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

Basic Financial Statements

August 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Regents
University of Houston System:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Houston Public Media, a division of the University of Houston System (the System), as of August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Houston Public Media's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Houston Public Media's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Houston Public Media are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the System that is attributable to the transactions of the Houston Public Media. They do not purport to, and do not, present fairly the financial position of the System as of August 31, 2012 and 2011, the changes in its financial position, or its cash flows, for the years then ended, in conformity with U.S. generally accepted accounting principles. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Houston Public Media as of August 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 13, be presented to supplement the basic financial statements. Such information, although not a 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 audit 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

January 25, 2013

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

Management's Discussion and Analysis

August 31, 2012 and 2011

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of the Houston Public Media (the Stations) of the University of Houston (UH) System (the System) for the fiscal years ended August 31, 2012 and 2011. This MD&A offers a summary of significant current year activities of the Stations, resulting changes in net assets, 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 System, are located at the System's Central campus and are a division of UH. The Association for Community Broadcasting (ACB) 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, 2012 and 2011. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The information contained in the financial statements of the Stations is incorporated within the System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

The *Statement of Net Assets* reflects the Stations' assets and liabilities 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 assets are equal to assets minus liabilities. Unrestricted net assets are available to the Stations for any lawful purpose. Unrestricted net assets often have constraints imposed by management, but can be removed or modified. Invested in capital assets represents the original cost of capital assets, net of accumulated depreciation. Restricted net assets represent net assets that can be utilized only in accordance with third-party imposed restrictions.

The *Statement of Revenues, Expenses, and Changes in Net Assets* 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 Assets, 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 Assets described above.

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

Condensed Financial Information

Statement of Net Assets Information

		2012	2011	2010
Assets:				
Current assets	$	1,118,034	901,778	1,509,561
Capital assets, net		17,876,042	18,466,898	9,456,698
Other noncurrent assets		1,210,935	554,708	511,818
Total assets	$	20,205,011	19,923,384	11,478,077
Liabilities:				
Current liabilities	$	5,078,796	4,940,745	4,587,060
Noncurrent liabilities		9,920,142	9,681,857	—
Total liabilities		14,998,938	14,622,602	4,587,060
Net assets:				
Invested in capital assets, net of related debt		7,880,652	8,785,041	9,456,698
Restricted for endowment funds		970,571	408,472	368,170
Unrestricted		(3,645,150)	(3,892,731)	(2,933,851)
Total net assets		5,206,073	5,300,782	6,891,017
Total liabilities and net assets	$	20,205,011	19,923,384	11,478,077

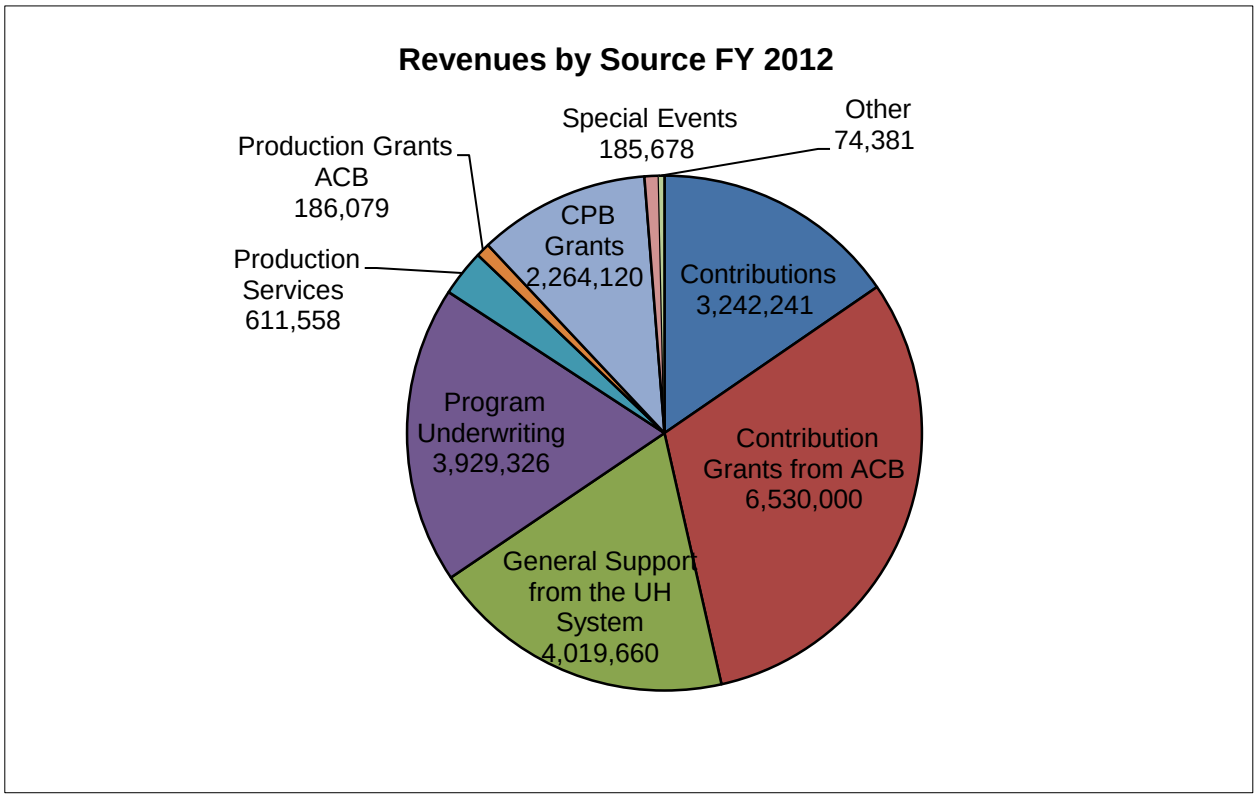
Statements of Revenues, Expenses and Changes in Net Assets Information

	Year ended August 31		
	2012	**2011**	**2010**
Operating revenues	$ 21,043,043	21,322,476	20,548,612
Operating expenses	21,699,852	22,955,755	22,792,837
Operating loss	(656,809)	(1,633,279)	(2,244,225)
Nonoperating income (expenses):			
KUHT loss funding	—	—	393,929
Additions to endowment	545,000	—	—
Gain from endowment	17,100	43,044	24,702
Change in net assets	(94,709)	(1,590,235)	(1,825,594)
Net assets, beginning of year	5,300,782	6,891,017	8,716,611
Net assets, end of year	$ 5,206,073	5,300,782	6,891,017

Focus of 2012 was to cut operating losses, realize efficiencies and create a structure that facilitates cross-platform collaboration and content creation.

