



PUBLIC BROADCASTING
(A Division of the University of Houston System)

Basic Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

PUBLIC BROADCASTING
(A Division of the University of Houston System)

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KPMG LLP
811 Main Street
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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 Public Broadcasting Division, a division of the University of Houston System, as of and for the years ended August 31, 2011 and 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Public Broadcasting Division'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 Public Broadcasting Division'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 Public Broadcasting Division are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities and the aggregate discretely presented component units of the University of Houston System that is attributable to the transactions of the Public Broadcasting Division. They do not purport to, and do not, present fairly the financial position of the University of Houston System as of August 31, 2011 and 2010, 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 and discretely presented component unit of the Public Broadcasting Division as of August 31, 2011 and 2010, and the respective changes in financial position and, when applicable, cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Broadcasting Division's financial statements. The supplementary information included in Schedules 1, 2, 3, 4, 5, and 6 as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 29, 2012

PUBLIC BROADCASTING
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Management's Discussion and Analysis

August 31, 2011

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of the Public Broadcasting Division of the University of Houston (UH) System (the System) (the Stations) for the fiscal years ended August 31, 2011 and 2010. 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 with the exception of KUHA-FM, and are a division of the UH. KUHA-FM is located on the campus of Rice University. 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 presents its financial statements for fiscal years ended August 31, 2011 and 2010. 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.

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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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 1,263,062	1,835,408	2,730,546
Capital assets, net	18,466,898	9,456,698	10,281,793
Other noncurrent assets	193,424	185,971	213,882
Total assets	<u>\$ 19,923,384</u>	<u>11,478,077</u>	<u>13,226,221</u>
Liabilities:			
Current liabilities	\$ 4,940,745	4,587,060	4,509,610
Noncurrent liabilities	9,681,857	—	—
Total liabilities	<u>14,622,602</u>	<u>4,587,060</u>	<u>4,509,610</u>
Net assets:			
Invested in capital assets, net of related debt	8,785,041	9,456,698	10,281,793
Restricted for endowment funds	47,188	42,323	39,341
Unrestricted	<u>(3,531,447)</u>	<u>(2,608,004)</u>	<u>(1,604,523)</u>
Total net assets	<u>5,300,782</u>	<u>6,891,017</u>	<u>8,716,611</u>
Total liabilities and net assets	<u>\$ 19,923,384</u>	<u>11,478,077</u>	<u>13,226,221</u>

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Statements of Revenues, Expenses and Changes in Net Assets Information

	Year ended August 31		
	2011	2010	2009
Operating revenues	\$ 21,322,476	20,548,612	20,745,379
Operating expenses	22,955,755	22,792,837	21,559,236
Operating loss	(1,633,279)	(2,244,225)	(813,857)
Nonoperating income (expenses):			
KUHT loss funding	—	393,929	—
Interest	—	—	6,787
Income allocation from endowment fund	43,044	24,702	(65,572)
Change in net assets	(1,590,235)	(1,825,594)	(872,642)
Net assets, beginning of year	6,891,017	8,716,611	9,589,253
Net assets, end of year	\$ 5,300,782	6,891,017	8,716,611

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, 2011, 2010 and 2009.

