

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

Auditor's Report and Basic Financial Statements

August 31, 2013

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	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Basic Financial Statements	16
Other Supplementary Information:	
Schedule 1 – Schedule of Functional Expenses	31
Schedule 2 – Component Unit (ACB) Schedule of Functional Expenses.....	32

Independent Auditor's Report

Board of Regents
University of Houston System
Houston, Texas

We have audited the accompanying basic financial statements of Houston Public Media (the Stations), which is a division of the University of Houston System (the System) and of the Stations' discretely presented component unit, which are comprised of a statement of net position as of August 31, 2013, and statement of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stations and its discretely presented component unit as of August 31, 2013, and the changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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 System as of August 31, 2013, the changes in its financial position, or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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.

Supplementary Information

Our audit was 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 audit 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
January 31, 2014

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

Management's Discussion and Analysis

August 31, 2013

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 System) for the fiscal year ended August 31, 2013. 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 footnote 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 year ended August 31, 2013. 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 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 System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

The *Statement of Net Position* 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 position is equal to assets minus liabilities. 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 cost of capital assets, net of outstanding debt obligations. 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, 2013

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 institution's financial health may have improved or deteriorated.

Condensed Financial Information

Summary of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 722,260	1,118,034	901,778
Capital assets, net	17,148,902	17,876,042	18,466,898
Other noncurrent assets	<u>1,420,644</u>	<u>1,210,935</u>	<u>554,708</u>
Total assets	<u>\$ 19,291,806</u>	<u>20,205,011</u>	<u>19,923,384</u>
Liabilities:			
Current liabilities	\$ 5,516,965	5,078,796	4,940,745
Noncurrent Liabilities	<u>9,608,761</u>	<u>9,920,142</u>	<u>9,681,857</u>
Total liabilities	<u>15,125,726</u>	<u>14,998,938</u>	<u>14,622,602</u>
Net Position:			
Net investment in capital assets	7,284,893	7,880,652	8,785,041
Restricted for endowment funds	1,278,236	970,571	408,472
Unrestricted	<u>(4,397,049)</u>	<u>(3,645,150)</u>	<u>(3,892,731)</u>
Total net position	<u>4,166,080</u>	<u>5,206,073</u>	<u>5,300,782</u>
Total liabilities and net position	<u>\$ 19,291,806</u>	<u>20,205,011</u>	<u>19,923,384</u>

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

Management's Discussion and Analysis

August 31, 2013

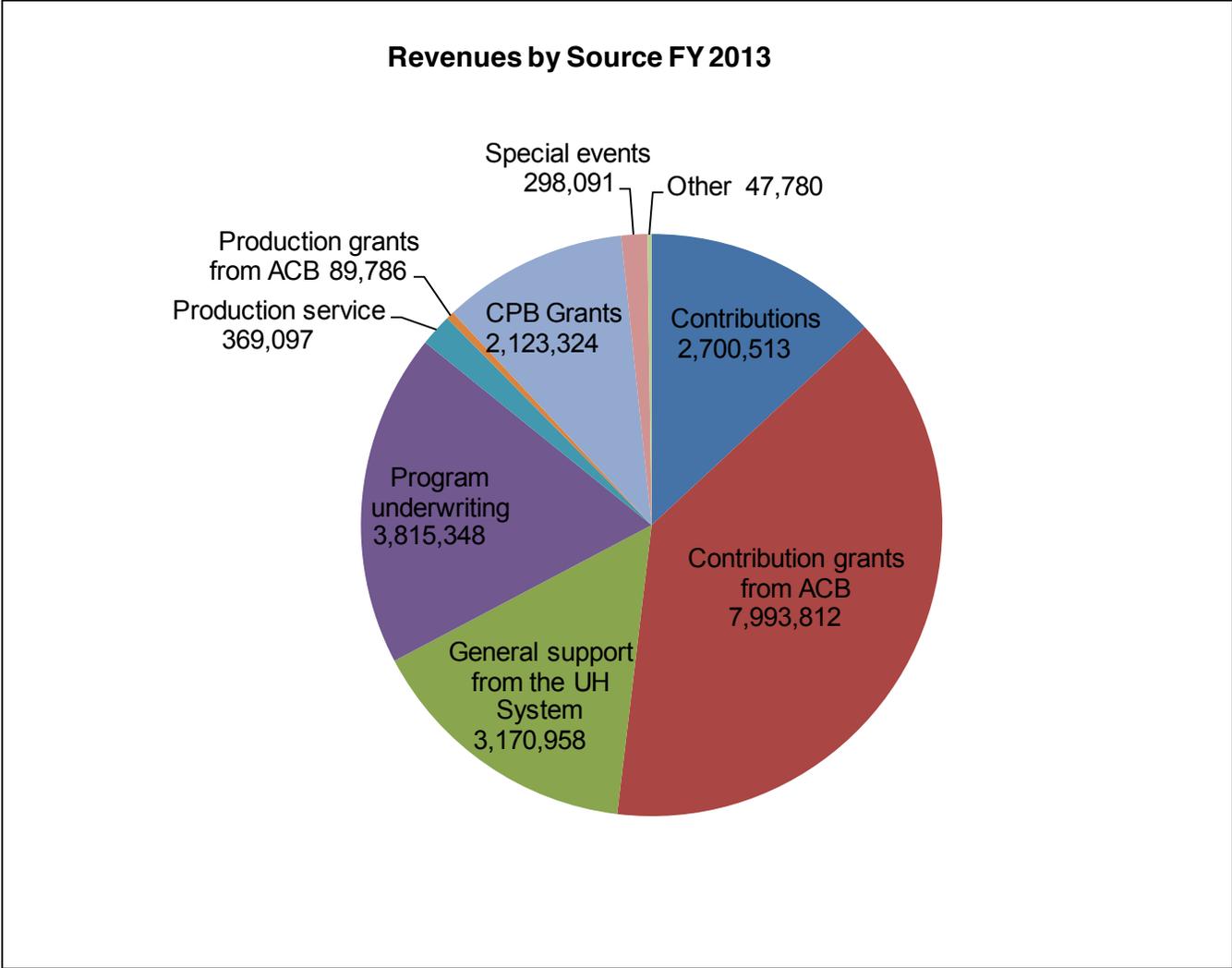
Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues	\$ 20,608,709	21,043,043	21,322,476
Operating expenses	21,956,368	21,699,852	22,955,755
Operating loss	(1,347,659)	(656,809)	(1,633,279)
Nonoperating income (expenses):			
Additions to endowment	248,229	545,000	-
Gain from endowment	59,437	17,100	43,044
Change in net position	(1,039,993)	(94,709)	(1,590,235)
Net position, beginning of year	5,206,073	5,300,782	6,891,017
Net position, end of year	\$ 4,166,080	5,206,073	5,300,782