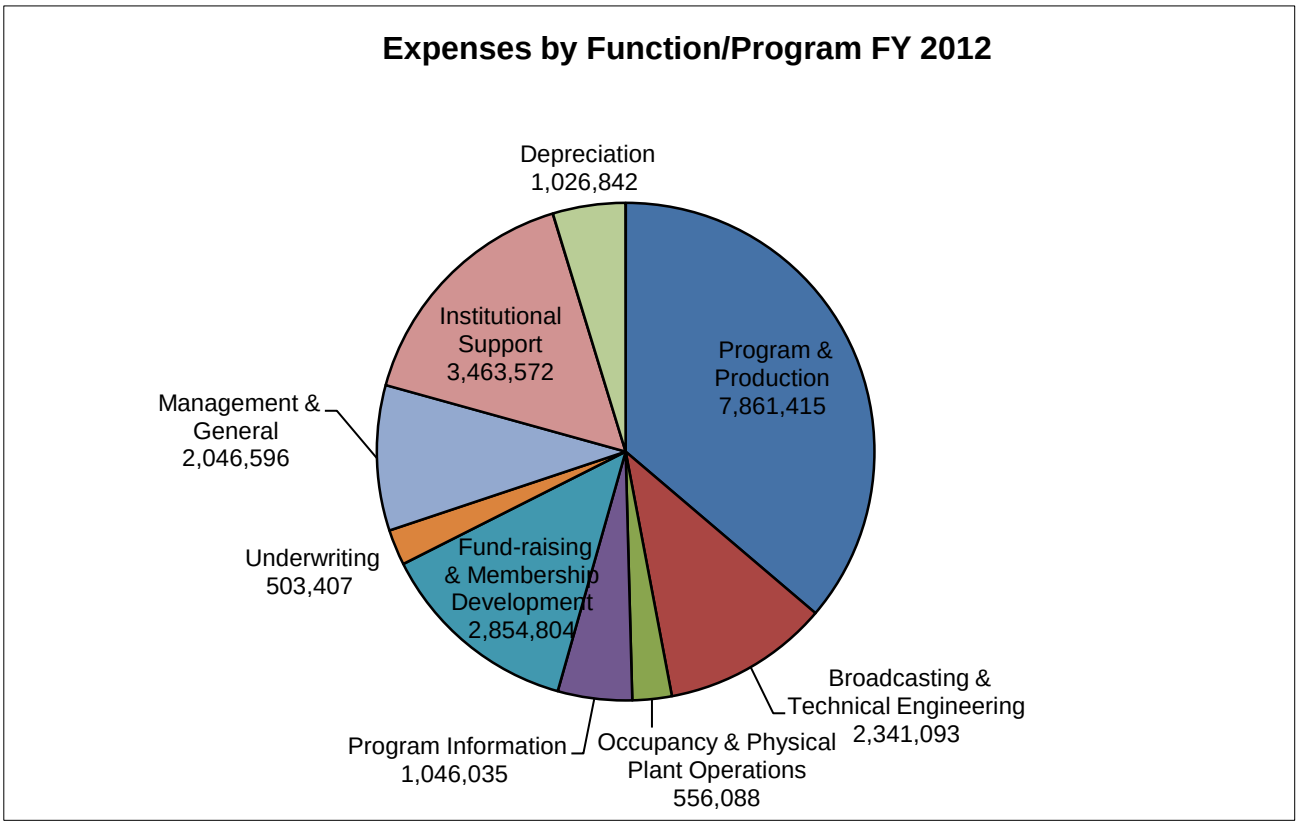
Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2012, 2011 and 2010.

	FY 2012		FY 2011		FY 2010		2012 – 2011 Increase/decrease		2011 – 2010 Increase/decrease	
Revenues by source	**(A) Amount**	**Percentage of total**	**(A) Amount**	**Percentage of total**	**(B) Amount**	**Percentage of total**	**(A-B) Amount**	**Percentage of total**	**(B-C) Amount**	**Percentage of total**
Operating revenues:										
Contributions	$ 3,242,241	15%	$ 3,282,790	15%	$ 2,548,219	12%	$ (40,549)	15%	$ 734,571	95%
Contributions grants from ACB	6,530,000	31	5,655,000	27	6,321,296	31	875,000	(313)	(666,296)	(86)
General support from the UH System	4,019,660	19	4,316,184	20	4,804,988	23	(296,524)	106	(488,804)	(63)
Program underwriting	3,929,326	19	3,811,220	18	3,179,466	15	118,106	(42)	631,754	82
Production service	611,558	3	993,746	5	852,277	4	(382,188)	137	141,469	18
Production grants from ACB	186,079	1	44,000	—	167,195	1	142,079	(51)	(123,195)	(16)
Corporation for Public Broadcasting grants (CPB)	2,264,120	11	2,544,875	12	2,125,322	10	(280,755)	100	419,553	54
Special events	185,678	1	414,689	2	319,556	2	(229,011)	82	95,133	12
Special events grants from ACB	—	—	—	—	116,699	1	—	—	(116,699)	(15)
Other grants from ACB	—	—	—	—	14,576	—	—	—	(14,576)	(2)
Other	74,381	—	259,972	1	99,018	1	(185,591)	66	160,954	21
Total operating revenues	$ 21,043,043	100%	$ 21,322,476	100%	$ 20,548,612	100%	$ (279,433)	100%	$ 773,864	100%



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 are disclosed in the Schedule of Functional Expenses. The following schedule presents a summary and comparison of expenses for the fiscal years ended August 31, 2012, 2011 and 2010:

	FY 2012		FY 2011		FY 2010		2012 – 2011 Increase/decrease		2011 – 2010 Increase/decrease	
Expenses by function	(A) Amount	Percentage of total	(A) Amount	Percentage of total	(B) Amount	Percentage of total	(A-B) Amount	Percentage of total	(A-B) Amount	Percentage of total
Operating expense:										
Programming and production (PRD)	$ 7,861,415	36%	$ 7,942,952	34%	$ 7,413,545	32%	$ (81,537)	6%	$ 529,407	325%
Broadcasting, engineering, and technical (BET)	2,341,093	11	2,211,540	10	2,452,698	11	129,553	(10)	(241,158)	(148)
Occupancy and physical plant operations (BET)	556,088	3	492,428	2	508,511	2	63,660	(5)	(16,083)	(10)
Program information (PGM)	1,046,035	5	1,048,398	5	1,006,564	4	(2,363)	—	41,834	26
Fundraising and membership development (FND)	2,854,804	13	3,598,946	16	3,397,343	15	(744,142)	59	201,603	124
Underwriting and grant solicitation (UND)	503,407	2	691,396	3	817,518	4	(187,989)	15	(126,122)	(77)
Management and general (MGT)	2,046,596	9	1,992,768	9	1,972,238	9	53,828	(4)	20,530	13
Institutional support (MGT)	3,463,572	16	3,823,756	17	4,296,477	19	(360,184)	29	(472,721)	(290)
Depreciation	1,026,842	5	1,153,571	4	927,943	4	(126,729)	10	225,628	138
Total operating expenses	$ 21,699,852	100%	$ 22,955,755	100%	$ 22,792,837	100%	$ (1,255,903)	100%	$ 162,918	100%



Financial Highlights and Analysis

Assets and Liabilities – Fiscal Year 2012 Compared to Fiscal Year 2011

The current assets have increased by $216,256. The increase was due to the following issues:

- A balance on Due from ACB in FY 2012 for the amount of $687,000 and no balance in FY 2011. This was due to the delay in the transfers of funds from ACB to UH caused on the departure of the Business Administrator,
- Improvements on collections have caused a decrease in the amount of accounts receivable for the amount of $430,744, and
- Decrease on pledge receivable for the amount of $40,000 from Mr. John Bradshaw.