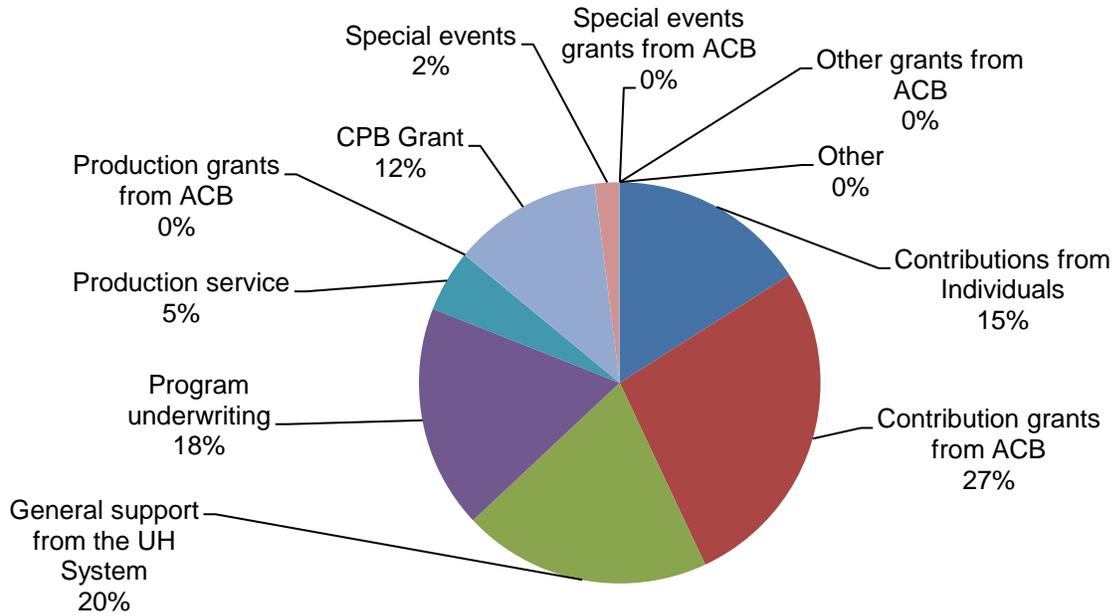
Revenues by source	FY 2011		FY 2010		FY 2009		2011 - 2010		2010 - 2009	
	(A) Amount	Percentage of total	(B) Amount	Percentage of total	(C) Amount	Percentage of total	(A-B) Amount	Percentage of total	(B-C) Amount	Percentage of total
Operating revenues:										
Contributions	\$ 3,282,790	15%	\$ 2,548,219	12%	\$ 2,825,420	14%	\$ 734,571	95%	\$ (277,201)	141%
Contributions grants from ACB	5,655,000	27	6,321,296	31	6,518,509	31	(666,296)	(86)	(197,213)	100
General support from the										
UH System	4,316,184	20	4,804,988	23	4,230,552	20	(488,804)	(63)	574,436	(292)
Program underwriting	3,811,220	18	3,179,466	15	3,579,452	17	631,754	82	(399,986)	203
Production service	993,746	5	852,277	4	279,309	1	141,469	18	572,968	(291)
Production grants from ACB	44,000	—	167,195	1	388,260	2	(123,195)	(16)	(221,065)	112
Corporation for Public										
Broadcasting grants (CPB)	2,544,875	12	2,125,322	10	2,112,537	10	419,553	54	12,785	(6)
Special events	414,689	2	319,556	2	172,638	1	95,133	12	146,918	(75)
Special events grants from ACB	—	—	116,699	1	107,399	1	(116,699)	(15)	9,300	(5)
Other grants from ACB	—	—	14,576	—	1,233	—	(14,576)	(2)	13,343	(7)
Other	259,972	1	99,018	1	530,070	3	160,954	21	(431,052)	219
Total operating revenues	\$ 21,322,476	100%	\$ 20,548,612	100%	\$ 20,745,379	100%	\$ 773,864	100%	\$ (196,767)	100%

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Revenues by Source FY 2011

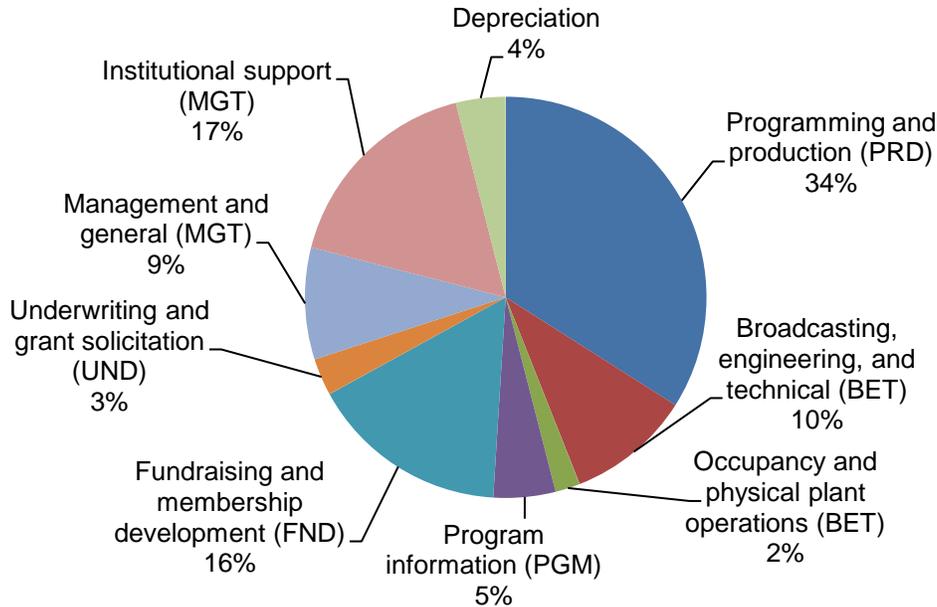


Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Schedule of Functional Expenses. The following schedule presents a summary and comparison of expenses for the fiscal years ended August 31, 2011, 2010 and 2009:

Expenses by function	FY 2011		FY 2010		FY 2009		2011 - 2010 Increase/decrease		2010 - 2009 Increase/decrease	
	(A) Amount	Percentage of total	(B) Amount	Percentage of total	(C) Amount	Percentage of total	(A-B) Amount	Percentage of total	(B-C) Amount	Percentage of total
Operating expense:										
Programming and production (PRD)	\$ 7,942,952	34%	\$ 7,413,545	32%	\$ 6,797,988	32%	\$ 529,407	325%	\$ 615,557	50%
Broadcasting, engineering, and technical (BET)	2,211,540	10	2,452,698	11	2,578,088	12	(241,158)	(148)	(125,390)	(10)
Occupancy and physical plant operations (BET)	492,428	2	508,511	2	542,346	3	(16,083)	(10)	(33,835)	(3)
Program information (PGM)	1,048,398	5	1,006,564	4	1,062,373	5	41,834	26	(55,809)	(5)
Fundraising and membership development (FND)	3,598,946	16	3,397,343	15	3,670,517	17	201,603	124	(273,174)	(22)
Underwriting and grant solicitation (UND)	691,396	3	817,518	4	526,565	2	(126,122)	(77)	290,953	24
Management and general (MGT)	1,992,768	9	1,972,238	9	1,798,653	8	20,530	13	173,585	14
Institutional support (MGT)	3,823,756	17	4,296,477	19	3,688,206	17	(472,721)	(290)	608,271	49
Depreciation	1,153,571	4	927,943	4	894,500	4	225,628	138	33,443	3
Total operating revenues	\$ 22,955,755	100%	\$ 22,792,837	100%	\$ 21,559,236	100%	\$ 162,918	100%	\$ 1,233,601	100%

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Expenses by Function/Program FY 2011



Financial Highlights and Analysis

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 purchased the FCC license, FM frequency, and broadcast tower fused 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.

Assets and Liabilities – Fiscal Year 2010 Compared to Fiscal Year 2009

The increase in current liabilities is \$77,450. This increase reflected in Due to UH System is the result of the accumulation in net losses over several fiscal years.

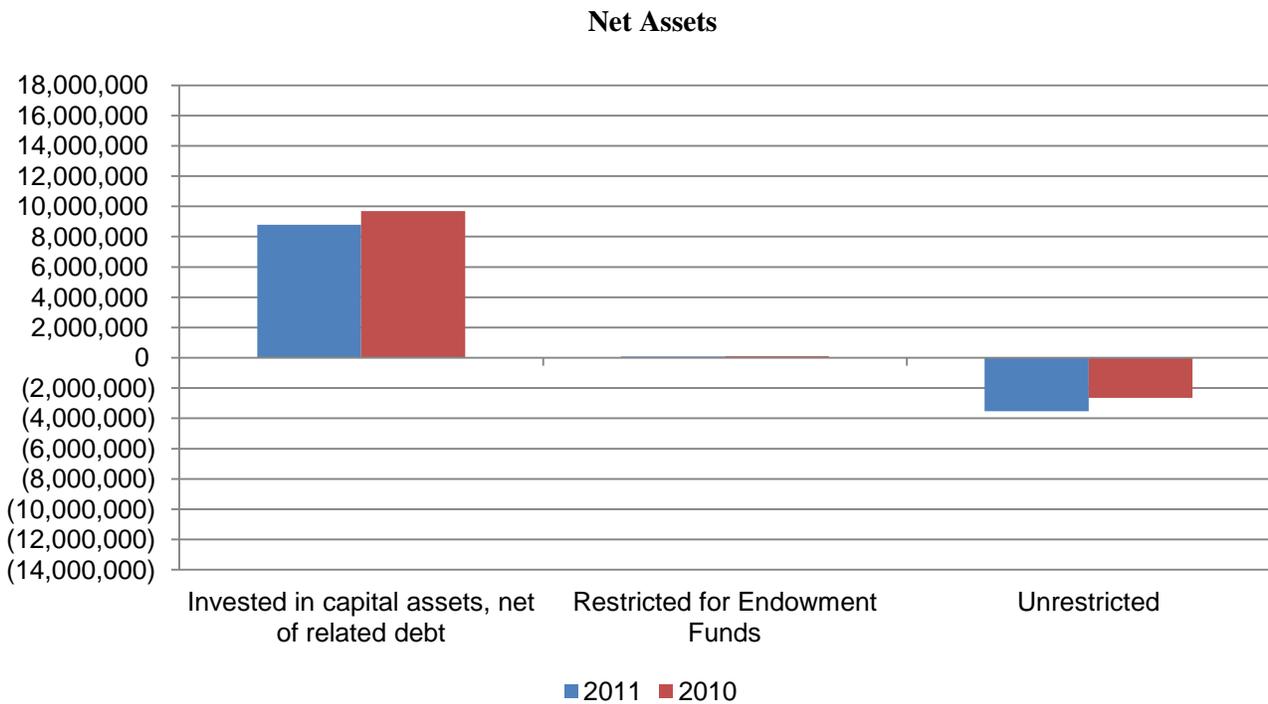
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The decrease in current assets is due to the concerted effort to reduce the Association for Community Broadcasting funds due to KUHT. Also, the downturn in corporate funding to KUHF caused a cash deficit. Currently, corporate support is strengthening, which should directly improve the cash balances.

