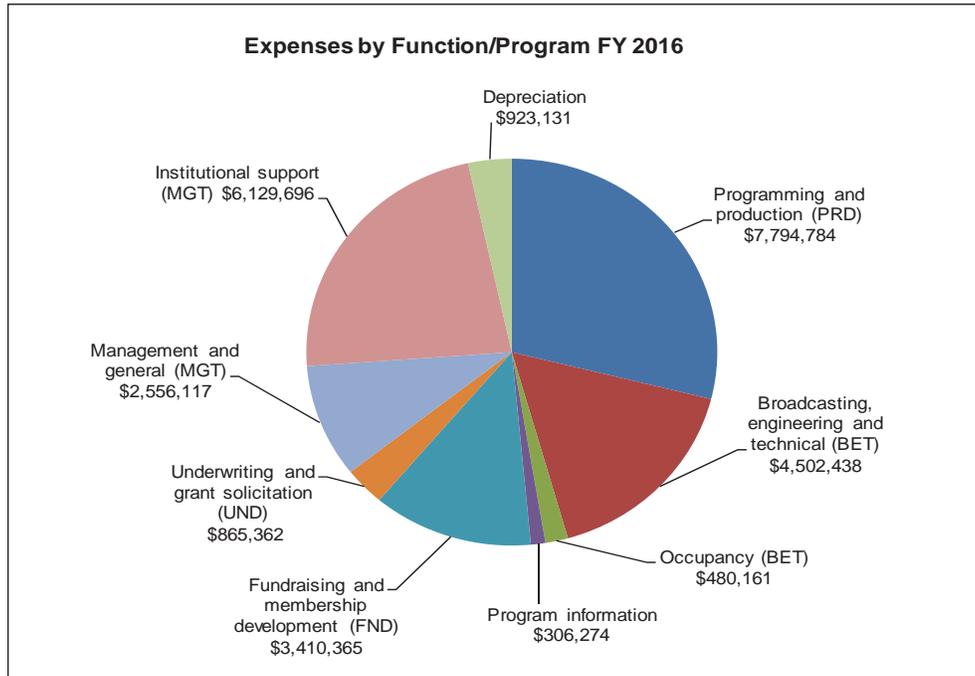
Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method is disclosed in the schedules of functional expenses. The following schedule presents a summary and comparison of expense for the fiscal years ended August 31, 2016, 2015 and 2014.

Expenses by Function	FY16		(Restated) FY15		FY14		2016-2015 Increase (Decrease)		2015-2014 Increase (Decrease)	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
<u>Operating expenses:</u>										
Programming and production (PRD) \$	7,794,784	29%	7,681,909	30%	7,846,922	34%	112,875	9%	(165,013)	-7%
Broadcasting, engineering and technical (BET)	4,502,438	17%	4,570,872	18%	3,903,392	17%	(68,434)	-5%	667,480	29%
Occupancy and physical plant operations (BET)	480,161	2%	456,532	2%	476,613	2%	23,629	2%	(20,081)	-1%
Program information (PGM)	306,274	1%	325,410	1%	113,786	0%	(19,136)	-2%	211,624	9%
Fundraising and membership development (FND)	3,410,365	13%	3,359,315	13%	4,500,937	20%	51,050	4%	(1,141,622)	-49%
Underwriting and grant solicitation (UND)	865,362	3%	447,321	2%	536,574	2%	418,041	33%	(89,253)	-4%
Management and general (MGT)	2,556,117	9%	2,484,975	9%	1,714,007	7%	71,142	6%	770,968	33%
Institutional support (MGT)	6,129,696	23%	5,469,131	21%	3,388,379	14%	660,565	52%	2,080,752	90%
Depreciation	923,131	3%	908,787	4%	914,147	4%	14,344	1%	(5,360)	0%
Total operating expenses	\$ 26,968,328	100%	25,704,252	100%	23,394,757	100%	1,264,076	5%	2,309,495	10%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015



Financial Highlights and Analysis

Assets and Liabilities – Fiscal Year 2016 Compared to Fiscal Year 2015

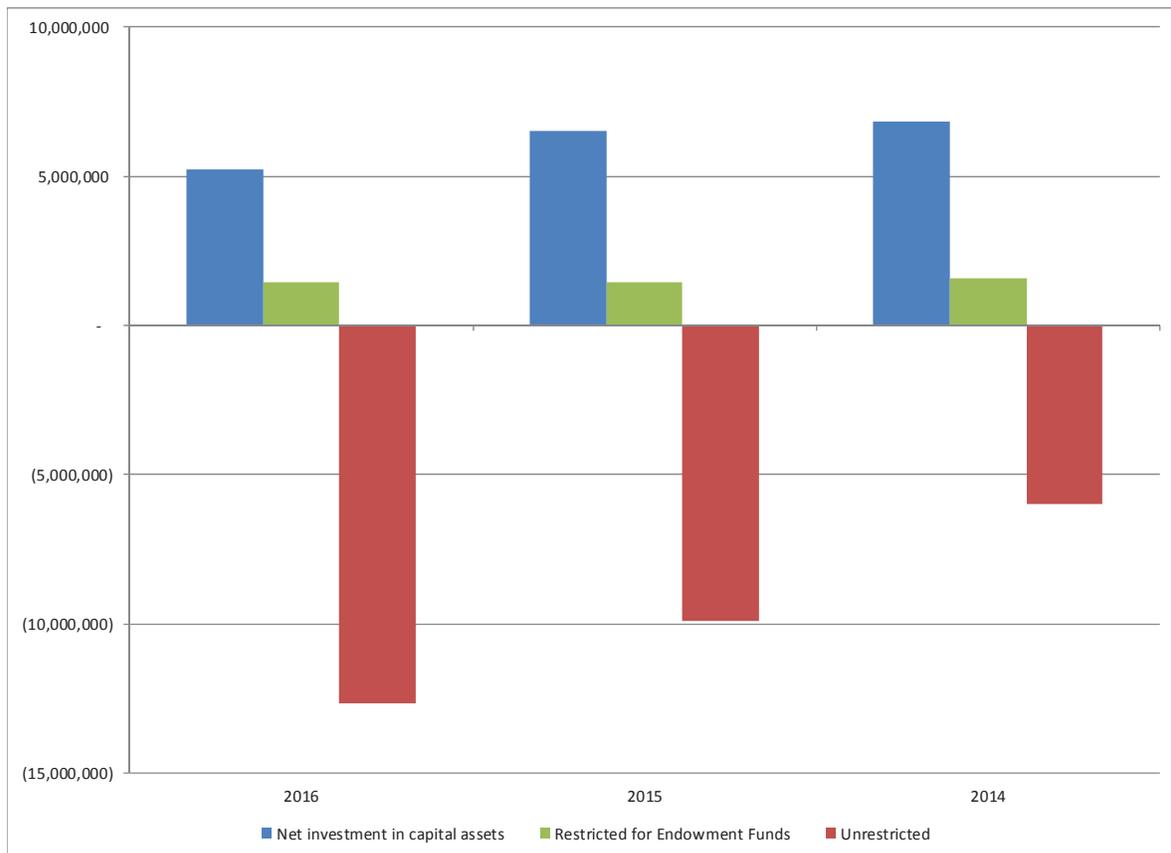
- Current assets decreased by \$721,516 mainly due to decreases in accounts receivable connected to underwriting.
- Capital assets decreased by \$10,238,172 in FY16 primarily due to the sale of the KUHA tower and operating license.
- Other noncurrent assets decreased by \$17,203 mainly due to the current year's endowment fund distributions.
- Current liabilities increased by \$1,801,883 mainly due to the increases in the amount "Due to UH System."
- Noncurrent liabilities decreased by \$8,225,427 mainly due to a reduction in notes payable related to the sale of the KUHA tower.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Management's Discussion and Analysis
August 31, 2016 and 2015

Assets and Liabilities – Fiscal Year 2015 Compared to Fiscal Year 2014

- Current assets increased by \$380,517 mainly due to increases in accounts receivable connected to underwriting.
- Capital assets decreased by \$639,587 in FY15 primarily due to depreciation on the Stations' capital assets.
- Other noncurrent assets decreased by \$106,244 due to the current year's endowment fund losses.
- Current liabilities increased \$982,398 due to the increases in the amount "Due to UH System."
- Noncurrent liabilities increased mainly due to recording a \$2,972,528 net pension liability as required by the adoption of GASB Statement Nos. 68 and 71.