Assets and Liabilities – Fiscal Year 2011 Compared to Fiscal Year 2010

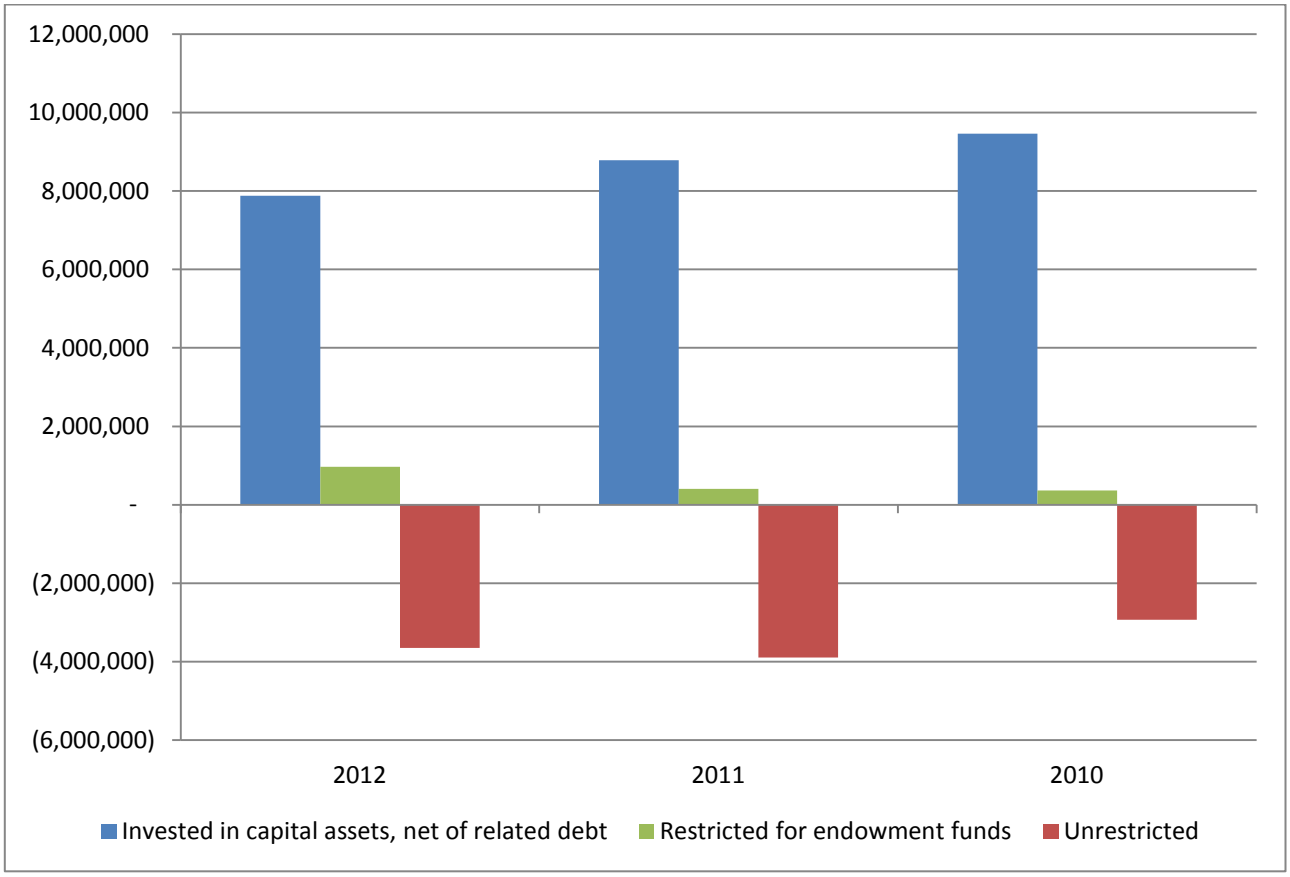
The increase in current liabilities is $353,685. This increase reflected in Due to UH System is the result of the accumulation in net losses over several fiscal years.

In fiscal year 2011, the University finalized an Asset Purchase Agreement with Rice University whereby the University of Houston purchased the Federal Communication Commission license, FM frequency, and broadcast

tower used by the student-run Rice radio station, KUHA-FM (formerly KTRU-FM), as well as certain real property on which the broadcast tower and other transmission equipment was located. The purchase resulted in an increase in Capital Assets and a noncurrent liability debt payable to UH System of $9,681,857. The purchase enables the University to expand its outreach to the Greater Houston community.

The decrease in current assets is due to the concerted effort to reduce the Association for Community Broadcasting funds due to KUHT. Another factor was the reduction of production activity and the loss sustained on "The Wall" project, therefore, there were no new pending transfers to be set up as receivables at year-end.

The following graph illustrates the comparative net assets in the different categories for fiscal years 2012, 2011, and 2010:



Operating Revenues – Fiscal Year 2012 Compared to Fiscal Year 2011

The operating revenues have decreased slightly, but some of the fluctuations in the different categories of the operating revenues are important to mention. Those categories are:

- Contributions from ACB have increased by 15%. Management has decided to transfer the funds to the Stations instead of keeping those funds in ACB.

- Production services have decreased by 38% in comparison with FY 2011. In FY 2011 KUHT received revenue from production services rendered to national news networks covering the Gulf oil spill. During FY 2012, there was no similar national news event requiring our participation.
- Grants from the Corporation for Public Broadcasting (CPB) decreased by 11%, because of the reduction on the funds available to be qualified as Non-Federal Financial Support (NFFS).
- Special events have decreased by 55%, because of a management decision to re-evaluate this revenue stream that was both staff and expense intensive.

Operating Revenues – Fiscal Year 2011 Compared to Fiscal Year 2010

- General support from the System has decreased in FY 2011. General support from the System is derived by a formula provided by the Corporation for Public Broadcasting. An integral part of the formula is the Stations' and the University's operating expenses and income. Overall expenses remained consistent; however, income from contributions and program underwriting increased in the fiscal year. As the Stations earned more income and expenses remained consistent, less is required from the System.
- Program underwriting increased due to a change in management and an overall improvement in the economy. Revenue from program underwriting decreased from FY 2009 to FY 2010 which the new personnel in management was able to improve in FY 2011.
- The increase in grants from Corporation of Public Broadcasting was a restricted use grant to assist the Stations with the purchase and installation of digital television transmission equipment and facilities in order for the Stations to meet FCC digital transmission requirements.
- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for stations activities. The current year reduction is due to more contributions given directly to the Stations in FY 2011 when compared to FY 2010 during which more contributions were given to Association of Community Broadcasting on behalf of the Stations.
- Contributions increased due to the increase in the level of contributions given directly to the Stations in FY 2011 when compared to FY 2010 which more contributions were given to Association of Community Broadcasting on behalf of the Stations.

Operating Expenses – Fiscal Year 2012 Compared to Fiscal Year 2011

The operating expenses have decreased by $1,255,903, due to a decrease in staff in several areas:

- Fund-raising and membership development workforce was reduced significantly and the new management reduced expenses for thank-you gifts.
- Underwriting and grant solicitation workforce was also reduced.