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, 2013, 2012 and 2011.

Revenues by Source	FY 2013		FY 2012		FY 2011		2013-2012		2012-2011	
	(A)	% of	(B)	% of	(C)	% of	(A-B)	% of	(B-C)	% of
	Amount	Total	Amount	Total	Amount	Total	Amount	Total	Amount	Total
Operating revenues:										
Contributions	\$ 2,700,513	13%	3,242,241	15%	3,282,790	15%	(541,728)	125%	(40,549)	15%
Contributions grants from ACB	7,993,812	39%	6,530,000	32%	5,655,000	27%	1,463,812	-337%	875,000	-313%
General support from the UH System	3,170,958	15%	4,019,660	19%	4,316,184	20%	(848,702)	195%	(296,524)	106%
Program underwriting	3,815,348	19%	3,929,326	19%	3,811,220	18%	(113,978)	26%	118,106	-42%
Production service	369,097	2%	611,558	3%	993,746	5%	(242,461)	56%	(382,188)	137%
Production grants from ACB Corporation for Public Broadcasting grants (CPB)	89,786	0%	186,079	1%	44,000	0%	(96,293)	22%	142,079	-51%
Special events	2,123,324	10%	2,264,120	11%	2,544,875	12%	(140,796)	32%	(280,755)	100%
Other	298,091	1%	185,678	1%	414,689	2%	112,413	-26%	(229,011)	82%
	47,780	0%	74,381	0%	259,972	1%	(26,601)	6%	(185,591)	67%
Total operating revenues	\$ 20,608,709	100%	21,043,043	101%	21,322,476	100%	(434,334)	-2.1%	(279,433)	-1.3%

HOUSTON PUBLIC MEDIA
 (A Division of the University of Houston System)
 Management's Discussion and Analysis
 August 31, 2013



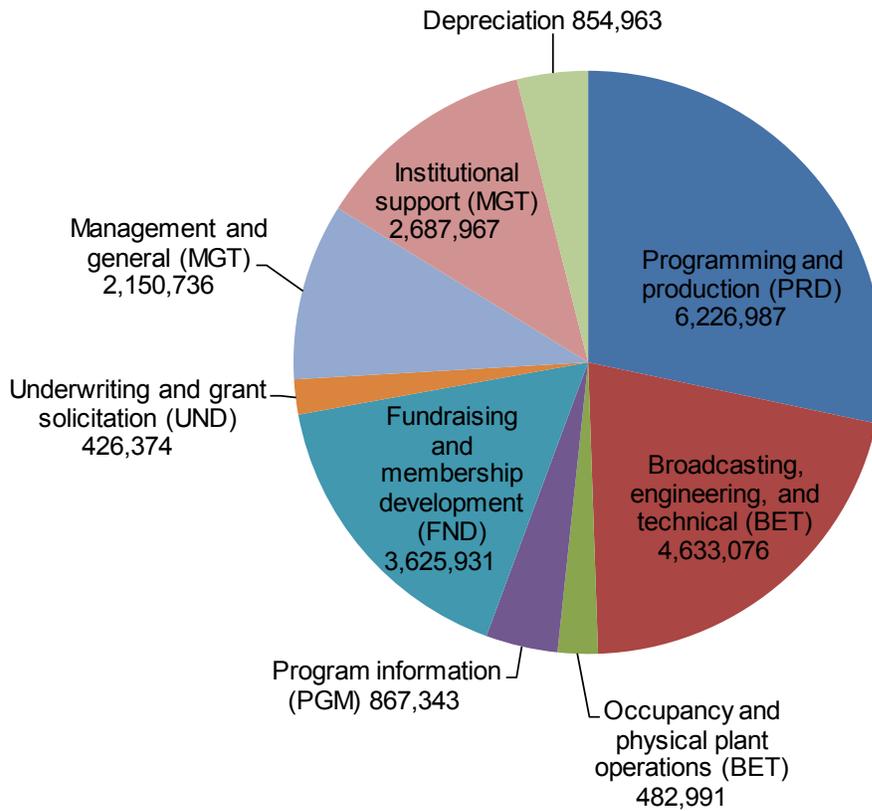
Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations: Alternatively, operating expenses categorized using the natural classification method is disclosed in the Schedule of Functional Expenses. The schedule on the following page presents a summary and comparison of expenses for the fiscal years ended August 31, 2013, 2012 and 2011.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Management's Discussion and Analysis
August 31, 2013