The following graph illustrates net position in the different categories for fiscal years 2016, 2015 and 2014.



HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

Operating Revenues – Fiscal Year 2016 Compared to Fiscal Year 2015

Operating revenues decreased by \$1,260,224 in FY16 mainly due to decreases in the amount of general contributions and grants received from HPMF and the Corporation for Public Broadcasting. HPM did receive an increase in indirect support provided by the UH System under the account titled "General Support from the UH System" which helped to offset the reduction in contributions and grants.

Operating Revenues – Fiscal Year 2015 Compared to Fiscal Year 2014

Operating revenues increased by \$3,447,706 in FY15 mainly due to the increase in the amount of indirect support provided by the UH System under the account titled "General Support from the UH System" and due to increased grants from HPMF.

Operating Expenses – Fiscal Year 2016 Compared to Fiscal Year 2015

The Stations' expenses increased by \$1,264,076 in FY16 due to the following factors:

- PBS, NPR and other programming fees from the UH System increased 17%.
- Indirect support from the UH System increased by \$684,194 from FY15.
- Professional services related to underwriting and grant solicitation expenses increased by \$418,041 due to the Stations' outsourcing of its underwriting services.

Operating Expenses – Fiscal Year 2015 Compared to Fiscal Year 2014

The Stations' expenses increased by \$2,309,495 in FY15 due to the following factors:

- PBS, NPR and other programming fees increased 3.5%.
- Indirect support from the UH System increased by \$2,060,671 from FY14.
- Broadcasting, engineering and technical increased by \$667,480 due to realignment of expenses from Fundraising.
- Fundraising and membership development decreased by \$1,141,622 due to cost saving measures designed to realign our expenses to Broadcasting, engineering and technical (BET).

Capital Asset and Debt Administration

As of the end of the 2016 fiscal year, the Stations had \$5,503,009 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements; furniture, equipment and vehicles; land and indefinite lived intangible assets.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

Title to these assets resides with the UH System, which allocates custody of the assets to the Stations for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Stations capitalize assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of capital assets are provided from the Stations' operating revenues.

The Stations do not separately issue long-term debt. During fiscal year 2016, the Stations sold its KUHA station. The UH System allowed the Stations to settle its long-term note payable, which was issued to purchase KUHA, through bond defeasance. Proceeds from the KUHA sale were deposited into an escrow fund, and will be used to satisfy the outstanding principal due to the UH System of \$8,110,000.

Budgetary Revenues

The following table summarizes the Stations' final budget, actual results and variance for revenues for the year ended August 31, 2016.

	Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Contributions	\$ 2,839,328	2,588,997	(250,331)
Contribution grants from HPMF	8,000,000	8,135,904	135,904
General support from the UH System	6,000,000	6,609,857	609,857
Program underwriting	3,238,498	3,557,499	319,001
Production service	105,000	103,431	(1,569)
Corporation for Public Broadcasting (CPB) grants	2,338,322	2,338,322	-
Royalties	-	8,928	8,928
Rental income	-	12,700	12,700
Other	34,539	208,952	174,413
	<u> </u>	<u> </u>	<u> </u>
Total operating revenues	\$ <u>22,555,687</u>	<u>23,564,590</u>	<u>1,008,903</u>

The actual versus budgeted revenue variances were due to the following:

- The overall decrease in contributions was largely due to management's decision to begin depositing contributions through HPMF, rather than the primary institution, and management's decision to withhold some transfers to the primary institution to increase cash flow to accommodate potential expenditures through the foundation. This is due to a change in donor data outsourcing.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

- In an effort to continue our efforts to focus on a revenue model that is centralized around donor experiences, rental income, royalty income and special events income were not budgeted.
- The increase in General support from UH System demonstrates UH's relationship with the Stations. The increase resulted from changes that were made to the departmental benefit matrix during 2015. We remained consistent to the departmental benefit matrix changes in 2016.

Budgetary Expenses

The following table summarizes the Stations' final budget, actual results and variance for expenses for the year ended August 31, 2016.

	Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating expenses:			
Programming and production (PRD)	\$ 10,135,185	7,794,784	2,340,401
Broadcasting, engineering and technical (BET)	4,537,793	4,502,438	35,355
Occupancy and physical plant operations (BET)	600,000	480,161	119,839
Program information (PGM)	402,700	306,274	96,426
Fundraising and membership development (FND)	1,872,405	3,410,365	(1,537,960)
Underwriting and grant solicitation (UND)	1,386,066	865,362	520,704
Management and general (MGT)	1,142,718	2,556,117	(1,413,399)
Institutional support (MGT)	6,000,000	6,129,696	(129,696)
Depreciation	930,000	923,131	6,869
	<u>\$ 27,006,867</u>	<u>26,968,328</u>	<u>38,539</u>

The actual versus budgeted expenditure variances were due to the following:

- To contain a potential loss, we adjusted our spending for Broadcasting, Engineering, & Technology to be similar to the prior year's expenses for this program. However, nonrecurring expenses were incurred to prepare the KUHA facility for sale.
- Occupancy and institutional support actual expenses fluctuate based upon indirect support schedule calculations.
- In an effort to combat increased programming expenses, we adjusted our program lineup to conserve funds.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2016 and 2015

- Fundraising and Membership Development's expenses increased due to an increase in donor-focused activities that were needed to stimulate donor contributions. In addition to that, we transitioned to a new donor database that is more effective. However, there was a temporary overlap of services while we imported data from one system to the other.
- Underwriting and Grant Solicitation expenses were less than budgeted due to the Stations' outsourcing of its underwriting services.
- Management and General's expenses increased due to the additional legal and professional costs that were needed to complete the sale of the KUHA assets.

Requests for Information

Questions regarding the information provided in this Annual Financial Report or request for additional financial information should be addressed to the Director of Finance, Houston Public Media at: KUHF-FM & KUHT-TV, 4343 Elgin, Houston, Texas 77204-0008.

BASIC FINANCIAL STATEMENTS

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Net Position

August 31, 2016 and 2015

Assets	2016		2015	
	Primary institution	Component unit (HPMF)	Primary institution (Restated - Note 3)	Component unit (HPMF)
Current assets:				
Cash and equivalents	\$ -	767,546	-	494,406
Accounts receivable, net	596,649	605,007	1,233,854	-
Pledge receivable from HPMF	5,000	-	5,000	-
Pledge receivable	-	5,000	-	5,000
Restricted cash and equivalents	-	370,426	-	378,488
Film rights, net	54,730	-	95,115	-
Prepaid expenses	12,008	-	55,934	-
Total current assets	<u>668,387</u>	<u>1,747,979</u>	<u>1,389,903</u>	<u>877,894</u>
Noncurrent assets:				
Pledge receivable	-	133,348	-	132,288
Pledge receivable from HPMF	133,348	-	132,288	-
Capital assets, net	5,503,009	14,100	15,741,181	14,100
Investments restricted for endowment	<u>1,439,795</u>	<u>1,200,370</u>	<u>1,458,058</u>	<u>1,183,737</u>
Total noncurrent assets	<u>7,076,152</u>	<u>1,347,818</u>	<u>17,331,527</u>	<u>1,330,125</u>
Total assets	7,744,539	3,095,797	18,721,430	2,208,019
Deferred Outflows of Resources				
Pension	<u>640,992</u>	-	<u>531,412</u>	-
Total assets and deferred outflows of resources	<u>\$ 8,385,531</u>	<u>3,095,797</u>	<u>19,252,842</u>	<u>2,208,019</u>

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Net Position (Continued)