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



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 expense remained consistent however income from contributions and program underwriting increased in the fiscal year. As the Stations earned more income and expense 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 as a grant was received from the Corporation of Public Broadcasting as additional funding to assist the Station with the purchase and installation of digital television transmission equipment and facilities in order for the Station to meet FCC digital transmission requirements.

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- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for station activities. The current year reduction is due to the more contributions given directly to the Station in FY 2011 when compared to FY 2010 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 Revenues – Fiscal Year 2010 Compared to Fiscal Year 2009

- Individual contributions decreased due to the challenge of finding successful on-air pledge programming for KUHT.
- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for station activities.
- Corporate underwriting support has declined due to the economic downturn. Radio had the greatest loss due to problems finding talented sales persons.
- 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. Since overall University expenses increased from FY2009 to FY2010, so did the general support.
- Production activities depend on available funding. Due to the economic downturn, available funding decreased; therefore, production and production grants declined.
- The increase in grants from the Corporation for Public Broadcasting reflects additional federal funds received for capital equipment and stimulus grants.
- Special events increased due to additional events for KUHF's 60th anniversary celebration.

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 on programming fees.
- Broadcasting, engineering, and technical has decreased due to the reduction in phone/data line. Expenses for repairs and maintenance reduced 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 result of increased revenue from contributions and program underwriting without a marginal increase in expenses.

Operating Expenses – Fiscal Year 2010 Compared to Fiscal Year 2009

- Programming and production expenses increased due to hiring of additional staffing for local radio news production.

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- Underwriting salaries and fringe benefits increased to cover the addition of a sales manager for KUHF and an additional sales person.
- Management and general expenses increased due to the following:
 - Legal fees increased in preparation for KUHF's purchase of a second radio station.
 - Increased audit fees resulted in higher professional services expense.
- Institutional support has increased due to an increase in overall expenses.
 - Salaries and wages increased due to the hire of a 50% full-time equivalent administrative assistant and a comptroller position.
 - Increased audit fees resulted in higher professional services expense.
- Institutional support from the System has increased due to an increase in overall expenses.

Capital Assets and Debt Administration

As of the end of the 2011 fiscal year, the Stations had \$18,466,898 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.

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Budgetary Revenues

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

	Budgeted amounts		Actual	Variance with final budget favorable (unfavorable)
	Original	Final		
Contributions	\$ 4,219,443	4,069,443	3,282,790	(786,653)
Contribution grants from ACB	5,655,000	5,655,000	5,655,000	—
General support from the UH System	4,316,184	4,316,184	4,316,184	—
Program underwriting	4,806,000	4,005,000	3,811,220	(193,780)
Production service	805,000	945,000	993,746	48,746
Production grants from ACB	640,000	260,000	44,000	(216,000)
Corporation for Public Broadcasting grants (CPB)	1,950,000	2,534,875	2,544,875	10,000
Other grants	62,000	55,616	65,373	9,757
Royalties	14,809	10,000	18,245	8,245
Rental Income	—	—	2,100	2,100
Special events	200,000	410,000	414,689	4,689
Other grants from ACB	54,000	10,000	174,254	164,254
	<u>\$ 22,722,436</u>	<u>22,271,118</u>	<u>21,322,476</u>	<u>(948,642)</u>

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

- Contributions – KUHT contributions continue to decline. The loss can be contributed to overall loss of members and less than expected programming offerings for on-air pledge drives.
- Program underwriting – KUHT underwriting had less than expected results in FY 11 when compared to the budget. These results were offset by KUHF exceeding their goal by 5%.
- Production service grants from ACB – The production grants from ACB did not meet its goal due to the loss sustained by “The Berlin Wall” project.

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Expenditures

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

	Budgeted amounts		Actual	Variance with final budget favorable (unfavorable)
	Original	Final		
Programming and production (PRD)	\$ 7,353,811	7,222,669	7,942,952	(720,283)
Broadcasting, engineering, and technical (BET)	2,877,350	2,448,408	2,211,540	236,868
Occupancy and physical plant operations (BET)	492,428	492,428	492,428	—
Program information (PGM)	1,300,438	1,105,188	1,048,398	56,790
Fundraising and membership development (FND)	2,979,839	3,282,851	3,598,946	(316,095)
Underwriting and grant solicitation (UND)	629,203	626,454	691,396	(64,942)
Management and general (MGT)	2,088,697	1,953,197	1,992,768	(39,571)
Institutional support (MGT)	3,823,756	3,823,756	3,823,756	—
Depreciation	1,153,571	1,153,571	1,153,571	—
	<u>\$ 22,699,093</u>	<u>22,108,522</u>	<u>22,955,755</u>	<u>(847,233)</u>

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

- Programming and production – Increases in both NPR and PBS fees. Also additional staff were needed to accommodate 24 hour news format.
- Broadcasting, engineering and technical – The lease of TV automation broadcast equipment was deferred to FY 2012.
- Fundraising and membership development – Expenses were greater than originally anticipated related to TV pledge activities.