Operating Expenses – Fiscal Year 2011 Compared to Fiscal Year 2010

- Programming and production expenses increased due to hiring of additional staffing for the local radio news production as was as an increase in programming fees.

- Broadcasting, engineering, and technical have decreased due to the reduction in the phone/data line. Expenses for repairs and maintenance declined during FY 2011.
- Underwriting salaries and fringe benefits decreased due to a reduction in force in FY 2011.
- Institutional support from the System decreased due to the decrease in general support from the System as a result of increased revenue from contributions and program underwriting without a marginal increase in expenses.

Capital Assets and Debt Administration

As of the end of the 2012 fiscal year, the Stations had $17,876,042 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements, furniture, equipment, vehicles, land, indefinite lived intangible assets and construction in progress related to the remodeling of parts of the building to accommodate staff increases.

Title to these assets resides with the 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. The Stations are currently engaged in long-term financing transactions due to the purchase of KUHA. The operating budgets for the Stations are currently structured such that annual financial obligations are satisfied through operating revenues and nonoperating revenues that are received during each current fiscal year.

Budgetary Revenues

The following table summarizes the Stations' original budget, final budget, actual results, and variances for revenues:

	Budgeted amounts			Variance with final budget favorable
	Original	**Final**	**Actual**	**(unfavorable)**
Contributions	$ 4,636,471	3,467,400	3,242,241	(225,159)
Contribution grants from ACB	6,500,000	6,000,000	6,530,000	530,000
General support from the UH system	4,500,000	4,500,000	4,019,660	(480,340)
Program underwriting system	4,400,000	4,300,000	3,929,326	(370,674)
Production service	170,111	180,111	611,558	431,447
Production service grants from ACB	300,000	75,000	186,079	111,079
Corporation for Public Broadcasting grants (CPB)	2,100,000	2,248,850	2,264,120	15,270
Other grants	10,000	10,000	41,465	31,465
Royalties	10,000	15,000	10,958	(4,042)
Rental income	—	—	—	—
Special events	540,000	615,000	185,678	(429,322)
Other	34,000	21,000	21,958	958
	$ 23,200,582	21,432,361	21,043,043	(389,318)

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

- Contributions were down due to one less direct mail cycle and change in approach to TV on-air pledge. Direct mail was cut to reduce expenses. Pledge premiums were also cut back, to manage expenses.
- TV underwriting underwent a transition and staff attrition. Total billing on TV missed budget significantly.
- There was an absence of special event revenue due to a management decision to re-evaluate this revenue stream that was both staff and expense intensive.

Expenditures

The following table summarizes the Stations' original budget, final budget, actual results, and variances for expenditures:

	Budgeted amounts			Variance with final budget favorable
	Original	**Final**	**Actual**	**(unfavorable)**
Programming and production (PRD)	$ 7,739,559	8,059,099	7,861,415	197,684
Broadcasting, engineering, and technical (BET)	2,832,295	3,295,588	2,341,093	954,495
Occupancy and physical plant operations (BET)	500,000	500,000	556,088	(56,088)
Program information (PGM)	1,193,221	1,247,721	1,046,035	201,686
Fundraising and membership development (FND)	3,300,972	2,989,866	2,854,804	135,062
Underwriting and grant solicitation (UND)	662,777	654,777	503,407	151,370
Management and general (MGT)	3,161,694	2,511,144	2,046,596	464,548
Institutional support (MGT)	4,000,000	4,000,000	3,463,572	536,428
Depreciation	900,000	900,000	1,026,842	(126,842)
	$ 24,290,518	24,158,195	21,699,852	2,458,343

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

- Expense reduction is attributable to reduction in force of twelve (12) positions in January 2012. Separation expenses were paid through June in some cases. The reduction is also attributable to reduction of expense from fund-raising and membership development about $744,000.

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 and Business Operations for Public Broadcasting at: KUHF-FM, KUHT-TV & KUHA-FM, 4343 Elgin, Houston, Texas 77204-0008.

BASIC FINANCIAL STATEMENTS

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

Statements of Net Assets

August 31, 2012 and 2011

		2012		2011	
Assets		**Primary institution**	**Component unit (ACB)**	**Primary institution**	**Component unit (ACB)**
Current assets:					
Cash and equivalents	$	—	471,920	—	117,567
Accounts receivable, net		391,034	4,246	821,778	10,315
Due from ACB		687,000	—	—	—
Pledge receivable from ACB		40,000	—	80,000	—
Pledge receivable		—	40,000	—	80,000
Restricted cash and equivalents		—	315,326	—	277,510
Other current assets		—	20,000	—	20,000
Total current assets		1,118,034	851,492	901,778	505,392
Noncurrent assets:					
Pledge receivable		—	118,592	—	75,629
Pledge receivable from ACB		118,592	—	75,629	—
Capital assets, net of related debts		17,876,042	144,175	18,466,898	194,880
Film rights, net		110,958	—	70,607	—
Other noncurrent assets		10,814	—	—	—
Investments restricted for endowment		970,571	1,138,887	408,472	857,549
Total noncurrent assets		19,086,977	1,401,654	19,021,606	1,128,058
Total assets	$	20,205,011	2,253,146	19,923,384	1,633,450
Liabilities and Net Assets					
Current liabilities:					
Due to UH System	$	3,884,863	—	3,676,165	—
Due to primary institution		—	687,000	—	—
Pledge payable to primary institution		—	40,000	—	80,000
Accounts payable		67,988	160,123	96,698	61,231
Note payable (KUHT Server)		75,248	—	—	—
Accrued payroll		518,474	—	593,283	—
Unearned revenue		—	35,553	—	46,220
Employees' compensable leave		532,223	—	574,599	—
Total current liabilities		5,078,796	922,676	4,940,745	187,451
Noncurrent liabilities:					
Pledge payable to primary institution		—	118,592	—	75,629
Note Payable (KUHT Server)		238,285	—	—	—
Due to UH System		9,681,857	—	9,681,857	—
Total noncurrent liabilities		9,920,142	118,592	9,681,857	75,629
Net assets:					
Invested in capital assets, net of related debt		7,880,652	144,175	8,785,041	194,880
Restricted:					
Expendable for production and outreach programs		—	315,326	—	277,510
Nonexpendable		845,328	1,138,887	297,188	857,549
Expendable		125,243	—	111,284	—
Unrestricted		(3,645,150)	(386,510)	(3,892,731)	40,431
Total net assets	$	5,206,073	1,211,878	5,300,782	1,370,370