August 31, 2016 and 2015

	<u>2016</u>		<u>2015</u>	
	<u>Primary institution</u>	<u>Component unit (HPMF)</u>	<u>Primary institution (Restated - Note 3)</u>	<u>Component unit (HPMF)</u>
Liabilities				
Current liabilities:				
Due to UH System	\$ 8,691,048	-	6,543,727	-
Pledge payable to primary institution	-	5,000	-	5,000
Accounts payable	4,168	155,343	155,317	94,060
Note payable (KUHT server)	12,542	-	75,248	-
Note payable (HPM Chiller)	82,179	-	-	-
Due to UH System (KUHA note)	-	-	200,000	-
Accrued payroll	672,672	-	634,103	-
Unearned revenue	227,341	16,857	302,167	16,857
Employees' compensable leave	462,866	-	440,371	-
Total current liabilities	<u>10,152,816</u>	<u>177,200</u>	<u>8,350,933</u>	<u>115,917</u>
Noncurrent liabilities:				
Pledge payable to primary institution	-	133,348	-	132,288
Net pension liability	3,487,671	-	2,972,528	-
Note payable (KUHT server)	-	-	12,542	-
Note payable (HPM Chiller)	198,595	-	-	-
Due to UH System (KUHA note)	-	-	8,926,623	-
Total noncurrent liabilities	<u>3,686,266</u>	<u>133,348</u>	<u>11,911,693</u>	<u>132,288</u>
Total liabilities	<u>13,839,082</u>	<u>310,548</u>	<u>20,262,626</u>	<u>248,205</u>
Deferred Inflows of Resources				
Pension	546,822	-	908,600	-
Total liabilities and deferred inflows of resources	<u>14,385,904</u>	<u>310,548</u>	<u>21,171,226</u>	<u>248,205</u>
Net Position				
Net investment in capital assets	5,209,693	14,100	6,526,768	14,100
Restricted:				
Expendable for production and outreach programs	-	370,426	-	378,488
Nonexpendable	1,221,922	1,124,191	1,221,922	1,122,490
Expendable	217,873	76,179	236,138	61,247
Unrestricted	<u>(12,649,861)</u>	<u>1,200,353</u>	<u>(9,903,212)</u>	<u>383,489</u>
Total net position	<u>\$ (6,000,373)</u>	<u>2,785,249</u>	<u>(1,918,384)</u>	<u>1,959,814</u>

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2016 and 2015

	<u>2016</u>		<u>2015</u>	
	<u>Primary institution</u>	<u>Component unit (HPMF)</u>	<u>Primary institution (Restated - Note 3)</u>	<u>Component unit (HPMF)</u>
Operating revenues:				
Contributions	\$ 2,588,997	9,959,560	2,718,660	10,245,362
Contribution grants from HPMF	8,135,904	-	8,852,201	-
General support from the UH System	6,609,857	-	5,925,663	-
Program underwriting	3,557,499	814,237	3,846,511	24,805
Production service	103,431	30,271	105,873	28,906
Production grants from HPMF	-	-	175,000	-
Corporation for Public Broadcasting (CPB) grants	2,338,322	-	2,528,008	-
Other grants	-	680,177	585,140	1,188,451
Royalties	8,928	-	1,527	-
Rental income	12,700	-	8,120	-
Special events	-	25,311	78,040	145,512
Other	208,952	47,574	71	7,500
Total operating revenues	<u>23,564,590</u>	<u>11,557,130</u>	<u>24,824,814</u>	<u>11,640,536</u>
Operating expenses:				
Grants to primary institution	-	8,135,904	-	9,027,201
Programming and production (PRD)	7,794,784	61,727	7,681,909	104,507
Broadcasting, engineering and technical (BET)	4,502,438	48,328	4,570,872	1,669,464
Occupancy and physical plant operations (BET)	480,161	-	456,532	-
Program information (PGM)	306,274	6,093	325,410	294,513
Fundraising and membership development (FND)	3,410,365	1,999,257	3,359,315	2,414
Underwriting and grant solicitation (UND)	865,362	365,888	447,321	59,049
Management and general (MGT)	2,556,117	131,131	2,484,975	58,676
Institutional support (MGT)	6,129,696	-	5,469,131	-
Depreciation	923,131	-	908,787	28,665
Total operating expenses	<u>26,968,328</u>	<u>10,748,328</u>	<u>25,704,252</u>	<u>11,244,489</u>
Operating income (loss)	<u>(3,403,738)</u>	<u>808,802</u>	<u>(879,438)</u>	<u>396,047</u>
Nonoperating income (loss):				
Loss from sale of KUHA	(659,988)	-	-	-
Endowment contributions (distributions)	(54,336)	1,701	-	1,914
Gains (loss) from endowment	36,073	14,932	(111,244)	(30,645)
Total nonoperating income (loss)	<u>(678,251)</u>	<u>16,633</u>	<u>(111,244)</u>	<u>(28,731)</u>
Change in net position	<u>(4,081,989)</u>	<u>825,435</u>	<u>(990,682)</u>	<u>367,316</u>
Net position, beginning of year, as previously reported	(1,918,384)	1,959,814	18	1,592,498
Adjustment applicable to the year ended August 31, 2015	-	-	(927,720)	-
Net position, beginning of year, as restated	<u>(1,918,384)</u>	<u>1,959,814</u>	<u>(927,702)</u>	<u>1,592,498</u>
Net position, end of year	<u>\$ (6,000,373)</u>	<u>2,785,249</u>	<u>(1,918,384)</u>	<u>1,959,814</u>

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	2016	2015
	Primary institution	Primary institution (Restated - Note 3)
Cash flows from operating activities:		
Proceeds from contributions	\$ 10,723,841	11,575,861
Proceeds from Corporation for Public Broadcasting (CPB) grant	2,338,322	2,528,008
Proceeds from other grants	-	585,140
Proceeds from program underwriting	4,119,878	3,395,709
Proceeds from other revenues	334,011	368,631
Payments to suppliers for goods and services	(5,523,926)	(5,495,705)
Payments to employees	(8,474,425)	(8,049,638)
Payments for broadcasting fees	(4,171,405)	(4,191,889)
Payments for other expenses	(1,161,650)	(1,260,237)
Net cash used in operating activities	(1,815,354)	(544,120)
Cash flows from noncapital financing activities:		
Advances from UH System	2,147,321	1,369,281
Net cash provided by noncapital financing activities	2,147,321	1,369,281
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(290,598)	(269,200)
Payments for additions of film rights	(46,895)	(125,173)
Issuance of note payable (HPM Chiller)	327,117	-
Payments on note payable (HPM Chiller)	(46,343)	-
Payments on due to UH System (KUHA note)	(200,000)	(254,299)
Payments on note payable (KUHT server)	(75,248)	(75,248)
Net cash used in capital and related financing activities	(331,967)	(723,920)
Cash flows from investing activity:		
Purchases of investments	-	(101,241)
Net cash used in investing activity	-	(101,241)
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ 0	0

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Statements of Cash Flows (Continued)
Years Ended August 31, 2016 and 2015

	2016	2015
	Primary institution	Primary institution (Restated - Note 3)
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,403,738)	(879,438)
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation expense	923,131	908,787
Amortization of film rights	87,280	122,772
Pension expense	62,813	83,758
(Increase) decrease in accounts receivable	637,205	(573,993)
(Increase) decrease in pledge receivable	(1,060)	5,000
Decrease in prepaid expenses	43,926	185,877
Decrease in accounts payable	(151,149)	(524,103)
Increase in accrued payroll	38,569	16,578
Increase (decrease) in unearned revenue	(74,826)	123,191
Increase (decrease) in employees' compensable leave	22,495	(12,549)
Total adjustments	1,588,384	335,318
Net cash used in operating activities	\$ (1,815,354)	(544,120)
Supplemental noncash investing and financing activities:		
Disposal of capital assets in KUHA sale	\$ 9,586,611	0
Settlement of note payable to UH System through KUHA sale	\$ 8,926,623	0

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

(1) Entity

Houston Public Media (the Stations or Primary Institution), of the University of Houston (UH) System (the UH System), which consists of noncommercial, listener-supported radio station (KUHF and, prior to July 15, 2016, KUHA) and viewer supported television station (KUHT), serves as Houston's National Public Radio (NPR) affiliate and classical music source and Houston's Public Broadcasting Services (PBS) affiliate. KUHF signed on the air in 1950 as a public radio station. KUHT signed on the air on May 25, 1953 as the nation's first noncommercial educational television station. KUHF provides news and cultural programming at both local and national levels. On May 6, 2011, KUHF purchased KTRU's license for frequency 91.7 from Rice University. KUHA 91.7 Classical went on the air May 16, 2012, providing a 24-hour classical music service to the Greater Houston area. At the same time, KUHF 88.7 changed their programming format to a 24-hour news and information station. During the year ended August 31, 2016, the UH System sold the broadcast license for KUHA, and that programming changed to exclusively internet-based and high-definition broadcast. KUHT provides the building blocks for the Stations' schedule with locally produced and acquired programs selected primarily for their appeal to a national audience; programs chosen on the basis of quality and audience interests and presented uninterrupted by commercial announcements. The Stations, licensed to the Board of Regents of the UH System, are located at the UH System's Central campus and are a division of the UH System. As a division of the UH System, the Stations are exempt from federal income taxes other than taxes on unrelated business income, if any. The Stations currently operate 24 hours a day. The Stations are located in the fourth largest metropolitan area of the United States. These financial statements present financial information that is attributable to the Stations and do not purport to, and do not, present fairly, the financial position of the UH System.