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, 4343 Elgin, Houston, Texas 77204-0008.

BASIC FINANCIAL STATEMENTS

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Statements of Net Assets

August 31, 2011 and 2010

	2011		2010	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Assets:				
Current assets:				
Cash and equivalents	\$ —	117,567	—	284,737
Accounts receivable, net	821,778	10,315	876,008	134,799
Due from ACB	—	—	543,553	—
Pledge receivable from ACB	80,000	—	90,000	—
Pledge receivable	—	80,000	—	90,000
Restricted cash and equivalents	—	277,510	—	146,201
Investments unrestricted for endowment	361,284	—	325,847	—
Other current assets	—	20,000	—	—
Total current assets	<u>1,263,062</u>	<u>505,392</u>	<u>1,835,408</u>	<u>655,737</u>
Noncurrent assets:				
Pledge receivable	—	75,629	—	79,722
Pledge receivable from ACB	75,629	—	79,722	—
Capital assets, net	18,466,898	194,880	9,456,698	245,585
Film rights, net	70,607	—	63,926	—
Investments restricted for endowment	47,188	857,549	42,323	419,623
Total noncurrent assets	<u>18,660,322</u>	<u>1,128,058</u>	<u>9,642,669</u>	<u>744,930</u>
Total assets	<u>\$ 19,923,384</u>	<u>1,633,450</u>	<u>11,478,077</u>	<u>1,400,667</u>
Liabilities and net assets:				
Current liabilities:				
Due to UH System	\$ 3,676,165	—	3,354,879	—
Due to primary institution	—	—	—	543,553
Pledge payable to primary institution	—	80,000	—	90,000
Accounts payable	96,698	61,231	27,497	77,395
Accrued payroll	593,283	—	614,973	—
Unearned revenue	—	46,220	—	56,886
Employees' compensable leave	574,599	—	589,711	—
Total current liabilities	<u>4,940,745</u>	<u>187,451</u>	<u>4,587,060</u>	<u>767,834</u>
Noncurrent liabilities:				
Pledge payable to primary institution	—	75,629	—	79,722
Debt payable to UH System	9,681,857	—	—	—
Total noncurrent liabilities	<u>9,681,857</u>	<u>75,629</u>	<u>—</u>	<u>79,722</u>
Net assets:				
Invested in capital assets, net of related debt	8,785,041	194,880	9,456,698	245,585
Restricted:				
Expendable for production and outreach programs	—	277,510	—	146,201
Nonexpendable	47,188	857,549	42,323	419,623
Unrestricted	(3,531,447)	40,431	(2,608,004)	(258,298)
Total net assets	<u>\$ 5,300,782</u>	<u>1,370,370</u>	<u>6,891,017</u>	<u>553,111</u>

See accompanying notes to basic financial statements.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended August 31, 2011 and 2010