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 Assets

Years ended August 31, 2012 and 2011

	2012		2011	
	Primary institution	**Component unit (ACB)**	**Primary institution**	**Component unit (ACB)**
Operating revenues:				
Contributions	$ 3,242,241	7,684,573	3,282,790	7,710,919
Contribution grants from ACB	6,530,000	—	5,655,000	—
General support from the UH System	4,019,660	—	4,316,184	—
Program underwriting	3,929,326	30,667	3,811,220	10,667
Production service	611,558	428,190	993,746	750,166
Production grants from ACB	186,079	—	44,000	—
Corporation for Public Broadcasting grants (CPB)	2,264,120	—	2,544,875	—
Other grants	41,465	—	65,373	—
Royalties	10,958	2,728	18,245	—
Rental income	—	—	2,100	—
Special events	185,678	117,844	414,689	377,847
Other	21,958	2,387	174,254	25,224
Total operating revenues	21,043,043	8,266,389	21,322,476	8,874,823
Operating expenses:				
Grants to primary institution	—	6,716,079	—	5,699,000
Programming and production (PRD)	7,861,415	238,409	7,942,952	601,971
Broadcasting, engineering, and technical (BET)	2,341,093	275,247	2,211,540	212,958
Occupancy and physical plant operations (BET)	556,088	—	492,428	—
Program information (PGM)	1,046,035	36,593	1,048,398	48,739
Fundraising and membership development (FND)	2,854,804	1,277,759	3,598,946	1,376,818
Underwriting and grant solicitation (UND)	503,407	—	691,396	—
Management and general (MGT)	2,046,596	111,427	1,992,768	98,110
Institutional support (MGT)	3,463,572	—	3,823,756	—
Depreciation	1,026,842	50,705	1,153,571	50,705
Total operating expenses	21,699,852	8,706,219	22,955,755	8,088,301
Operating income (loss)	(656,809)	(439,830)	(1,633,279)	786,522
Nonoperating income:				
Additions to Endowment	545,000	249,901	—	—
Gain from endowment	17,100	31,437	43,044	30,737
Total nonoperating income	562,100	281,338	43,044	30,737
Change in net assets	(94,709)	(158,492)	(1,590,235)	817,259
Net assets, beginning of year	5,300,782	1,370,370	6,891,017	553,111
Net assets, end of year	$ 5,206,073	1,211,878	5,300,782	1,370,370

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, 2012 and 2011

	2012 Primary institution	2011 Primary institution
Cash flows from operating activities:		
Proceeds from contributions	$ 9,769,278	8,951,883
Proceeds from CPB grant	2,264,120	2,544,875
Proceeds from other grants	41,465	65,373
Proceeds from program underwriting	3,673,070	4,409,003
Proceeds from other revenues	1,016,231	1,647,034
Payments to suppliers for goods and services	(4,322,274)	(4,947,814)
Payments to employees	(7,856,948)	(8,301,907)
Payments for broadcasting fees	(3,310,188)	(2,790,619)
Payments for other expenses	(1,206,958)	(1,318,608)
Net cash provided by operating activities	67,796	259,220
Cash flows from noncapital financing activity:		
Advances from UH System	208,698	324,028
Gifts for endowment purposes	545,000	—
Net cash provided by noncapital financing activity	753,698	324,028
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(435,985)	(10,163,771)
Payments for additions of film rights	(143,228)	(101,334)
Note Payable (KUHT Server)	302,719	—
Proceeds from UH System used to finance KUHA asset purchase	—	9,681,857
Net cash used in capital and related financing activities	(276,494)	(583,248)
Cash flows from investing activity:		
Purchases of investments	(545,000)	—
Net cash used in investing activity	(545,000)	—
Decrease in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of year	—	—
Cash and cash equivalents, end of year	$ —	—
Reconciliation of loss from operations to net cash provided by operating activities:		
Operating loss	$ (656,809)	(1,633,279)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,026,842	1,153,571
Amortization of film rights	102,877	94,653
Decrease in accounts receivable	430,744	54,230
(Increase) decrease in amounts due from ACB	(687,000)	543,553
(Increase) decrease in pledge receivable	(2,963)	14,093
Decrease (increase) in accounts payable	(28,710)	69,201
Decrease (increase) in accrued payroll	(74,809)	(21,690)
Decrease (increase) in compensated absences payable	(42,376)	(15,112)
Total adjustments	724,605	1,892,499
Net cash provided by operating activities	$ 67,796	259,220

See accompanying notes to basic financial statements.

(1) Entity

The Houston Public Media (the Stations), of the University of Houston (UH) System (the System), which consists of noncommercial, listener supported radio station (KUHF and 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. 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 System, are located at the System's Central campus with the exception of KUHA, and are a division of the System. As a division of the System, the Stations are exempt from federal income taxes. 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 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 May of 1953 and was the first station in the country to operate on a specially 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 thirty-three 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 and KUHA'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, Andorid applications, and iPad applications. The radio stations' new media group is now four full-time staff members, with opportunities for intern training. Such internships are also available in News, Production, Public Relations, Development, Music, and Business.

The Association for Community Broadcasting (ACB), formerly known 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 the Station, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the System and ACT agreed that the same services provided to KUHT would also be provided to KUHF and thus adopted the ACB name.

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

ACB is directed by a Board of Directors, who are elected by other ACB 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 ACB.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

The financial statements for both the Stations and ACB 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

Based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds are reported based on all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) Statements and Interpretation, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The Stations have elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. 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) Net Assets

Invested in capital assets, net of related debt – represents the Stations' total investment in capital assets, net of 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 assets invested in capital assets, net of related debt.

Nonexpendable restricted net assets – are subject to externally imposed provisions that require the Stations to permanently maintain such net assets. The corpus of KUHT endowments is included in nonexpendable restricted net assets.

Expendable restricted net assets – represent 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 assets – represent resources that are available for the support of the Stations' operations.

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

(d) Revenues

Operating revenues include sources that are primarily used to provide services to the Stations' audience. Substantially all of the Stations' 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.

(e) 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. The Stations provide an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections, and existing economic conditions.

(f) Pledge 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 provide an allowance for estimated uncollectible pledges, which is based upon a review of outstanding pledges receivable, historical collections, and existing economic conditions.

(g) 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 represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the 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 System or its agent in the System's name.

Immediately upon formal written notification of an approved appropriation or grant, the 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 System has received the related funds.

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

(h) 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 System, and therefore, such assets can be transferred to or from the Stations at the discretion of the System. The threshold for capitalization of assets is $5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair 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 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.

(i) 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.

(j) In-Kind Contributions

In-kind contributions included in revenues and expenses in the statement of revenues, expenses, and changes in net assets consist of general support from the System, which is further described in note 10.

The fair value of merchandise contributed by third parties in connection with the Stations' fund-raising activities is not included in the 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 financial statements.

(k) Unearned Revenues

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

(l) Advertising

Advertising costs are charged to operations when incurred.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(n) 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 twenty-one 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.

(o) Fair Value Measurements

ACB has investments in external investments pools. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the fair value is determined by the fair value per share of the external investment pools' underlying portfolio. None of the external investment pools are publicly registered, and the fair value of the position of the pool is the same as the value of the pool shares.

(p) Presentation of Discrete Component Unit

ACB 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.

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

(3) Endowment Funds

(a) Primary Institution

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

The System's 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 2012 and 2011. If an endowment were in existence less than three years, the average was based on the number of years in existence.

The deposits and investments of the Stations and ACB 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 University of Houston 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 year 2012, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocations, and manager structure within the endowment portfolio. The UH System Endowment Fund Statement of Investment Objectives and Policies, 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 UH System 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, 2012 and 2011:

Balance, August 31, 2010	$	368,170
2011 realized/unrealized gain		40,302
Balance, August 31, 2011		408,472
Additions to endowment		545,000
2012 realized/unrealized gain		17,100
Balance, August 31, 2012	$	970,572

The assets of the Stations' quasi-endowments totaled $970,572 and $408,472 at August 31, 2012 and 2011, respectively, and are not legally restricted. Unrealized gains and losses for the current year are recorded in the statement of revenue, expenses, and changes in net assets.