The Stations are dedicated to education and outreach through a wide variety of activities like community advancement, and expanding and strengthening partnerships and collaborations with key arts organizations in Houston. In pursuing all the dissimilar goals, the Stations have consistently used cutting edge technology to extend the value of its services.

KUHT is a full-service television station licensed to the University of Houston. The studio facilities are on the University of Houston campus in the LeRoy and Lucile Melcher Center for Public Broadcasting. The transmitter facilities are located in Missouri City, Texas. KUHT began broadcasting in May 1953 and was the first station in the country to operate on an especially reserved noncommercial television channel. The digital video services offered today include one high definition program service and two standard definition services. KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. It was the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the Greater Houston area including access to the Houston Taping for the Blind radio service. The broadcast signal reaches 33 counties in southeast Texas and is carried on numerous cable television systems, as well as both the Dish Network and DirecTV satellite services.

KUHF's new media technologies are rapidly developing with the changing landscape of on demand media around the world. Current services include all news and all music internet streams, podcasts, on demand shows, user interactive event calendar, RSS feeds, iPhone applications, Blackberry applications and iPad applications.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

Houston Public Media Foundation (HPMF) formerly known as the Association for Community Broadcasting (ACB) and as the Association for Community Television (ACT), was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to KUHT, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the UH System and ACT agreed that the same services provided to KUHT would also be provided to KUHF and thus adopted the ACB name. On January 30, 2014, ACB changed its name to HPMF to be more aligned with the station's new branding under the newly formed Houston Public Media division of UH.

The UH System and HPMF, as part of an ongoing agreement, have stipulated that all grants for the Stations' programming and other activities will be deposited with the UH System's Office of Sponsored Programs or, at the discretion of the general manager of the Stations, deposited in accounts maintained by HPMF and immediately and exclusively available to the Stations.

HPMF is directed by a Board of Directors, who are elected by other HPMF Directors, and is managed on a daily basis by a combination of Board Officers and the Stations' employees. There are no separately issued financial statements of HPMF.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The financial accounting records of the Stations and HPMF are maintained by the UH System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

The financial statements for both the Stations and HPMF are presented using the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been incurred.

b. Reporting Guidelines

The Stations are reported as a single purpose business-type activity entity. In addition, the Stations' financial statements have been prepared in accordance with the Corporation for Public Broadcasting's (CPB) *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

c. Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

d. Net Position

Net investment in capital assets – represents the Stations' or HPMF's original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Nonexpendable restricted net position – represents endowment principal which cannot be used for operational purposes and which is restricted in perpetuity.

Expendable restricted net position – represents income received from an endowment, which is available for purposes restricted by the donor, and can include gifts restricted by the donor for a specific purpose.

Unrestricted net position – represents resources that are available for the support of the Stations' or HPMF operations.

When the Stations or HPMF incur an expense for which both restricted and unrestricted resources may be used, it is the policy to use restricted resources first then unrestricted resources.

e. Revenues

Operating revenues include sources that are primarily used to provide services to the Stations' audience or to further HPMF's exempt purpose. Substantially all revenues are considered operating with the exception of net change in fair value of endowments, insurance recoveries and other investment income.

Unrestricted contributions and gifts do not have binding agreements and are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received and when eligibility requirements have been met. Restricted support and revenues are recognized upon incurring the appropriate expenses or meeting the eligibility requirements.

f. Accounts Receivable

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. An allowance for delinquent receivables is provided, which is based upon a review of outstanding receivables, historical collections and existing economic conditions.

g. Pledges Receivable

Unconditional promises to give (pledges) that are measurable are recorded after being discounted to the anticipated net present value of the future cash flows. The Stations and HPMF provide an allowance for estimated uncollectible pledges, which is based upon a review of outstanding pledges receivable, historical collections and existing economic conditions.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

h. Cash and Cash Equivalents

Cash and cash equivalents are considered to be claims on cash, cash on hand and demand deposits with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents for the Stations represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the UH System acting as the Stations' fiscal agent to optimize the rate of return. All of the funds included in cash and cash equivalents are insured or registered or are securities held by the UH System or its agent in the UH System's name.

Immediately upon formal written notification of an approved appropriation or grant, the UH System permits the Stations to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the UH System has received the related funds.

For current unrestricted and restricted accounts, the UH System allocated a percentage of the interest income earned to the Stations at a fixed rate based on its monthly average cash balance.

i. Capital Assets

Capital assets represent buildings and equipment acquired primarily for the operation of the Stations. Title of the buildings and equipment rests with the State of Texas (the State) in the name of the UH System, and therefore, such assets can be transferred to or from the Stations at the discretion of the UH System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or estimated acquisition value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight-line basis over the following estimated useful lives of the assets:

Buildings and building improvements	22 – 30 years
Furniture and equipment	5 – 10 years
Other assets	5 years
Land	Not depreciable
Indefinite lived intangible assets	Not depreciable

Useful lives are established by a uniform classification system maintained by the State and are measured from the date of acquisition.

j. Film Rights

Film rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Estimated useful lives of such rights range from one to five years.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

k. In-kind Contributions

In-kind contributions included in revenues and expenses in the accompanying statements of revenues, expenses and changes in net position consist of general support from the UH System, which is further described in Note 12.

The fair value of merchandise contributed by third parties in connection with the Stations' fundraising activities is not included in the accompanying financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise and donated personal services, are also not included in the accompanying financial statements.

l. Unearned Revenues

Grant and program underwriting revenues received relating to the period after fiscal year-end are reported as unearned revenues.

m. Advertising

Advertising costs are charged to operations when incurred.

n. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

o. Employees' Compensable Leave

Stations' employees are classified as State employees and as such are entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal or separation from State employment provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees.

Full-time State employees earn annual leave from eight to 21 hours per month depending on the respective employees' years of State employment. The State's policy is that an employee may carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Accrued leave in excess of the normal maximum is converted to sick leave at the conclusion of the fiscal year. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

p. Presentation of Discrete Component Unit

HPMF is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are as follows.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The financial statements of the Primary Institution and its component unit, HPMF, are presented using the same categories in order to provide consistency. HPMF is not a governmental entity, and as such, current year data has been made to conform to reporting under GASB.

q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) plan and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(3) Restatement of Prior Year Financial Statements

Beginning net position in the August 31, 2015, financial statements has been restated in the amount of \$(927,720) for computational errors resulting in a \$57,838 increase in deferred outflows of resources, a \$818,982 increase in net pension liability, a \$250,334 increase in deferred inflows of resources and a \$83,758 increase in pension expense. This restatement reduced previously reported 2015 change in net position by \$83,758.

(4) Endowment Funds

a. Primary Institution

Gifts to the UH System are placed in the UH System's endowment fund, which is a pooled investment of individual endowments benefiting the entire UH System.