Expenses by Function	FY 2013		FY 2012		FY 2011		2013-2012		2012-2011	
	(A)	% of	(B)	% of	(C)	% of	(A-B)	% of	(B-C)	% of
	Amount	Total	Amount	Total	Amount	Total	Amount	Total	Amount	Total
Operating expenses:										
Programming and production (PRD)	\$ 6,226,987	28%	7,861,415	35%	7,942,952	35%	(1,634,428)	-637%	(81,537)	6%
Broadcasting, engineering and technical (BET)	4,633,076	21%	2,341,093	11%	2,211,540	10%	2,291,983	894%	129,553	-10%
Occupancy and physical plant operations (BET)	482,991	2%	556,088	3%	492,428	2%	(73,097)	-28%	63,660	-5%
Program information (PGM)	867,343	4%	1,046,035	5%	1,048,398	5%	(178,692)	-70%	(2,363)	0%
Fundraising and membership development (FND)	3,625,931	17%	2,854,804	13%	3,598,946	16%	771,127	-2078%	(744,142)	59%
Underwriting and grant solicitation (UND)	426,374	2%	503,407	2%	691,396	3%	(77,033)	-30%	(187,989)	15%
Management and general (MGT)	2,150,736	10%	2,046,596	9%	1,992,768	9%	104,140	41%	53,828	-4%
Institutional support (MGT)	2,687,967	12%	3,463,572	16%	3,823,756	17%	(775,605)	-302%	(360,184)	29%
Depreciation	854,963	4%	1,026,842	5%	1,153,571	5%	(171,879)	-67%	(126,729)	10%
Total operating expenses	\$ 21,956,368	100%	21,699,852	99%	22,955,755	100%	256,516	1%	(1,255,903)	-5%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Management's Discussion and Analysis
August 31, 2013

Expenses by Function/Program FY 2013



Financial Highlights and Analysis

Assets and Liabilities

The current assets have decreased by \$395,774. The decrease was due to the items shown on the following page.

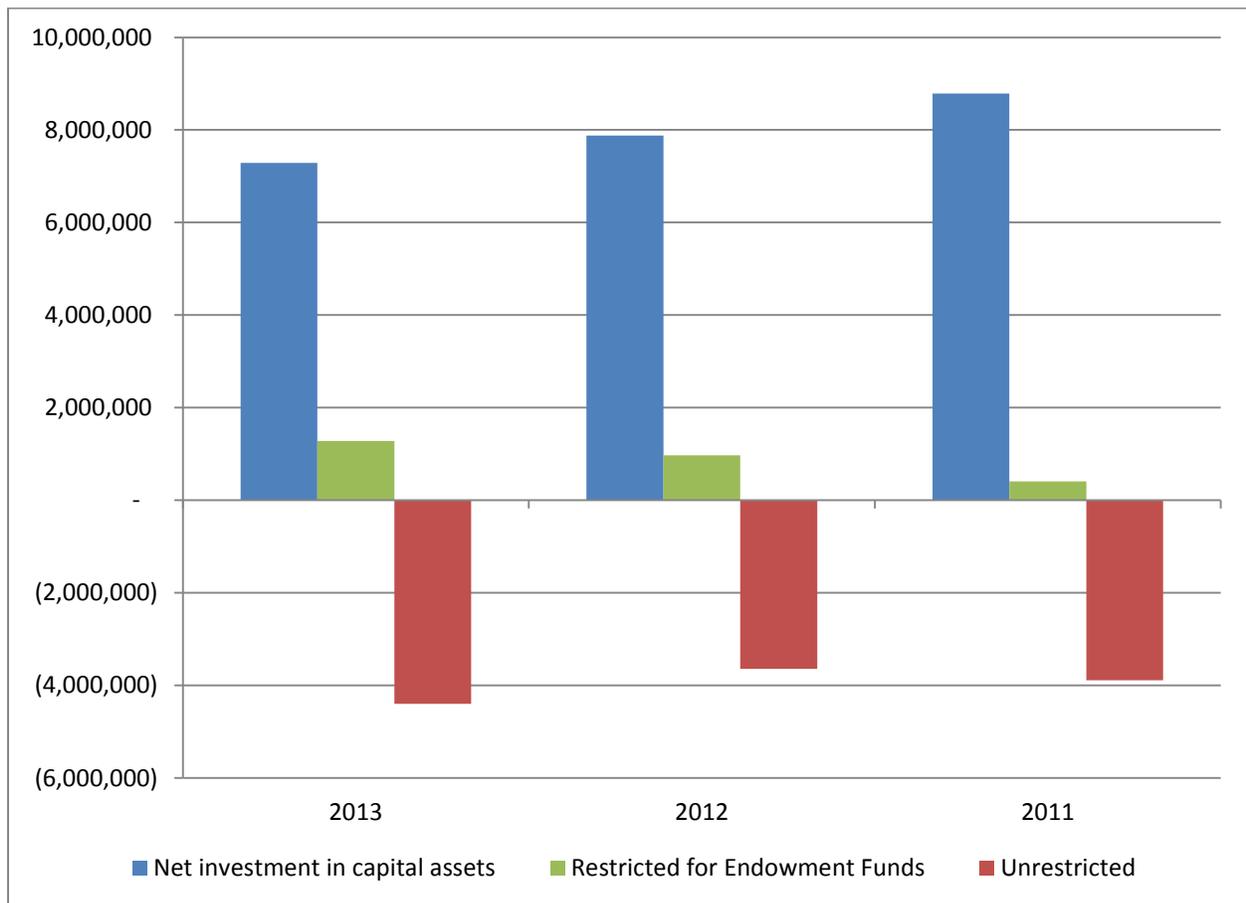
HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2013