(b) Component Unit (ACB)

The gifts received by ACB to create endowed accounts are invested in the ACB Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the ACB 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 ACB 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 do 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 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 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 ACB 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 $1,138,887 as of August 31, 2012 and $857,549 as of August 31, 2011, 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.

These investments are held with the Greater Houston Community Foundation, which does not have a credit rating, and further information regarding the investment balances and risks with the Greater Houston Community Foundation may be obtained from ACB business offices by calling 713-748-8888.

The following summarizes activity for the years ended August 31, 2012 and 2011:

Balance, August 31, 2010	$	419,623
Contributions		407,189
Gain from endowment		32,328
Administrative charges		(1,591)
Balance, August 31, 2011		857,549
Additions to endowment		249,901
Gain from endowment		34,162
Administrative charges		(2,725)
Balance, August 31, 2012	$	1,138,887

As of August 31, 2012 and 2011, the total unrealized gain for the period related to assets still held at the reporting date. Unrealized gains and losses for the current year are recorded in the statement of revenues, expenses, and changes in net assets.

(4) Accounts Receivable

Accounts receivable as of August 31, 2012 comprised the following:

		Primary institution	Component unit (ACB)
Accounts receivable	$	420,126	4,246
Allowance for doubtful accounts		(29,092)	—
Total	$	391,034	4,246

Accounts receivable as of August 31, 2011 comprised the following:

		Primary institution	Component unit (ACB)
Accounts receivable	$	855,658	19,000
Allowance for doubtful accounts		(33,880)	(8,685)
Total	$	821,778	10,315

Accounts receivable for Public Broadcasting and ACB consist primarily of production grants and underwriting support.

(5) Pledge Receivable

As of August 31, 2012 and 2011, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a boardroom naming program as follows:

		2012	2011
Receivable within one year	$	40,000	80,000
Receivable in two to five years		120,000	80,000
Less discount at 0.880%		(1,408)	(4,371)
Pledge receivable in two to five years, present value	$	158,592	155,629

As of August 31, 2012 and 2011, there was no allowance for estimated uncollectible pledges. The pledge receivable from ACB due to the primary institution consisted of the same amounts presented above.

(6) Capital Assets

Capital asset activities for the year ended August 31, 2012 were as follows for the Stations:

	Balance, August 31, 2011	Additions	Dispositions	Balance, August 31, 2012
Capital assets:				
Depreciable capital assets:				
Construction in progress	$ 4,100	1,359	—	5,459
Buildings and building improvements	12,637,863	—	—	12,637,863
Furniture and equipment	10,698,707	434,627	1,335,393	9,797,941
Vehicle	34,466	—	—	34,466
Other assets	75,000	—	—	75,000
	23,450,136	435,986	1,335,393	22,550,729
Less accumulated depreciation	14,526,048	1,026,842	1,335,393	14,217,497
Total depreciable capital assets	8,924,088	(590,856)	—	8,333,232
Nondepreciable capital assets:				
Land	402,044	—	—	402,044
Indefinite lived intangible assets	9,140,766	—	—	9,140,766
Total nondepreciable capital asset	9,542,810	—	—	9,542,810
Capital assets, net of related debts	$ 18,466,898	(590,856)	—	17,876,042

Capital asset activities for the year ended August 31, 2012 were as follows for ACB:

	Balance, August 31, 2011	Additions	Dispositions	Balance, August 31, 2012
Capital assets:				
Depreciable capital assets:				
Program costs	$ 652,089	—	—	652,089
Equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Accounting software	110,210	—	—	110,210
	1,190,598	—	—	1,190,598
Less accumulated depreciation	1,009,818	50,705	—	1,060,523
Total depreciable capital assets	180,780	(50,705)	—	130,075
Nondepreciable capital asset:				
Land	14,100	—	—	14,100
Total nondepreciable capital assets	14,100	—	—	14,100
Capital assets, net of related debts	$ 194,880	(50,705)	—	144,175

Capital asset activities for the year ended August 31, 2011 were as follows for the Stations:

	Balance, August 31, 2010	Additions	Dispositions	Balance, August 31, 2011
Capital assets:				
Depreciable capital assets:				
Construction in progress	$ —	4,100	—	4,100
Buildings and building improvements	12,637,863	—	—	12,637,863
Furniture and equipment	10,138,292	616,861	56,446	10,698,707
Vehicle	34,466	—	—	34,466
Other assets	75,000	—	—	75,000
	22,885,621	620,961	56,446	23,450,136
Less accumulated depreciation	13,428,923	1,153,571	56,446	14,526,048
Total depreciable capital assets	9,456,698	(532,610)	—	8,924,088
Nondepreciable capital assets:				
Land	—	402,044	—	402,044
Indefinite lived intangible assets	—	9,140,766	—	9,140,766
Total nondepreciable capital asset	—	9,542,810	—	9,542,810
Capital assets, net of related debts	$ 9,456,698	9,010,200	—	18,466,898

Capital asset activities for the year ended August 31, 2011 were as follows for ACB:

	Balance, August 31, 2010	Additions	Dispositions	Balance, August 31, 2011
Capital assets:				
Depreciable capital assets:				
Program costs	$ 652,089	—	—	652,089
Equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Accounting software	110,210	—	—	110,210
	1,190,598	—	—	1,190,598
Less accumulated depreciation	959,113	50,705	—	1,009,818
Total depreciable capital assets	231,485	(50,705)	—	180,780
Nondepreciable capital asset:				
Land	14,100	—	—	14,100
Total nondepreciable capital assets	14,100	—	—	14,100
Capital assets, net of related debts	$ 245,585	(50,705)	—	194,880

(7) 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, 2012 and 2011 were as follows:

Balance, August 31, 2010	$ 63,926
2011 additions	101,334
Total	165,260
2011 amortization	(94,653)
Balance, August 31, 2011	70,607
2012 additions	143,228
Total	213,835
2012 amortization	(102,877)
Balance, August 31, 2012	$ 110,958

(8) Due to UH System

Since the Stations maintain all of their cash balances with the System's Treasury department, the System permits the Stations to overdraw their claims on cash account from time to time. The amount disclosed in the "Due to UH System" account represents the amount by which the Stations have overdrawn its claim on cash account with the System as of August 31, 2012 and 2011.

The "Debt payable to UH System" account represents long-term debt issued by the System to the Stations for the asset purchase of KUHA-FM. The balance as of August 31, 2012 is $9,681,857 and first payment is due in fiscal year 2013. See note 17.

(9) Unrestricted Net Deficit

The Stations have been experiencing a net excess of expenses over revenues, resulting in a net deficit of unrestricted net assets. The net deficit of unrestricted net assets at August 31, 2012 and 2011 was $(3,645,150) and $(3,892,731), respectively. The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues. The ACB unrestricted net assets at August 31, 2012 and 2011 were $(386,510) and $40,431, respectively. The decrease in the deficit balance was due to the increase on the fund-raising activities. In response to this situation in the Stations, management is developing plans to generate additional unrestricted resources through more robust marketing efforts and fund-raising campaigns to foundations and individuals, and controlling operating costs more effectively within the foreseeable future.