The Endowment Fund allocated income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowment's fair value in the previous three fiscal years. That percentage was 4% in fiscal years 2016 and 2015. If an endowment were in existence less than three years, the average was based on the number of years in existence.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The deposits and investments of the Stations and HPMF are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The deposits and investments with the Endowment Fund are exposed to risks that have the potential to result in losses. Those risks and their definitions are:

- Credit risk – the risk an insurer or counterparty to an investment will not fulfill its obligation
- Custodial risk – the risk that in the case of default by the counterparty a government will be unable to recover its deposit/investment or collateralizing securities in the possession of an outside party
- Concentration risk – the risk of loss attributable to the size of a government's investment in a single issuer
- Interest rate risk – the risk that changes in interest rates will adversely affect the fair value of investments
- Foreign currency risk – the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment

During fiscal years 2016 and 2015, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation and manager structure within the endowment portfolio. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return. Further information regarding the investment balances and risks with the Endowment Fund, which does not have a credit rating, may be obtained from the UH System Office of the Treasurer.

The following summarizes activity for the years ended August 31, 2016 and 2015:

Balance, August 31, 2014	\$	1,569,302
FY15 endowment additions		-
FY15 realized/unrealized gain		<u>(111,244)</u>
Balance, August 31, 2015		1,458,058
FY16 distributions		(54,336)
FY16 realized/unrealized gain		<u>36,073</u>
Balance, August 31, 2016	\$	<u><u>1,439,795</u></u>

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The assets of the Stations' endowments totaled \$1,439,795 and \$1,458,058 at August 31, 2016 and 2015, respectively, and are not legally restricted. Unrealized gains and losses for each year are recorded in the accompanying statements of revenues, expenses and changes in net position.

b. Component Unit (HPMF)

The gifts received by HPMF to create endowed accounts are invested in the HPMF Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the HPMF Endowment Fund (the Endowment) and Gift Committee. The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The objectives of the Investment Pool are to protect the real value of the Endowment, while maximizing the amount distributed annually for endowed spending as further described in the HPMF Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the Endowment will be reinvested to protect the capital against erosion by inflation.

The Endowment's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have as a goal that its total distributions and expenses not exceed the Endowment's total inflation-adjusted return on investments. Consistent with the Endowment's long-term investment objectives, the Board of Directors established the spending policy, which generally permits total distributions and expenses (including but not limited to investment management fees) not in excess of an amount equal to 4% of the average net asset value of the Endowment over the prior three years (or the life of the Endowment if shorter than three years). The Board of Directors may authorize distributions in excess of the 4% when the Stations have the need to fund one-time capital expenditures.

The Endowment has a related operating account to which annual income distributed from the endowment funds is deposited and to which expenditures, in accordance with the donor's wishes, may be charged. In the event that there is a balance in the Endowment operating account at fiscal year-end, it will automatically be transferred back to the endowment funds on a prorated basis (according to the income distributed). This procedure is called "Endowment Capitalization." It is in the Endowment's best interests that surplus funds are capitalized, since they will yield new units and thus generate additional income in future years.

The Investment Pool is invested with an external investment manager in commingled funds who invest, for example, in marketable securities, fixed income, alternative investments, real estate and cash equivalents. The Investment Pool reported a fair value of \$1,200,370 as of August 31, 2016, and \$1,183,737 as of August 31, 2015, is not publicly traded, and has been estimated by fund managers in the absence of readily available market values. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk and investment manager risk.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

During the year ended August 31, 2015, the funds were transferred from the Greater Houston Community Foundation to the University of Houston Foundation, which does not have a credit rating, and further information regarding the investment balances and risks with the University of Houston Foundation may be obtained from HPMF business offices by calling 713.748.8888.

The following summarizes activity for the years ended August 31, 2016 and 2015:

Balance, August 31, 2014	\$	1,212,468
FY15 contributions		1,914
FY15 unrealized loss		(30,645)
		1,183,737
Balance, August 31, 2015		1,183,737
FY16 contributions		1,701
FY16 unrealized gain		14,932
		1,200,370
Balance, August 31, 2016	\$	1,200,370

(5) Accounts Receivable

Accounts receivable as of August 31, 2016, comprised the following.

	Primary institution	Component unit (HPMF)
Accounts receivable	\$ 615,705	605,007
Allowance for doubtful accounts	(19,056)	-
Total	\$ 596,649	605,007

Accounts receivable as of August 31, 2015, comprised the following:

	Primary institution	Component unit (HPMF)
Accounts receivable	\$ 1,252,910	-
Allowance for doubtful accounts	(19,056)	-
Total	\$ 1,233,854	0

Accounts receivable for the Stations and HPMF consist primarily of production grants and underwriting support.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

(6) Pledge Receivable

As of August 31, 2016 and 2015, HPMF had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows.

	2016	2015
Receivable within one year	\$ 5,000	5,000
Receivable in two to five years	135,000	135,000
Less discount	(1,652)	(2,712)
	\$ 138,348	137,288

As of August 31, 2016 and 2015, there was no allowance for estimated uncollectible pledges. The pledge receivable from HPMF and pledge payable to the primary institution consisted of the same amounts presented above.

(7) Capital Assets

Capital asset activities for the year ended August 31, 2016, were as follows for the Stations:

	2015	Additions	Dispositions	2016
Capital assets:				
Buildings and building improvements	\$ 12,415,863	290,598	-	12,706,461
Furniture and equipment	8,646,419	-	349,611	8,296,808
Vehicles	53,295	-	-	53,295
Land	402,044	-	402,044	-
Intangible and other assets	9,221,225	-	9,146,225	75,000
	30,738,846	290,598	9,897,880	21,131,564
Less accumulated depreciation	14,997,665	923,131	292,241	15,628,555
Net capital assets	\$ 15,741,181	(632,533)	9,605,639	5,503,009

Capital asset activities for the year ended August 31, 2016, were as follows for HPMF:

	2015	Additions	Dispositions	2016
Capital assets:				
Land	\$ 14,100	-	-	14,100
Program costs	652,089	-	-	652,089
Furniture and equipment	424,249	-	-	424,249
Other assets	4,050	-	-	4,050
Accounting software - FM	55,105	-	-	55,105
Accounting software - TV	55,105	-	-	55,105
	1,204,698	-	-	1,204,698
Less accumulated depreciation	1,190,598	-	-	1,190,598
Net capital assets	\$ 14,100	0	0	14,100

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

Capital asset activities for the year ended August 31, 2015, were as follows for the Stations:

	2014	Additions	Dispositions	2015
Capital assets:				
Buildings and building improvements	\$ 12,637,863	-	222,000	12,415,863
Furniture and equipment	9,047,790	250,371	651,742	8,646,419
Vehicles	34,466	18,829	-	53,295
Land	402,044	-	-	402,044
Intangible and other assets	9,221,225	-	-	9,221,225
Total capital assets	31,343,388	269,200	873,742	30,738,846
Less accumulated depreciation	14,962,620	908,787	873,742	14,997,665
Net capital assets	\$ 16,380,768	(639,587)	0	15,741,181

Capital asset activities for the year ended August 31, 2015, were as follows for HPMF:

	2014	Additions	Dispositions	2015
Capital assets:				
Land	\$ 14,100	-	-	14,100
Program costs	652,089	-	-	652,089
Furniture and equipment	424,249	-	-	424,249
Other assets	4,050	-	-	4,050
Accounting software - FM	55,105	-	-	55,105
Accounting software - TV	55,105	-	-	55,105
Total capital assets	1,204,698	-	-	1,204,698
Less accumulated depreciation	1,161,933	28,665	-	1,190,598
Net capital assets	\$ 42,765	(28,665)	0	14,100

(8) Investments Restricted for Endowment

The Stations' investments restricted for endowment are placed in the UH System's endowment fund (the Endowment Fund), which is a pooled investment of individual endowments. HPMF has investments restricted for endowment in an external investment pool held with the University of Houston Foundation (U of H Foundation). None of the external investment pools are publicly registered and the investments may only be redeemed by action of the Board of Directors. The Endowment Fund attempts to preserve the real (inflation adjusted) purchasing power of endowment assets, when measured over rolling periods of at least five years, and to outperform the capital markets in which the endowment assets are invested, measured over rolling periods of three to five years. The U of H Foundation relies on a total return strategy in which investment returns are

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

achieved through both capital appreciation and current yield. The U of H Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Stations' and HPMF's investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with GASB No. 72, *Fair Value Measurement and Application*, for investments in pooled funds, the fair value is determined as the number of units or shares held in the fund multiplied by the price per unit or shares as publicly quoted. Investments restricted for endowment in which a public market does not exist are based on the Stations' and HPMF's ownership interest in the net asset value (NAV) of each fund as reported by the fund managers. Investments are reported at NAV and are not categorized according to fair value.