- There were no amounts Due from ACB at year-end FY2013 versus the \$687,000 amount from FY012.
- Accounts receivable increased over \$221,000 mainly due to the high turnover in the accounts receivable area in FY2013.
- The current portion of the pledge receivable from ACB decreased \$25,000. This amount was determined to be part of the non-current portion.
- Film rights decreased \$16,000 due to amortization of the related expenses.

The following graph illustrates net position in the different categories for fiscal years 2013, 2012 and 2011:



Operating Revenues

The operating revenues have decreased due to the following reasons:

- General support from the UH system decreased due to a change in the formula components used to calculate this figure.

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

Management's Discussion and Analysis

August 31, 2013

Operating Expenses

- Houston Public Media's expenses remained flat in FY2013 compared to the prior fiscal year.

Capital Assets and Debt Administration

As of the end of the 2013 fiscal year, the Stations had \$17,148,902 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements, furniture, equipment, and vehicles, land and indefinite lived intangible assets.

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 non-operating revenues that are received during each current fiscal year.

Budgetary Revenues

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

	Budgeted amounts - original and final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:			
Contributions	\$ 4,479,500	2,700,513	(1,778,987)
Contribution grants from ACB	7,000,000	7,993,812	993,812
General support from the UH System	3,000,000	3,170,958	170,958
Program underwriting	4,950,000	3,815,348	(1,134,652)
Production service	145,111	369,097	223,986
Production service grants from ACB	-	89,786	89,786
Corporation for Public Broadcasting grants (CPB)	2,123,324	2,123,324	-
Royalties	20,000	32,900	12,900
Rental income	8,400	8,700	300
Special events	200,000	298,091	98,091
Other	30,000	6,180	(23,820)
Total operating revenues	\$ 21,956,335	20,608,709	(1,347,626)

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

Management's Discussion and Analysis

August 31, 2013

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

- Contributions and special events revenue were routed to ACB for processing therefore the difference shown above appears as an increase in revenue on ACB's financial statements.
- General support from the UH system decreased due to a change in the formula components used to calculate this figure.
- The program underwriting revenue projection used in the budget was not set at a realistic level.

Expenses

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

	Budgeted amounts - original and final	Actual	Variance with final budget favorable (unfavorable)
Operating expenses:			
Programming and production (PRD)	\$ 8,360,252	6,226,987	2,133,265
Broadcasting, engineering and technical (BET)	3,183,865	4,633,076	(1,449,211)
General support from the UH System (BET)	500,000	482,991	17,009
Program information (PGM)	981,944	867,343	114,601
Fundraising and membership development (FND)	3,123,622	3,625,931	(502,309)
Underwriting and grant solicitation (UND)	532,440	426,374	106,066
Management and general (MGT)	2,439,175	2,150,736	288,439
Institutional support (MGT)	2,500,000	2,687,967	(187,967)
Depreciation	-	854,963	(854,963)
Total operating expenses	<u>\$ 21,621,298</u>	<u>21,956,368</u>	<u>(335,070)</u>

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

- Budget transfers between the different programs were not initiated in time for year-end closing; this prevented us from adjusting budgets to reflect how actuals were being allocated since the allocation philosophy changed towards the end of the fiscal year.

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, KUHA-FM & KUHT-TV, 4343 Elgin, Houston, TX 77204-0008.