(10) General Support from the System

General support from the System includes building and related occupancy costs donated by the 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 both fiscal year 2012 and fiscal year 2011. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.), which was $230,660 in fiscal year 2012 and $166,999 in fiscal year 2011. The System also provides indirect administrative support and maintenance support to the Stations, which are recorded in revenues and expenses based on the System's allocation methods. Indirect administrative support amounted to $3,463,572 in fiscal year 2012 and $3,823,756 in fiscal year 2011.

(11) Corporation for Public Broadcasting (CPB) Grants

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.

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 record-keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

(12) Pension Plan

The Stations participate in the State joint contributory retirement plans and thereby provide retirement plans for substantially all of their employees designated as "benefit eligible." One of the primary plans in which the Stations participate is administered by the Teacher Retirement System of Texas (the TRS), a cost-sharing, multiple-employer pension plan. The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.400% of their salary to the plan and the Stations contribute an amount equal to 6.644% times the aggregate annual compensation during the fiscal year.

The TRS does not account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the plan by the Stations amounted to $324,421, $378,456, and $372,618 in 2012, 2011, and 2010, respectively. The total amount of employee contributions was $48,881, $54,121, and $56,713 in 2012, 2011, and 2010, respectively. These contributions represent 100% of the required contribution.

The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling 800-877-0123.

The State 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. Employees hired on or after September 1, 1995, may contribute 6.65% of their gross salary monthly with the Stations contributing 6.40% of the employee's gross salary to the ORP account. Contributions to the plan by the Stations amounted to $26,157, $47,709, and $51,428 in 2012, 2011, and 2010, respectively. The total amount of employee contributions was $1,801, $7,432, and $7,187 in 2012, 2011, and 2010, respectively. Since these are individual investment product contracts, the Stations have no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

(13) Leases

The Stations have entered into operating leases for various business purposes including a tower antenna, fund-raising software, a utility van, fax and copy machine, Web host connection in support of their operations, transmitting facility, and other equipment. Both Stations have short- and long-term operating leases. During the years ended August 31, 2012 and 2011, the lease expense was $426,453 and $491,625, respectively.

Future minimum lease payments under noncancelable operating lease agreements are as follows:

		Amount
Year ending August 31:		
2013	$	281,470
2014		244,190
2015		247,370
2016		104,626
	$	877,656

(14) Transactions between Primary Institution and Component Unit

Cash expenditures made by ACB on behalf of the Stations, such as expenditures associated primarily with fund-raising 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, 2012 and 2011 amounted to $1,860,607 and $2,289,564, respectively, and have been included in the contributions and production service revenues and in operating expenses in the statement of revenues, expenses, and changes in net assets.

(15) Income Taxes

The System, of which the Stations is a division, is a university established as an agency of the State 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 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, 2012 and 2011. ACB, 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 ACB for the years ended August 31, 2012 and 2011. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(16) Risk Management

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

(17) Bond Amortization

The KUHA purchase was paid by the University of Houston, but a twenty five year bond debt was closed on December 29, 2011. The University of Houston will receive the proceeds from the Consolidated Revenue and Refunding Bonds (Series 2011A & 2011B (Taxable)). KUHA will need to be paid the bond debt according to the following schedule:

Ending	Principal	Coupon	Interest	Debt service	Premium
8/31/2012	$ —	—%	$ 272,456	$ 272,456	$ —
8/31/2013	—	—	434,000	434,000	—
8/31/2014	180,000	5.00	429,500	609,500	40,074
8/31/2015	190,000	5.00	420,250	610,250	40,074
8/31/2016	200,000	5.00	410,500	610,500	40,074
8/31/2017	205,000	5.00	400,375	605,375	40,074
8/31/2018	220,000	5.00	389,750	609,750	40,074
8/31/2019	230,000	5.00	378,500	608,500	40,074
8/31/2020	240,000	5.00	366,750	606,750	40,074
8/31/2021	255,000	5.00	354,375	609,375	40,074
8/31/2022	265,000	5.00	341,375	606,375	40,074
8/31/2023	280,000	5.00	327,750	607,750	40,074
8/31/2024	295,000	5.00	313,375	608,375	40,074
8/31/2025	310,000	5.00	298,250	608,250	40,074
8/31/2026	325,000	5.00	282,375	607,375	40,074
8/31/2027	340,000	5.00	265,750	605,750	40,074
8/31/2028	360,000	5.00	248,250	608,250	40,074
8/31/2029	380,000	5.00	229,750	609,750	40,074
8/31/2030	395,000	5.00	210,375	605,375	40,074
8/31/2031	420,000	5.00	190,000	610,000	40,074
8/31/2032	440,000	5.00	168,500	608,500	40,074
8/31/2033	460,000	5.00	146,000	606,000	40,074
8/31/2034	485,000	5.00	122,375	607,375	40,074
8/31/2035	510,000	5.00	97,500	607,500	40,074
8/31/2036	535,000	5.00	71,375	606,375	40,074
8/31/2037	565,000	5.00	43,875	608,875	40,074
8/31/2038	595,000	5.00	14,875	609,875	40,074
	$ 8,680,000		$ 7,228,206	$ 15,908,206	$ 1,001,850

(18) KUHT Server

The KUHT server was purchased by the University of Houston System for the Television Station. Houston Public Media will be paying following the schedule below.

	KUHT Server Amount
Year ending August 31, 2012:	
2013	$ 75,248
2014	75,248
2015	75,248
2016	75,248
2017	12,541
	$ 313,533

(19) Subsequent Events

Management has evaluated subsequent events from the balance sheet date through January 25, 2013, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

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

Schedule of Functional Expenses

Year ended August 31, 2012

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	$ 2,803,988	693,703	727,039	4,224,730	751,559	914,204	364,198	2,029,961	6,254,691
Fringe benefits	666,367	159,967	182,531	1,008,865	201,142	185,941	89,122	476,205	1,485,070
Financial and legal services	22,250	5,702	6,541	34,493	167,764	202,150	8,284	378,198	412,691
Fund-raising	11,600	—	51,156	62,756	446,509	3,583	8,590	458,682	521,438
Membership fees	117,129	6,425	115	123,669	333	63,445	—	63,778	187,447
Other expenses	333,644	71,940	21,400	426,984	257,617	238,218	11,682	507,517	934,501
Postage	1,950	738	1,575	4,263	462,456	4,005	2,517	468,978	473,241
Printing and reproduction services	13,266	86	1,774	15,126	175,205	6,589	—	181,794	196,920
Professional services	243,277	244,493	8,482	496,252	131,329	42,852	3,255	177,436	673,688
Program rights	3,404,437	—	—	3,404,437	5,647	2,981	—	8,628	3,413,065
Rental and leases	60,158	293,946	17,434	371,538	35,184	19,731	—	54,915	426,453
Repair and maintenance	16,734	136,632	—	153,366	—	14,393	4,578	18,971	172,337
Supplies and materials	66,367	240,040	12,544	318,951	19,150	28,337	256	47,743	366,694
Telemarketing services	—	—	—	—	134,143	—	—	134,143	134,143
Telephone	51,766	110,381	6,060	168,207	32,969	21,319	3,969	58,257	226,464
Travel	46,707	3,509	9,384	59,600	33,797	26,392	6,956	67,145	126,745
Utilities	—	373,531	—	373,531	—	—	—	—	373,531
Debt Service – KUHA Classical	—	—	—	—	—	272,456	—	272,456	272,456
Broadcasting fees	1,775	—	—	1,775	—	—	—	—	1,775
	7,861,415	2,341,093	1,046,035	11,248,543	2,854,804	2,046,596	503,407	5,404,807	16,653,350
In kind:									
General support from the System	—	556,088	—	556,088	—	3,463,572	—	3,463,572	4,019,660
Total expenses before depreciation	$ 7,861,415	2,897,181	1,046,035	11,804,631	2,854,804	5,510,168	503,407	8,868,379	20,673,010
Percentage of total expenses before depreciation	38%	14%	5%	57%	14%	27%	2%	43%	100%

See accompanying independent auditors' report.