	2011		2010	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Operating revenues:				
Contributions	\$ 3,282,790	7,710,919	2,548,219	7,389,400
Contribution grants from ACB	5,655,000	—	6,321,296	—
General support from the UH System	4,316,184	—	4,804,988	—
Program underwriting	3,811,220	10,667	3,179,466	10,667
Production service	993,746	750,166	852,277	738,558
Production grants from ACB	44,000	—	167,195	—
Corporation for Public Broadcasting grants (CPB)	2,544,875	—	2,125,322	—
Other grants	65,373	—	47,208	—
Royalties	18,245	—	10,514	—
Rental Income	2,100	—	—	—
Special events	414,689	377,847	319,556	389,584
Special events grants from ACB	—	—	116,699	—
Other grants from ACB	—	—	14,576	—
Other	174,254	25,224	41,296	60,130
Total operating revenues	<u>21,322,476</u>	<u>8,874,823</u>	<u>20,548,612</u>	<u>8,588,339</u>
Operating expenses:				
Grants to primary institution (MGT)	—	5,699,000	—	6,619,766
Programming and production (PRD)	7,942,952	601,971	7,413,545	694,434
Broadcasting, engineering, and technical (BET)	2,211,540	212,958	2,452,698	1,324
Occupancy and physical plant operations (BET)	492,428	—	508,511	—
Program information (PGM)	1,048,398	48,739	1,006,564	28,258
Fundraising and membership development (FND)	3,598,946	1,376,818	3,397,343	1,032,264
Underwriting and grant solicitation (UND)	691,396	—	817,518	—
Management and general (MGT)	1,992,768	99,701	1,972,238	84,987
Institutional support (MGT)	3,823,756	—	4,296,477	—
Depreciation	1,153,571	50,705	927,943	50,705
Total operating expenses	<u>22,955,755</u>	<u>8,089,892</u>	<u>22,792,837</u>	<u>8,511,738</u>
Operating income (loss)	<u>(1,633,279)</u>	<u>784,931</u>	<u>(2,244,225)</u>	<u>76,601</u>
Nonoperating income:				
KUHT insurance recovery	—	—	393,929	—
Gain from endowment	43,044	32,328	24,702	21,223
Total nonoperating income	<u>43,044</u>	<u>32,328</u>	<u>418,631</u>	<u>21,223</u>
Change in net assets	<u>(1,590,235)</u>	<u>817,259</u>	<u>(1,825,594)</u>	<u>97,824</u>
Net assets, beginning of year	<u>6,891,017</u>	<u>553,111</u>	<u>8,716,611</u>	<u>455,287</u>
Net assets, end of year	<u>\$ 5,300,782</u>	<u>1,370,370</u>	<u>6,891,017</u>	<u>553,111</u>

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended August 31, 2011 and 2010

	2011	2010
	Primary institution	Primary institution
Cash flows from operating activities:		
Proceeds from contributions	\$ 8,951,883	8,893,660
Proceeds from CPB grant	2,544,875	2,125,322
Proceeds from other grants	65,373	58,318
Proceeds from program underwriting	4,409,003	3,874,525
Proceeds from other revenues	1,647,034	1,916,042
Payments to suppliers for goods and services	(4,947,814)	(5,135,319)
Payments to employees	(8,301,907)	(8,277,768)
Payments for broadcasting fees	(2,790,619)	(2,684,330)
Payments for other expenses	(1,318,608)	(1,037,887)
	<u>259,220</u>	<u>(267,437)</u>
Cash flows from noncapital financing activities:		
Advances from UH System	324,028	209,160
	<u>324,028</u>	<u>209,160</u>
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(10,163,771)	(102,848)
Payments for additions of film rights	(101,334)	(79,565)
Proceeds from UH System used to finance KUHA asset purchase	9,681,857	—
	<u>(583,248)</u>	<u>(182,413)</u>
Decrease in cash and cash equivalents	—	(240,690)
Cash and cash equivalents, beginning of year	<u>—</u>	<u>240,690</u>
Cash and cash equivalents, end of year	<u>\$ —</u>	<u>—</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,633,279)	(2,244,225)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,153,571	927,943
Amortization of film rights	94,653	56,312
KUHT insurance recovery	—	393,929
Decrease in accounts receivable	54,230	127,221
Decrease in amounts due from ACB	543,553	578,948
Decrease in pledge receivable	14,093	24,145
Increase (decrease) in accounts payable	69,201	(101,687)
Increase (decrease) in accrued payroll	(21,690)	24,528
Decrease in compensated absences payable	(15,112)	(51,051)
Decrease in other liabilities	—	(3,500)
	<u>1,892,499</u>	<u>1,976,788</u>
Net cash provide by (used in) operating activities	<u>\$ 259,220</u>	<u>(267,437)</u>

See accompanying notes to basic financial statements.

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(1) Entity

The Public Broadcasting Division (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-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 and is also known as HoustonPBS. 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, 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.

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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 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

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 Procedure 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

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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) 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.

(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.

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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.

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(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 GASB Statement 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.

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- 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 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 years 2011 and 2010. 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 2011, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio. The UH System Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset

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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, 2011 and 2010:

Balance, August 31, 2009	\$	343,468
2010 realized/unrealized gain		24,702
Balance, August 31, 2010		368,170
2011 realized/unrealized gain		40,302
Balance, August 31, 2011	\$	408,472

The assets of the Stations' quasi-endowments totaled \$361,284 and \$325,847 at August 31, 2011 and 2010, respectively and are not legally restricted. As of August 31, 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 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 ACB Endowment Fund, 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 ACB Endowment Fund will be reinvested to protect the capital against erosion by inflation.