BASIC FINANCIAL STATEMENTS

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

Statements of Net Position

August 31, 2013

		2013	
	Assets	Primary institution	Component unit (ACB)
Current assets:			
Cash and equivalents		\$ -	250,929
Accounts receivable, net		612,966	3,360
Pledge receivable from ACB		15,000	-
Pledge receivable		-	15,000
Restricted cash and equivalents		-	314,167
Film rights, net		94,294	-
Other current assets		-	20,539
Total current assets		722,260	603,995
Noncurrent assets:			
Pledge receivable		-	142,408
Pledge receivable from ACB		142,408	-
Capital assets, net		17,148,902	93,470
Investments restricted for endowment		1,278,236	-
Investments restricted for quasi-endowments		-	1,041,281
Total noncurrent assets		18,569,546	1,277,159
Total assets		\$ 19,291,806	1,881,154
Liabilities and Net Position			
Current liabilities:			
Due to UH System		\$ 3,892,028	-
Pledge payable to primary institution		-	15,000
Accounts payable		182,830	52,147
Note payable (KUHT Server)		75,248	-
Due to UH System (KUHA Note)		180,000	-
Accrued payroll		580,321	-
Unearned revenue		32,997	24,886
Employees' compensable leave		573,541	-
Total current liabilities		5,516,965	92,033
Noncurrent liabilities:			
Pledge payable to primary institution		-	142,408
Note payable (KUHT Server)		163,037	-
Due to UH System (KUHA note)		9,445,724	-
Total noncurrent liabilities		9,608,761	142,408
Total liabilities		15,125,726	234,441
Net Position:			
Net investment in capital assets		7,284,893	93,470
Restricted:			
Expendable for production and outreach programs		-	314,167
Nonexpendable		1,063,197	-
Expendable		215,039	1,041,281
Unrestricted		(4,397,049)	197,795
Total net position		\$ 4,166,080	1,646,713

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

Year Ended August 31, 2013

	2013	
	Primary institution	Component unit (ACB)
Operating revenues:		
Contributions	\$ 2,700,513	9,973,438
Contribution grants from ACB	7,993,812	-
General support from the UH System	3,170,958	-
Program underwriting	3,815,348	36,334
Production service	369,097	128,273
Production grants from ACB	89,786	-
Corporation for Public Broadcasting grants (CPB)	2,123,324	-
Other grants	-	190,500
Royalties	32,900	-
Rental income	8,700	-
Special events	298,091	298,845
Other	6,180	1,372
Total operating revenues	20,608,709	10,628,762
Operating expenses:		
Grants to primary institution	-	7,950,592
Programming and production (PRD)	6,226,987	204,947
Broadcasting, engineering, and technical (BET)	4,633,076	104,181
Occupancy and physical plant operations (BET)	482,991	-
Program information (PGM)	867,343	20,423
Fundraising and membership development (FND)	3,625,931	1,812,519
Underwriting and grant solicitation (UND)	426,374	-
Management and general (MGT)	2,150,736	132,954
Institutional support (MGT)	2,687,967	-
Depreciation	854,963	50,705
Total operating expenses	21,956,368	10,276,321
Operating income (loss)	(1,347,659)	352,441
Nonoperating income:		
Endowment additions	248,229	-
Net gain from endowment	59,437	82,394
Total nonoperating income	307,666	82,394
Change in net assets	(1,039,993)	434,834
Net position, beginning of year	5,206,073	1,211,878
Net position, end of year	\$ 4,166,080	1,646,713

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year Ended August 31, 2013

Cash flows from operating activities:	
Proceeds from contributions	\$ 11,382,509
Proceeds from CPB grant	2,123,324
Proceeds from other grants	-
Proceeds from program underwriting	3,626,413
Proceeds from other revenues	804,758
Payments to suppliers for goods and services	(5,139,103)
Payments to employees	(7,496,814)
Payments for broadcasting fees	(3,700,820)
Payments for other expenses	(1,231,829)
	<u>368,438</u>
Net cash provided by operating activities	<u>368,438</u>
Cash flows from noncapital financing activities:	
Advances from UH System	7,165
Gift for endowment purposes	248,229
	<u>255,394</u>
Net cash provided by noncapital financing activities	<u>255,394</u>
Cash flows from capital and related financing activities:	
Payments for additions to capital assets	(127,823)
Payments for additions of film rights	(116,399)
Note payable (KUHT server)	(131,381)
	<u>(375,603)</u>
Net cash used in capital and related financing activities	<u>(375,603)</u>
Cash flows from investing activity:	
Purchases of investments	(248,229)
	<u>(248,229)</u>
Net cash used in investing activity	<u>(248,229)</u>
Increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>
Reconciliation of loss from operations to net cash provided by operating activities:	
Operating loss	\$ (1,347,659)
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation expense	854,963
Amortization of film rights	133,063
Decrease in accounts receivable	(221,931)
Increase in amounts due from ACB	687,000
Increase in pledge receivable	1,184
Increase in other assets	10,814
Increase in accounts payable	114,842
Increase in accrued payroll	61,847
Increase in unearned revenue	32,997
Increase in compensated absences payable	41,318
	<u>1,716,097</u>
Total adjustments	<u>1,716,097</u>
Net cash provided by operating activities	<u>\$ 368,438</u>

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, 2013

(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 its 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-FM, 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 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 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, Blackberry applications, and iPad applications. The radio stations' new media group is now 4 full-time staff members, with opportunities for intern training. Such internships are also available in News, Production, Public Relations, Development, Music and Business.