Schedule 1

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

Schedule of Functional Expenses

Year ended August 31, 2011

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	$ 2,771,799	756,981	749,397	4,278,177	913,068	951,493	513,199	2,377,760	6,655,937
Fringe benefits	652,458	199,129	199,552	1,051,139	227,688	212,279	118,061	558,028	1,609,167
Financial and legal services	9,962	2,537	1,470	13,969	213,059	320,805	10,986	544,850	558,819
Fund-raising	16,437	762	42,540	59,739	929,420	830	358	930,608	990,347
Membership fees	326,603	6,425	—	333,028	2,505	42,622	375	45,502	378,530
Other expenses	699,901	70,077	3,775	773,753	244,279	263,199	10,963	518,441	1,292,194
Postage	3,258	508	2,810	6,576	531,020	4,438	2,562	538,020	544,596
Printing and reproduction services	1,349	—	2,161	3,510	125,262	6,245	653	132,160	135,670
Professional services	231,250	108,326	13,145	352,721	101,801	53,991	20,355	176,147	528,868
Program rights	2,880,072	—	—	2,880,072	5,200	—	—	5,200	2,885,272
Rental and leases	77,241	291,529	17,803	386,573	60,148	44,954	—	105,102	491,675
Repair and maintenance	79,729	108,930	—	188,659	100	16,573	1,584	18,257	206,916
Supplies and materials	40,894	231,753	1,064	273,711	11,232	36,781	154	48,167	321,878
Telemarketing services	—	—	—	—	176,876	—	—	176,876	176,876
Telephone	96,400	103,006	6,617	206,023	29,442	24,073	3,686	57,201	263,224
Travel	44,509	993	8,064	53,566	27,577	14,485	8,460	50,522	104,088
Utilities	4,500	330,584	—	335,084	—	—	—	—	335,084
Broadcasting fees	6,590	—	—	6,590	269	—	—	269	6,859
	7,942,952	2,211,540	1,048,398	11,202,890	3,598,946	1,992,768	691,396	6,283,110	17,486,000
In kind:									
General support from the System	—	492,428	—	492,428	—	3,823,756	—	3,823,756	4,316,184
Total expenses before depreciation	$ 7,942,952	2,703,968	1,048,398	11,695,318	3,598,946	5,816,524	691,396	10,106,866	21,802,184
Percentage of total expenses before depreciation	36%	12%	5%	54%	17%	27%	3%	46%	100%

See accompanying independent auditors' report.

Schedule 2

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

Schedule of Functional Expenses

ACB Year ended August 31, 2012

Class	Grants to primary institution	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
Financial and legal services	$ —	42	7,545	1,536	9,123	130,300	40,375	—	170,675	179,798
Fundraising	—	2,238	—	3,978	6,216	145,904	403	—	146,307	152,523
Grants to KUHF-FM	2,325,000	—	—	—	2,325,000	—	—	—	—	2,325,000
Grants to KUHA-FM	349,079	—	—	—	349,079	—	—	—	—	349,079
Grants to KUHT-TV	4,042,000	—	—	—	4,042,000	—	—	—	—	4,042,000
Membership fees	—	—	—	—	—	333	46,718	—	47,051	47,051
Other expenses	—	179,221	2,598	10,441	192,260	239,277	8,949	—	248,226	440,486
Mail services	—	19	286	688	993	377,780	11	—	377,791	378,784
Printing and reproduction services	—	8,135	—	839	8,974	44,732	—	—	44,732	53,706
Professional services	—	950	172,708	319	173,977	95,461	3,689	—	99,150	273,127
Program rights	—	200	—	—	200	—	—	—	—	200
Rental and leases	—	21,202	54,736	17,434	93,372	31,938	—	—	31,938	125,310
Repair and maintenance	—	5,605	6,525	—	12,130	—	6,943	—	6,943	19,073
Supplies and materials	—	729	30,622	1,086	32,437	10,637	645	—	11,282	43,719
Telemarketing services	—	—	—	—	—	180,777	—	—	180,777	180,777
Telephone	—	14,021	100	—	14,121	8,909	—	—	8,909	23,030
Travel	—	6,047	128	272	6,447	11,711	3,693	—	15,404	21,851
Total expenses before depreciation	$ 6,716,079	238,409	275,248	36,593	7,266,329	1,277,759	111,426	—	1,389,185	8,655,514

See accompanying independent auditors' report.

Schedule 2

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

ACB Schedule of Functional Expenses

Year ended August 31, 2011

Class	Grants to Primary institution	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
Financial and legal services	$ —	1,500	—	1,451	2,951	172,172	44,817	—	216,989	219,940
Fund-raising	—	14,654	—	16,100	30,754	396,484	90	—	396,574	427,328
Grants to KUHF-FM	2,219,000	—	—	—	2,219,000	—	—	—	—	2,219,000
Grants to KUHT-TV	3,480,000	—	—	—	3,480,000	—	—	—	—	3,480,000
Membership fees	—	5,204	335	964	6,503	13,253	21,491	—	34,744	41,247
Other expenses	—	376,328	25,138	7,058	408,524	94,610	17,323	—	111,933	520,457
Mail services	—	212	—	—	212	384,802	11	—	384,813	385,025
Printing and reproduction services	—	805	—	726	1,531	28,491	1,359	—	29,850	31,381
Professional services	—	43,908	143,362	2,844	190,114	43,369	(61)	—	43,308	233,422
Program rights	—	18,631	—	—	18,631	—	—	—	—	18,631
Rental and leases	—	27,543	43,428	17,766	88,737	49,849	9,263	—	59,112	147,849
Repair and maintenance	—	71,153	300	—	71,453	—	989	—	989	72,442
Supplies and materials	—	13,266	395	—	13,661	3,082	772	—	3,854	17,515
Telemarketing services	—	—	—	—	—	178,668	—	—	178,668	178,668
Telephone	—	22,713	—	—	22,713	1,255	—	—	1,255	23,968
Travel	—	6,054	—	1,830	7,884	10,783	2,056	—	12,839	20,723
Total expenses before depreciation	$ 5,699,000	601,971	212,958	48,739	6,562,668	1,376,818	98,110	—	1,474,928	8,037,596

See accompanying independent auditors' report.