The Stations had the following recurring fair value measurements as of August 31, 2016 and 2015:

- Pooled investments of \$1,439,795 and \$1,458,058, respectively, are valued at fair value per share of the pool's underlying portfolio.

HPMF had the following recurring fair value measurements as of August 31, 2016 and 2015:

- Pooled investments of \$1,200,370 and \$1,183,737, respectively, are valued at fair value per share of the pool's underlying portfolio.

(9) Film Rights

KUHT pays for the right to use certain films in its broadcasting activities. The costs of those rights are amortized over the purchased periods. Changes in the costs of film rights for the years ended August 31, 2016 and 2015, were as follows.

Balance, August 31, 2014	\$	92,714
FY15 additions		125,173
FY15 amortization		<u>(122,772)</u>
Balance, August 31, 2015		95,115
FY16 additions		46,895
FY16 amortization		<u>(87,280)</u>
Balance, August 31, 2016	\$	<u><u>54,730</u></u>

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

(10) Due to the UH System

Since the Stations maintain all of their cash balances with the UH System's treasury department, the UH System permits the Stations to overdraw their claims on cash account from time to time. The amount disclosed in the "Due to the UH System" account represents the amount by which the Stations have overdrawn its claim on cash account with the UH System as of August 31, 2016 and 2015.

The "Due to UH System (KUHA note)" account represents long-term debt issued by the UH System to the Stations for the asset purchase of KUHA-FM. The balance as of August 31, 2016 and 2015, was \$0 and \$9,126,623 respectively.

(11) Unrestricted Net Deficit

The Stations have been experiencing a net excess of expenses over revenues, resulting in an increasing net deficit of unrestricted net position. The net deficit of unrestricted net position at August 31, 2016 and 2015, was \$12,649,861 and \$9,903,212, respectively. The deficit resulted mainly due to operating expenses exceeding operating revenues over several years.

(12) General Support from the UH System

General support from the UH System includes building and related occupancy costs donated by the UH System and are recorded in revenues and expenses. The occupancy costs are determined based on the net book value of the building and tower, as well as the square footage of the building and tower utilized by the Stations. Occupancy cost was \$325,429 in each of the fiscal years 2016 and 2015. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting, painting, etc.) which was \$154,732 in fiscal year 2016 and \$131,103 in fiscal year 2015. The UH System also provides indirect administrative support and maintenance support to the Stations, which are recorded in revenues and expenses based on the UH System's allocation methods. Indirect administrative support amounted to \$6,129,696 in fiscal year 2016 and \$5,469,131 in fiscal year 2015.

(13) 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 broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities 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). In any event, each grant must be expended within two years of the initial grant authorization.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

According to the Communications Act, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds recordkeeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission.

(14) Pension Plans and Optional Retirement Program

The State has joint contributory retirement plans for substantially all of its employees. The Stations participate in the plans administered by the Teacher Retirement System of Texas (the Retirement System). Future pension costs are the liabilities of the Retirement System. The Retirement System does not account for each State agency separately. Annual financial reports prepared by the Retirement System include audited financial statements and actuarial assumptions and conclusions.

The State has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in the ORP is available to certain eligible employees and is in lieu of participation in the Teacher Retirement System (TRS).

The State has three retirement systems in its financial reporting entity – Employees Retirement System (ERS), TRS and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans.

- ERS – the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS1) and Judicial Retirement System of Texas Plan Two (JRS2).
- TRS – the Teacher Retirement System of Texas (TRS) plan
- TESRS – the Texas Emergency Services Retirement System (TESRS) plan.

ERS, LECOS, JRS2, TRS and TESRS plans are administered through trust; JRS1 plan is on a pay-as-you-go basis.

TRS Plan

The Retirement System is the administrator of the TRS plan, a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation for certain employers. No on-behalf payments were made by the State for the Stations.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The employers of the TRS plan include the State, TRS, the State's public schools, education service centers, charter schools, community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002, are covered by the system. Employees of TRS and State colleges, universities and medical schools are members of the TRS plan.

The TRS plan provides retirement, disability annuities, and death and survivor benefits. The benefit and contribution provisions of the TRS plan are authorized by State law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3% of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLAs).

Audited Comprehensive Annual Financial Report (CAFR) for TRS may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
<http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>

For the years ended August 31, 2016 and 2015, the Stations' contributions to the TRS plan were \$263,636 and \$300,321, respectively. The contribution rates for the employers and the members are presented in the table below.

Required Contribution Rates	Year Ended August 31, 2016	Year Ended August 31, 2015
Contribution Rates:		
Employer (the Stations)	6.80%	6.80%
Members	7.20%	6.70%

The total pension liability is determined by annual actuarial valuations. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2015 and 2014, measurement dates.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

	<u>2015</u>	<u>2014</u>
Actuarial Valuation Date	August 31, 2015	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal
Amortization Method	Level Percent, Open	Level Percent, Open
Actuarial Assumptions:		
Discount Rate	8.00%	8.00%
Investment Rate of Return	8.00%	8.00%
Inflation	2.50%	3.00%
Salary Increase, Including Inflation	3.50% to 9.50%	4.25% to 7.25%
Mortality:		
Active	90% of the RP 2014 Employee Mortality Tables for males and females	1994 Group Annuity Mortality Table, set back six years for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables	Client specific tables multiplied by 80%
Ad Hoc Postemployment Benefit Changes	None	None

The actuarial assumptions used in the 2015 actuarial valuation were primarily based on the results of an actuarial experience study for the four-year period ended August 31, 2014, and adopted in September 2015. The actuarial assumptions used in the 2014 actuarial valuation were primarily based on the results of an actuarial experience study for the four-year period ended August 31, 2010, and adopted in April 2011.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 8% was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members, employers and nonemployer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8% long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions, including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio for the measurement period ended August 31, 2015, are presented below:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
<i>Global Equity</i>		
U.S. Treasury	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
<i>Stable Value</i>		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	-0.2%
<i>Real Return</i>		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
<i>Risk Parity</i>		
Risk Parity	5%	6.7%
Total	<u>100%</u>	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Stations' net pension liability as of August 31, 2016. The result of the analysis is presented in the table below.

**Sensitivity of the Stations' Proportionate Share of the Net Pension Liability to
Changes in the Discount Rate**

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
\$ 5,451,479	\$ 3,487,671	\$ 1,836,681

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets and fiduciary net position may be obtained from TRS' fiscal 2015 and 2014 Comprehensive Annual Financial Reports.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

At August 31, 2016 and 2015, the Stations reported a liability of \$3,487,671 and \$2,972,528, respectively, for their proportionate share of the collective net pension liability. The collective net pension liability at August 31, 2016, was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The collective net pension liability at August 31, 2015, was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Stations' proportion at August 31, 2015, was 0.0098429%, which was a decrease from the (restated) 0.0111260% measured at the prior measurement date. The Stations' proportion of the collective net pension liability at August 31, 2016, was based on their contributions to the pension plan relative to the contributions of all the employers and nonemployer contributing entity to the plan for the period September 1, 2014 through August 31, 2015. The Stations' proportion of the collective net pension liability at August 31, 2015, was based on their contributions to the pension plan relative to the contributions of all the employers and nonemployer contributing entity to the plan for the period September 1, 2013 through August 31, 2014.