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

Notes to Basic Financial Statements

August 31, 2013

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 KUHT, 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 accounting principles generally accepted 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

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 Position

Net investment in capital assets – 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 position invested in capital assets, net of related debt.

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

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

Notes to Basic Financial Statements

August 31, 2013

Expendable restricted net position – 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 position – 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. 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 provide an allowance for estimated uncollectable pledges, which is based upon a review of outstanding pledges receivable, historical collections and existing economic conditions. No allowance was deemed necessary by the Stations' management as of August 31, 2013.

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.

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

Notes to Basic Financial Statements

August 31, 2013

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 and vehicles	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 position 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.

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

Notes to Basic Financial Statements

August 31, 2013

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 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.

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 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 Government Accounting Standards Board Statement (GASB) No. 31, *Accounting and 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.

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

Notes to Basic Financial Statements

August 31, 2013

- 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 Stations (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. Stations

Gifts to the UH System are placed in the System's endowment fund which is a pooled investment of individual endowments benefitting 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 year 2013. 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 2013, the Endowment Management Committee of the System's Board of Regents continued to review existing objectives, risks, asset allocation and manager structure within the endowment portfolio. The System's Endowment Fund Statement of Investment Objectives and

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

Notes to Basic Financial Statements

August 31, 2013

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 System's Endowment Fund, which does not have a credit rating, may be obtained from the System's Office of the Treasurer.

The following summarizes activity for the year ended August 31, 2013:

Balance, August 31, 2012	\$	970,571
FY 13 endowment additions		248,229
FY 13 realized/unrealized gain		<u>59,436</u>
Balance, August 31, 2013	\$	<u><u>1,278,236</u></u>

The assets of the Stations' endowments totaled \$1,278,236 at August 31, 2013 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 Position.

b. Component Unit (ACB)

The gifts received by ACB to create endowed accounts are invested in the ACB Quasi-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 ACB Quasi-Endowment Fund, while maximizing the amount distributed annually for endowed spending as further described in the ACB Quasi-Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the ACB Endowment Fund will be reinvested to protect the capital against erosion by inflation.

The Quasi-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 Quasi-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 3 years (or the life of the Endowment if shorter than 3 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 ACB Quasi-Endowment Fund 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 ACB Quasi-Endowment Fund

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

Notes to Basic Financial Statements

August 31, 2013

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 ACB Quasi-Endowment Fund'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 \$1,041,281 as of August 31, 2013, 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 year ended August 31, 2013:

Balance, August 31, 2012	\$	1,138,887
Distributions from the endowment		(180,000)
Gain from the endowment		85,863
Administrative charges		<u>(3,469)</u>
Balance, August 31, 2013	\$	<u><u>1,041,281</u></u>

(4) Accounts Receivable

Accounts receivable as of August 31, 2013 comprised the following:

	<u>Primary institution</u>	<u>Component unit (ACB)</u>
Accounts receivable	\$ 649,116	3,360
Allowance for doubtful accounts	<u>(36,150)</u>	<u>-</u>
Total	<u><u>\$ 612,966</u></u>	<u><u>3,360</u></u>

Accounts receivable for the Stations and ACB 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, 2013

(5) Pledge Receivable

As of August 31, 2013, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

Receivable within one year	\$	15,000
Receivable in two years		145,000
Less discount at 1.62%		<u>(2,592)</u>
	\$	<u><u>157,408</u></u>

As of August 31, 2013, there was no allowance for estimated uncollectable 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, 2013 were as follows for the Stations:

	<u>2012</u>	<u>Additions/ Reclassifi- cations</u>	<u>Dispositions/ Reclassifi- cations</u>	<u>2013</u>
Capital assets:				
Construction in progress	\$ 5,459	-	5,459	-
Buildings and building improvements	12,637,863	-	-	12,637,863
Furniture and equipment	9,797,941	148,486	20,663	9,925,764
Vehicle	34,466	-	-	34,466
Land	402,044	-	-	402,044
Other assets	9,215,766	5,459	-	9,221,225
Total capital assets	<u>32,093,539</u>	<u>153,945</u>	<u>26,122</u>	<u>32,221,362</u>
Less accumulated depreciation	<u>14,217,497</u>	<u>875,626</u>	<u>20,663</u>	<u>15,072,460</u>
Net capital assets	<u>\$ 17,876,042</u>	<u>(721,681)</u>	<u>5,459</u>	<u>17,148,902</u>

Capital asset activities for the year ended August 31, 2013 were as follows for ACB:

	<u>2012</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2013</u>
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	<u>1,204,698</u>	<u>-</u>	<u>-</u>	<u>1,204,698</u>
Less accumulated depreciation	<u>1,060,523</u>	<u>50,705</u>	<u>-</u>	<u>1,111,228</u>
Net capital assets	<u>\$ 144,175</u>	<u>(50,705)</u>	<u>-</u>	<u>93,470</u>

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

Notes to Basic Financial Statements

August 31, 2013

(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 year ended August 31, 2013 were as follows:

Balance, August 31, 2012	\$	110,958
2013 additions		<u>116,399</u>
Total		227,357
2013 amortization		<u>(133,063)</u>
Balance, August 31, 2013	\$	<u><u>94,294</u></u>

(8) Due to the 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 the System" account represents the amount by which the Stations have overdrawn its claim on cash account with the System as of August 31, 2013.