The Endowment's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have as a goal that its total distributions and expenses not exceed the Endowment's total inflation-adjusted return on investments. Consistent with the Endowment's long-term investment objectives, the Board of Directors established the spending policy, which 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 ACB 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 Endowment Fund 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

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is in the ACB 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 \$857,549 as of August 31, 2011 and \$419,623 as of August 31, 2010, 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, 2011 and 2010:

Balance, August 31, 2009	\$	399,670
Gain from endowment		21,223
Administrative charges		<u>(1,270)</u>
Balance, August 31, 2010		419,623
Contributions		407,189
Gain from endowment		32,328
Administrative charges		<u>(1,591)</u>
Balance, August 31, 2011	\$	<u><u>857,549</u></u>

As of August 31, 2011 and 2010, 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, 2011 comprised the following:

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

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Accounts receivable as of August 31, 2010 comprised the following:

	Primary institution	Component unit (ACB)
Accounts receivable	\$ 941,548	147,999
Allowance for doubtful accounts	(65,540)	(13,200)
Total	\$ 876,008	134,799

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

(5) Pledge Receivable

As of August 31, 2011 and 2010, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

	2011	2010
Receivable within one year	\$ 80,000	90,000
Receivable in two to five years	80,000	90,000
Less discount at 1.89%	(4,371)	(10,278)
Pledge receivable in two to five years, present value	\$ 155,629	169,722

As of August 31, 2011 and 2010, 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.

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(6) Capital Assets

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

	<u>Balance, August 31, 2010</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2011</u>
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
	<u>22,885,621</u>	<u>620,961</u>	<u>56,446</u>	<u>23,450,136</u>
Less accumulated depreciation	<u>13,428,923</u>	<u>1,153,571</u>	<u>56,446</u>	<u>14,526,048</u>
Total depreciable capital assets	<u>36,314,544</u>	<u>1,774,532</u>	<u>112,892</u>	<u>37,976,184</u>
Nondepreciable capital assets:				
Land	—	402,044	—	402,044
Indefinite lived intangible assets	—	9,140,766	—	9,140,766
Total nondepreciable capital asset	<u>—</u>	<u>9,542,810</u>	<u>—</u>	<u>9,542,810</u>
Net capital assets	<u>\$ 9,456,698</u>	<u>9,010,200</u>	<u>—</u>	<u>18,466,898</u>

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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
	<u>1,190,598</u>	<u>—</u>	<u>—</u>	<u>1,190,598</u>
Less accumulated depreciation	959,113	50,705	—	1,009,818
Total depreciable capital assets	<u>959,113</u>	<u>50,705</u>	<u>—</u>	<u>1,009,818</u>
Nondepreciable capital asset:				
Land	14,100	—	—	14,100
Total nondepreciable capital assets	<u>14,100</u>	<u>—</u>	<u>—</u>	<u>14,100</u>
Net capital assets	<u>\$ 245,585</u>	<u>(50,705)</u>	<u>—</u>	<u>194,880</u>

Capital asset activities for the year ended August 31, 2010 were as follows for the Stations:

	Balance, August 31, 2009	Additions	Dispositions	Balance, August 31, 2010
Capital assets:				
Construction in progress	\$ 135,890	(135,890)	—	—
Buildings and building improvements	12,637,863	—	—	12,637,863
Furniture and equipment	10,017,198	204,272	83,178	10,138,292
Vehicle	—	34,466	—	34,466
Other assets	75,000	—	—	75,000
	<u>22,865,951</u>	<u>102,848</u>	<u>83,178</u>	<u>22,885,621</u>
Less accumulated depreciation	12,584,158	927,943	83,178	13,428,923
	<u>12,584,158</u>	<u>927,943</u>	<u>83,178</u>	<u>13,428,923</u>
Net capital assets	<u>\$ 10,281,793</u>	<u>(825,095)</u>	<u>—</u>	<u>9,456,698</u>

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Notes to Basic Financial Statements

August 31, 2011 and 2010

Capital asset activities for the year ended August 31, 2010 were as follows for ACB:

	<u>Balance, August 31, 2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2010</u>
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
	<u>1,080,388</u>	<u>110,210</u>	<u>—</u>	<u>1,190,598</u>
Less accumulated depreciation	<u>908,408</u>	<u>50,705</u>	<u>—</u>	<u>959,113</u>
Total depreciable capital assets	908,408	50,705	—	959,113
Nondepreciable capital assets:				
Land	<u>14,100</u>	<u>—</u>	<u>—</u>	<u>14,100</u>
Total nondepreciable capital assets	<u>14,100</u>	<u>—</u>	<u>—</u>	<u>14,100</u>
Net capital assets	<u>\$ 186,080</u>	<u>59,505</u>	<u>—</u>	<u>245,585</u>

(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, 2011 and 2010 were as follows:

Balance, August 31, 2009	\$ 40,674
2010 additions	<u>79,564</u>
Total	120,238
2010 amortization	<u>(56,312)</u>
Balance, August 31, 2010	63,926
2011 additions	<u>101,334</u>
Total	165,260
2011 amortization	<u>(94,653)</u>
Balance, August 31, 2011	<u>\$ 70,607</u>

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Notes to Basic Financial Statements

August 31, 2011 and 2010

(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, 2011 and 2010.