For the years ended August 31, 2016 and 2015, the Stations recognized pension expense of \$308,026 and \$282,838, respectively. At August 31, 2016, the Stations reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 38,118	133,714
Changes of assumptions	161,700	126,675
Net difference between projected and actual investment return	177,538	-
Change in proportion and contribution difference	-	286,433
Contributions subsequent to the measurement date	263,636	-
Total	<u>\$ 640,992</u>	<u>546,822</u>

At August 31, 2015, the Stations reported deferred outflows of resources (restated) and deferred inflows of resources (restated) related to pensions from the following sources:

	<u>Deferred Outflows of Resources (Restated - Note 3)</u>	<u>Deferred Inflows of Resources (Restated - Note 3)</u>
Difference between expected and actual experience	\$ 45,962	-
Changes of assumptions	185,129	-
Net difference between projected and actual investment return	-	908,600
Change in proportion and contribution difference	-	-
Contributions subsequent to the measurement date	300,321	-
Total	<u>\$ 531,412</u>	<u>908,600</u>

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The \$263,636 reported as deferred outflows of resources at August 31, 2016, resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions at August 31, 2016, will be recognized in pension expense in the following years:

2017		\$	(64,297)
2018			(64,297)
2019			(64,297)
2020			162,152
2021			(54,451)
Thereafter			<u>(84,276)</u>
		\$	<u><u>(169,466)</u></u>

Optional Retirement Program

The State of Texas has also established an Optional Retirement Program (the ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP is an individualized defined contribution plan which provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Stations' and participants' contributions were 6% of the participants' annual compensation. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for 2016 and 2015 are 6.65% for ORP participants. The state contribution rate for ORP is 6.6% for 2016 and 2015. Contributions to the plan by the Stations and employee contributions were not material for 2016, 2015 and 2014. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

(15) Leases

The Stations have entered into operating leases for various business purposes, including a tower antenna; fundraising software; a utility van; fax and copy machine and KUHT server; web host connection in support of their operations; transmitting facility; and other equipment. The Stations have short- and long-term operating leases. During the years ended August 31, 2016 and 2015, lease expense was \$313,378 and \$268,392, respectively. There are no future minimum lease payments under noncancelable operating lease agreements as of August 31, 2016.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

(16) Transactions Between Primary Institution and Component Unit

Cash expenditures made by HPMF on behalf of the Stations, such as expenditures associated primarily with fundraising for the Stations and production of the Stations' local programs, are recorded as revenues and expenses in the Stations. Such cash expenditures for the fiscal years ended August 31, 2016 and 2015, amounted to \$2,273,439 and \$1,982,142, respectively, and have been included in the contributions, special events and production service revenues and in operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

(17) Income Taxes

The UH System, of which the Stations is a division, is a university established as an agency of the State of Texas prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986 (IRC). However, as a state college or university, the UH System is subject to unrelated business income pursuant to IRC Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2016 and 2015. HPMF, whose purpose is to raise money for the Stations, is exempt from income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). No material unrelated business income tax was incurred by HPMF for the years ended August 31, 2016 and 2015. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(18) Risk Management

The Stations and HPMF are exposed to various risks of loss related to torts, injuries to employees and natural disasters. The UH System and HPMF carry commercial insurance to cover losses to which they may be exposed.

(19) Long-term Liabilities

The changes in long-term liabilities for the Stations for the year ended August 31, 2016, were as follows:

<u>Business-type Activities</u>	<u>Balances, August 31, 2015</u>	<u>Increases (Decreases)</u>	<u>Balances, August 31, 2016</u>	<u>Amounts Due in One Year</u>
Notes payable:				
KUHT server	\$ 87,790	(75,248)	12,542	12,542
KUHA purchase	9,126,623	(9,126,623)	-	-
HPM Chiller replacement	-	280,774	280,774	82,179
Total	<u>\$ 9,214,413</u>	<u>(8,921,097)</u>	<u>293,316</u>	<u>94,721</u>

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2016 and 2015

The changes in long-term liabilities for HPMF for the year ended August 31, 2016, were as follows:

<u>Business-type Activities</u>	<u>Balance, August 31, 2015</u>	<u>Increases</u>	<u>Balance, August 31, 2016</u>	<u>Amounts Due in One Year</u>
Pledge payable to primary institution	\$ 137,288	1,060	138,348	5,000

The changes in long-term liabilities for the Stations for the year ended August 31, 2015, were as follows:

<u>Business-type Activities</u>	<u>Balances, August 31, 2014</u>	<u>Decreases</u>	<u>Balances, August 31, 2015</u>	<u>Amounts Due in One Year</u>
Notes payable:				
KUHT server	\$ 163,038	75,248	87,790	75,248
KUHA purchase	9,380,922	254,299	9,126,623	200,000
Total	\$ 9,543,960	329,547	9,214,413	275,248

The changes in long-term liabilities for HPMF for the year ended August 31, 2015, were as follows:

<u>Business-type Activities</u>	<u>Balance, August 31, 2014</u>	<u>Decreases</u>	<u>Balance, August 31, 2015</u>	<u>Amounts Due in One Year</u>
Pledge payable to primary institution	\$ 142,288	5,000	137,288	5,000

The KUHT server was purchased by the UH System for the television station. The note is unsecured and bears interest at 1.75% payable monthly. The Stations will be repaying the note following the schedule below.

<u>Year ending August 31:</u>	<u>KUHT Server</u>
2017	\$ <u>12,542</u>

The HPM Chiller was purchased by the UH System for the Stations. The note is unsecured and bears interest at 2.31% payable monthly. The Stations will be repaying the note following the schedule below.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Notes to Basic Financial Statements
August 31, 2016 and 2015

Years ending August 31:	HPM Chiller
2017	\$ 82,179
2018	82,179
2019	82,179
2020	34,237
	\$ 280,774

(20) KUHA Station Sale

During the 2016, the Stations disposed of all capital assets and the broadcasting license related to KUHA. The UH System allowed the Stations to settle its long-term note payable, which was issued to purchase KUHA, through bond defeasance. Proceeds from the KUHA sale were deposited into an escrow fund, and will be used to satisfy the outstanding principal due to the UH System of \$8,110,000. The transaction resulted in a loss on disposal of \$659,988.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Houston Public Media's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas Plan
Year Ended August 31, 2016

	2016	2015 (Restated)
Houston Public Media's Proportion of the Net Pension Liability	0.0098429%	0.0111260%
Houston Public Media's Proportionate Share of the Net Pension Liability	\$ 3,487,671	\$ 2,972,528
Houston Public Media's Covered Payroll	\$ 3,784,423	\$ 4,078,174
Houston Public Media's Proportionate Share of the Net Pension Liability As a Percentage of its Covered Payroll	92.16%	72.89%
Houston Public Media's Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Stations will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year-end) of the collective net pension liability in accordance with GASB 68.

Significant assumptions and other inputs used to measure the total pension liability in the 2015 and 2014 actuarial valuations were as follows:

	2015	2014
Actuarial Valuation Date	August 31, 2015	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal
Amortization Method	Level Percent, Open	Level Percent, Open
Actuarial Assumptions:		
Discount Rate	8.00%	8.00%
Investment Rate of Return	8.00%	8.00%
Inflation	2.50%	3.00%
Salary Increase, Including Inflation	3.50% to 9.50%	4.25% to 7.25%
Mortality:		
Active	90% of the RP 2014 Employee Mortality Tables for males and females	1994 Group Annuity Mortality Table, set back six years for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables	Client specific tables multiplied by 80%
Ad Hoc Postemployment Benefit Changes	None	None

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Schedule of Houston Public Media's Contributions
Teacher Retirement System of Texas Plan
Year Ended August 31, 2016

Contributions	2016	2015 (Restated)	2014 (Restated)
Statutorily Required Contributions	\$ 263,636	\$ 300,321	\$ 282,076
Contributions in Relation to the Statutorily Required Contributions	\$ 263,636	\$ 300,321	\$ 282,076
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Houston Public Media's Covered-Employee Payroll	\$ 3,303,303	\$ 3,784,423	\$ 4,078,174
Contributions as a Percentage of Covered-Employee Payroll	7.98%	7.94%	6.92%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Stations will present information for the years for which the information is available. Information presented in the schedule has been determined as of the Stations' most recent fiscal year-end in accordance with GASB 68.

Actuarial Assumptions

The following assumptions were developed and recommended based on an experience study performed in 2015.