The "Due to UH System (KUHA Note)" 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, 2013 is \$9,625,724.

(9) 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, 2013 was \$(4,397,049). The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues.

(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 fiscal year 2013. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.) which was \$157,562 in fiscal year 2013. 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 \$2,661,140 in fiscal year 2013.

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

Notes to Basic Financial Statements

August 31, 2013

(11) 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.

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 of Texas (the State) joint contributory retirement plans and thereby provide retirement plans for substantially all of its 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 6.4% of their salary to the plan and the stations contribute an amount equal to 6.644% 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 \$351,242, \$324,421 and \$378,456 in 2013, 2012 and 2011 respectively. The total amount of employee contributions was \$55,746, \$48,881 and \$54,121 in 2013, 2012 and 2011, 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, TX 78701-2698 or by calling 800-877-0123.

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.

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

Notes to Basic Financial Statements

August 31, 2013

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 6.00% of the participants' annual compensation. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for FY2013 are 6.65% for ORP participants. The state contribution rate for ORP is 6% for FY2013. Contributions to the plan by the Stations amounted to \$12,535, \$26,157 and \$47,709 in 2013, 2012 and 2011, respectively. The total amount of employee contributions was \$1,864, \$1,801 and \$7,432 in 2013, 2012 and 2011, respectively. 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.

(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 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 year ended August 31, 2013, the lease expense was \$324,652.

Future minimum lease payments under non-cancelable operating lease agreements are as follows:

	<u>Amount</u>
Year ending August 31:	
2014	\$ 244,190
2015	247,370
2016	<u>104,626</u>
	<u>\$ 596,186</u>

(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' financial statements. Such cash expenditures for the fiscal year ended August 31, 2013 amounted to \$2,155,117, and has been included in the contributions, special events and production service revenues and in operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

(15) Income Taxes

The System, of which the Stations is a division, is 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 there of 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

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

Notes to Basic Financial Statements

August 31, 2013

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 year ended August 31, 2013. 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 year ended August 31, 2013. 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) Long-term Liabilities

The changes in long-term liabilities for the Stations for the year ended August 31, 2013, were as follows:

<u>Business-type Activities</u>	<u>Balances, Beginning of Year</u>	<u>Decreases</u>	<u>Balances, End of Year</u>	<u>Amounts Due in One Year</u>
Notes payable:				
KUHT server	\$ 313,533	\$ 75,248	\$ 238,285	\$ 75,248
KUHA purchase	9,681,850	56,126	9,625,724	180,000
Total	<u>\$ 9,995,383</u>	<u>\$ 131,374</u>	<u>\$ 9,864,009</u>	<u>\$ 255,248</u>

The changes in long-term liabilities for ACB for the year ended August 31, 2013, were as follows:

<u>Business-type Activities</u>	<u>Balances, Beginning of Year</u>	<u>Decreases</u>	<u>Balances, End of Year</u>	<u>Amounts Due in One Year</u>
Pledge payable to primary institution	<u>\$ 158,592</u>	<u>\$ 1,184</u>	<u>\$ 157,408</u>	<u>\$ 15,000</u>

(18) 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 received the proceeds from the Consolidated Revenue and Refunding Bonds (Series 2011A & 2011B (Taxable)). KUHA will pay the bond debt according to the schedule on the following page.

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

Notes to Basic Financial Statements

August 31, 2013

<u>Ending</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Premium</u>
8/31/2014	\$ 180,000	5.00%	429,500	609,500	64,299
8/31/2015	190,000	5.00%	420,250	610,250	64,299
8/31/2016	200,000	5.00%	410,500	610,500	64,299
8/31/2017	205,000	5.00%	400,375	605,375	63,605
8/31/2018	220,000	5.00%	389,750	609,750	55,462
8/31/2019	230,000	5.00%	378,500	608,500	48,014
8/31/2020	240,000	5.00%	366,750	606,750	48,014
8/31/2021	255,000	5.00%	354,375	609,375	48,014
8/31/2022	265,000	5.00%	341,375	606,375	37,895
8/31/2023	280,000	5.00%	327,750	607,750	27,777
8/31/2024	295,000	5.00%	313,375	608,375	27,777
8/31/2025	310,000	5.00%	298,250	608,250	27,777
8/31/2026	325,000	5.00%	282,375	607,375	27,777
8/31/2027	340,000	5.00%	265,750	605,750	27,777
8/31/2028	360,000	5.00%	248,250	608,250	27,777
8/31/2029	380,000	5.00%	229,750	609,750	27,777
8/31/2030	395,000	5.00%	210,375	605,375	27,777
8/31/2031	420,000	5.00%	190,000	610,000	27,777
8/31/2032	440,000	5.00%	168,500	608,500	27,597
8/31/2033	460,000	5.00%	146,000	606,000	25,130
8/31/2034	485,000	5.00%	122,375	607,375	22,841
8/31/2035	510,000	5.00%	97,500	607,500	22,841
8/31/2036	535,000	5.00%	71,375	606,375	22,841
8/31/2037	565,000	5.00%	43,875	608,875	13,278
8/31/2038	595,000	5.00%	14,875	609,875	67,302
	\$ 8,680,000		6,521,750	15,201,750	945,724