- Investment Rate of Return – 8.00% per annum, compounded annually, composed of an assumed 2.50% inflation rate and a 5.5% real rate of return, net of investment expenses
- Mortality Rates – Active Mortality: RP-2014 Employee Mortality Tables for males and females multiplied by 90% with full generational projection using Scale BB.
- Rates of Salary Increases – Inflation rate of 2.50%, plus productivity component of 100%, plus step-rate/promotional component.
- Post-Retirement Mortality – The 2015 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using Scale BB, used for service retirement annuitants, beneficiaries and survivors.

SUPPLEMENTARY INFORMATION

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Primary Institution Schedule of Functional Expenses
Year Ended August 31, 2016

Schedule 1

Class	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 2,464,979	2,048,331	196,606	4,709,916	621,449	1,179,440	116,757	1,917,646	6,627,562
Fringe benefits	653,005	582,127	57,287	1,292,419	178,626	403,857	33,025	615,508	1,907,927
Financial and legal services	293	3,644	-	3,937	308,544	167,381	11	475,936	479,873
Fundraising	24,322	11,362	1,725	37,409	849,984	6,344	16	856,344	893,753
Membership fees	26,755	149	21	26,925	-	79,200	-	79,200	106,125
Other expenses	214,644	348,847	14,545	578,036	399,238	246,972	217	646,427	1,224,463
Mail Services	673	939	533	2,145	264,307	5,122	98	269,527	271,672
Printing and reproduction services	1,336	2,013	5,175	8,524	102,299	6,590	-	108,889	117,413
Professional services	193,053	1,802	15,593	210,448	582,807	98,710	712,695	1,394,212	1,604,660
Program rights	4,110,096	2,503	12,728	4,125,327	46,078	-	-	46,078	4,171,405
Rental and leases	6,354	362,298	1,000	369,652	26,360	6,555	-	32,915	402,567
Repairs and maintenance	50,346	275,534	-	325,880	3,208	31,167	-	34,375	360,255
Supplies and materials	6,198	316,800	695	323,693	16,122	84,052	2,066	102,240	425,933
Telephone	54	179,210	-	179,264	140	6,176	-	6,316	185,580
Travel	37,793	9,992	366	48,151	11,203	26,415	477	38,095	86,246
Utilities	-	356,887	-	356,887	-	386	-	386	357,273
Broadcasting fees	4,883	-	-	4,883	-	-	-	-	4,883
Debt service - KUHA Classical	-	-	-	-	-	207,750	-	207,750	207,750
	7,794,784	4,502,438	306,274	12,603,496	3,410,365	2,556,117	865,362	6,831,844	19,435,340
In-kind	-	480,161	-	480,161	-	6,129,696	-	6,129,696	6,609,857
	\$ 7,794,784	4,982,599	306,274	13,083,657	3,410,365	8,685,813	865,362	12,961,540	26,045,197
Percentage of total expenses before depreciation	30%	19%	1%	50%	13%	34%	3%	50%	100%

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Component Unit (HPMF) Schedule of Functional Expenses

Year Ended August 31, 2016

Schedule 2

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Grand total
Financial and legal services	\$ -	-	20	179	305,318	76,069	-	381,586
Fundraising	-	16,226	306	4,058	580,009	3,529	58	604,186
Grants to KUHF-FM	4,067,952	-	-	-	-	-	-	4,067,952
Grants to KUHA-FM	360,625	-	-	-	-	-	-	360,625
Grants to KUHT-TV	3,707,327	-	-	-	-	-	-	3,707,327
Membership fees	-	-	-	-	-	3,101	-	3,101
Other expenses	-	10,415	18,651	-	108,927	39,411	365,693	543,097
Mail services	-	-	-	-	231,215	27	-	231,242
Printing and reproduction services	-	497	501	238	84,290	-	-	85,526
Professional services	-	1,977	406	-	479,661	-	-	482,044
Rental and leases	-	1,350	1,228	75	20,238	5,994	-	28,885
Repairs and maintenance	-	-	26,243	-	-	442	-	26,685
Supplies and materials	-	3,114	773	-	623	760	110	5,380
Telemarketing services	-	-	-	-	186,845	-	-	186,845
Telephone	-	16,953	54	-	140	-	-	17,147
Travel	-	11,195	146	1,543	1,991	1,798	27	16,700
	\$ 8,135,904	61,727	48,328	6,093	1,999,257	131,131	365,888	10,748,328

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Primary Institution Schedule of Functional Expenses
Year Ended August 31, 2015

Schedule 3

Class	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT) (Restated)	Underwriting and grant solicitation (UND)	Total (Restated)	Grand total (Restated)
Salaries and wages	\$ 2,334,301	1,808,398	244,248	4,386,947	575,346	1,105,286	347,238	2,027,870	6,414,817
Fringe benefits	589,076	473,013	65,322	1,127,411	162,494	261,385	87,560	511,439	1,638,850
Financial and legal services	2,438	28	5	2,471	261,769	209,344	433	471,546	474,017
Fundraising	37,561	9,605	117	47,283	856,577	15,234	331	872,142	919,425
Membership fees	61,976	6,154	-	68,130	3,371	93,712	-	97,083	165,213
Other expenses	272,549	527,057	696	800,302	356,751	183,844	3,098	543,693	1,343,995
Postage	2,431	3,356	1,951	7,738	210,568	14,928	403	225,899	233,637
Printing and reproduction services	4,122	5,293	1,190	10,605	165,507	2,202	84	167,793	178,398
Professional services	115,374	81,825	4,951	202,150	718,019	72,699	5,196	795,914	998,064
Program rights	4,172,639	24,943	-	4,197,582	(5,693)	-	-	(5,693)	4,191,889
Rental and leases	2,296	336,224	1,100	339,620	8,905	2,553	270	11,728	351,348
Repairs and maintenance	40,857	317,371	800	359,028	3,795	34,544	-	38,339	397,367
Supplies and materials	8,663	420,688	2,192	431,543	23,125	57,183	919	81,227	512,770
Telephone	10,705	180,514	-	191,219	-	-	-	-	191,219
Travel	31,873	4,850	2,838	39,561	18,781	11,811	1,789	32,381	71,942
Utilities	(4,952)	371,553	-	366,601	-	-	-	-	366,601
Interest - KUHA Classical	-	-	-	-	-	420,250	-	420,250	420,250
	7,681,909	4,570,872	325,410	12,578,191	3,359,315	2,484,975	447,321	6,291,611	18,869,802
In-kind	-	456,532	-	456,532	-	5,469,131	-	5,469,131	5,925,663
	\$ 7,681,909	5,027,404	325,410	13,034,723	3,359,315	7,954,106	447,321	11,760,742	24,795,465
Percentage of total expenses before depreciation	31%	20%	1%	52%	14%	32%	2%	48%	100%

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Component Unit (HPMF) Schedule of Functional Expenses

Year Ended August 31, 2015

Schedule 4

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Grand total
Financial and legal services	\$ -	-	190,649	99,254	132	-	-	290,035
Fundraising	-	-	191,857	8,426	-	7,186	162	207,631
Grants to KUHF-FM	4,101,524	-	-	-	-	-	-	4,101,524
Grants to KUHA-FM	638,734	-	-	-	-	-	-	638,734
Grants to KUHT-TV	4,286,943	-	-	-	-	-	-	4,286,943
Membership fees	-	-	1,888	6,609	-	-	-	8,497
Other expenses	-	33,926	151,654	162,686	462	24,991	58,468	432,187
Mail services	-	1,664	192,507	(9,563)	-	76	-	184,684
Printing and reproduction services	-	689	130,159	-	222	640	-	131,710
Professional services	-	2,558	598,412	21,107	1,317	3,354	415	627,163
Rental and leases	-	750	11,242	155	-	500	-	12,647
Repairs and maintenance	-	25,116	-	1,934	-	-	-	27,050
Supplies and materials	-	39,804	479	3,062	14	53	-	43,412
Telemarketing services	-	-	196,611	-	-	-	-	196,611
Telephone	-	-	-	-	-	18,104	-	18,104
Travel	-	-	4,006	843	267	3,772	4	8,892
	\$ 9,027,201	104,507	1,669,464	294,513	2,414	58,676	59,049	11,215,824