(19) KUHT Server

The KUHT server was purchased by the University of Houston System for the television station. The Stations will be paying following the schedule on the following page

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

Notes to Basic Financial Statements

August 31, 2013

	KUHT Server Amount
Year ending August 31:	
2014	\$ 75,248
2015	75,248
2016	75,248
2017	<u>12,541</u>
	<u>\$ 238,285</u>

(20) Subsequent Events

Management has evaluated subsequent events from the balance sheet date through the date of the Independent Auditor's Report, which is, the date the financial statements were available to be issued, and determined that there are no other items to disclose.

OTHER SUPPLEMENTARY INFORMATION

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

Schedule of Functional Expenses

Year Ended August 31, 2013

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	\$ 2,999,030	582,287	556,999	4,138,316	768,355	808,071	318,253	1,894,679	6,032,995
Fringe benefits	784,162	162,050	120,089	1,066,301	230,621	198,422	71,640	500,683	1,566,984
Financial and legal services	10,231	26,191	2,084	38,506	206,721	158,783	697	366,201	404,707
Fundraising	12,384	423	26,374	39,181	949,469	4,116	1,708	955,293	994,474
Membership fees	55,695	8,209	6,290	70,194	21,259	97,209	-	118,468	188,662
Other expenses	330,932	305,568	23,533	660,033	319,756	252,958	9,893	582,607	1,242,640
Postage	1,269	2,054	3,983	7,306	535,268	4,937	2,612	542,817	550,123
Printing and reproduction services	4,288	330	3,950	8,568	93,199	4,739	734	98,672	107,240
Professional services	131,988	98,989	28,713	259,690	229,647	56,179	-	285,826	545,516
Program rights	1,660,646	2,123,324	41,313	3,825,283	3,825	-	-	3,825	3,829,108
Rental and leases	74,647	297,017	1,626	373,290	45,207	20,325	18	65,550	438,840
Repair and maintenance	10,983	286,843	2,535	300,361	156,164	20,529	1,511	178,204	478,565
Supplies and materials	47,803	228,800	24,726	301,329	12,422	43,657	1,100	57,179	358,508
Telephone	46,079	115,656	7,870	169,605	21,597	21,351	6,388	49,336	218,941
Travel	45,538	5,090	16,133	66,761	32,421	26,204	11,820	70,445	137,206
Utilities	7,662	390,245	-	397,907	-	-	-	-	397,907
Debt Service - KUHA Classical	-	-	-	-	-	433,256	-	433,256	433,256
Broadcasting fees	3,650	-	1,125	4,775	-	-	-	-	4,775
	6,226,987	4,633,076	867,343	11,727,406	3,625,931	2,150,736	426,374	6,203,041	17,930,447
Indirect support	-	482,991	-	482,991	-	2,687,967	-	2,687,967	3,170,958
	<u>\$ 6,226,987</u>	<u>5,116,067</u>	<u>867,343</u>	<u>12,210,397</u>	<u>3,625,931</u>	<u>4,838,703</u>	<u>426,374</u>	<u>8,891,008</u>	<u>21,101,405</u>
Percentage of total expenses before depreciation	30%	24%	4%	58%	17%	23%	2%	42%	100%

See accompanying independent auditor's report.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Component Unit (ACB) Schedule of Functional Expenses
Year Ended August 31, 2013

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	\$ -	208	-	286	178,948	44,475	-	223,917
Fundraising	-	2,248	-	7,542	150,755	485	-	161,030
Grants to KUHF-FM	3,404,000	-	-	-	-	-	-	3,404,000
Grants to KUHA-FM	275,000	-	-	-	-	-	-	275,000
Grants to KUHT-TV	4,271,592	-	-	-	-	-	-	4,271,592
Membership fees	-	-	-	45	16,400	55,074	-	71,519
Other expenses	-	143,782	3,009	2,222	291,086	10,526	-	450,625
Mail services	-	12	-	2,794	540,518	173	-	543,497
Printing and reproduction services	-	2,235	-	824	55,088	1,005	-	59,152
Professional services	-	3,455	33,368	3,616	133,864	6,096	-	180,399
Program rights	-	9,394	-	-	2,870	-	-	12,264
Rental and leases	-	14,488	54,532	-	45,168	-	-	114,188
Repair and maintenance	-	2,457	-	510	156,760	8,316	-	168,043
Supplies and materials	-	375	13,272	775	5,127	3,770	-	23,319
Telemarketing services	-	-	-	-	116,644	-	-	116,644
Telephone	-	13,925	-	-	114,202	-	-	128,127
Travel	-	12,368	-	1,809	5,089	3,034	-	22,300
	<u>\$ 7,950,592</u>	<u>204,947</u>	<u>104,181</u>	<u>20,423</u>	<u>1,812,519</u>	<u>132,954</u>	<u>-</u>	<u>10,225,616</u>

See accompanying independent auditor's report.