The "Debt payable to the 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, 2011 is \$9,681,857 and first payment is not due until FY 2013.

(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, 2011 and 2010 was \$(3,531,447) and \$(2,608,004), 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, 2011 and 2010 was \$45,196 and \$(258,298), respectively. The decrease in the deficit balance was due to the increase on the fundraising activities. In response to this situation in the Stations, management is developing plans to generate additional unrestricted resources through more robust marketing efforts and fundraising campaigns to foundations and individuals, and to more effectively control operating costs 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 2011 and fiscal year 2010. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.), which was \$166,999 in fiscal year 2011 and \$183,082 in fiscal year 2010. 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 \$3,823,756 in fiscal year 2011 and \$4,296,477 in fiscal year 2010.

(11) Corporation for Public Broadcasting 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.

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Notes to Basic Financial Statements

August 31, 2011 and 2010

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 6.4% 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 \$378,456, \$372,618, and \$345,953 in 2011, 2010, and 2009, respectively. The total amount of employee contributions was \$54,121, \$56,713, and \$53,535 in 2011, 2010, and 2009, 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 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 8.5% 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 6.4% of the employee’s gross salary to the ORP account. Contributions to the plan by the Stations amounted to \$47,709, \$51,428, and \$54,980 in 2011, 2010, and 2009, respectively. The total amount of employee contributions was \$7,432, \$7,187, and \$9,917 in 2011, 2010, and 2009, 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.

PUBLIC BROADCASTING
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Notes to Basic Financial Statements

August 31, 2011 and 2010

(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 year ended August 31, 2011 and 2010, the lease expense was \$491,625 and \$420,536, respectively.

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

	Amount
Year ending August 31:	
2012	\$ 274,679
2013	281,470
2014	244,190
2015	247,370
2016	104,626
	\$ 1,152,335

(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 year ended August 31, 2011 and 2010 amounted to \$2,289,564 and \$1,879,021, 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, 2011 and 2010. 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, 2011 and 2010. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

PUBLIC BROADCASTING
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Notes to Basic Financial Statements

August 31, 2011 and 2010

(16) Insurance Recovery

As of August 31, 2009, the Stations had an insurance claim related to business interruption losses at the Stations, which had not been settled with the insurance carrier, and, as such, represented a contingent gain not recorded on the fiscal year 2009 financial statements. The claim was settled for \$393,929 and the check was received in December 2009 and was recorded in the fiscal year 2010 financial statements.

(17) 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.

PUBLIC BROADCASTING
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Notes to Basic Financial Statements

August 31, 2011 and 2010

(18) Subsequent Event Disclosure

The KUHA purchase was paid by the University of Houston System. The debt was subsequently converted to a twenty five year bond effective 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 repay the bond debt according to the following schedule:

<u>Ending</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Debt service</u>
8/31/2012	\$ —	—%	\$ 272,455.56	272,455.56
8/31/2013	—	—	434,000.00	434,000.00
8/31/2014	180,000	5.00	429,500.00	609,500.00
8/31/2015	190,000	5.00	420,250.00	610,250.00
8/31/2016	200,000	5.00	410,500.00	610,500.00
8/31/2017	205,000	5.00	400,375.00	605,375.00
8/31/2018	220,000	5.00	389,750.00	609,750.00
8/31/2019	230,000	5.00	378,500.00	608,500.00
8/31/2020	240,000	5.00	366,750.00	606,750.00
8/31/2021	255,000	5.00	354,375.00	609,375.00
8/31/2022	265,000	5.00	341,375.00	606,375.00
8/31/2023	280,000	5.00	327,750.00	607,750.00
8/31/2024	295,000	5.00	313,375.00	608,375.00
8/31/2025	310,000	5.00	298,250.00	608,250.00
8/31/2026	325,000	5.00	282,375.00	607,375.00
8/31/2027	340,000	5.00	265,750.00	605,750.00
8/31/2028	360,000	5.00	248,250.00	608,250.00
8/31/2029	380,000	5.00	229,750.00	609,750.00
8/31/2030	395,000	5.00	210,375.00	605,375.00
8/31/2031	420,000	5.00	190,000.00	610,000.00
8/31/2032	440,000	5.00	168,500.00	608,500.00
8/31/2033	460,000	5.00	146,000.00	606,000.00
8/31/2034	485,000	5.00	122,375.00	607,375.00
8/31/2035	510,000	5.00	97,500.00	607,500.00
8/31/2036	535,000	5.00	71,375.00	606,375.00
8/31/2037	565,000	5.00	43,875.00	608,875.00
8/31/2038	595,000	5.00	14,875.00	609,875.00
	<u>\$ 8,680,000</u>		<u>\$ 7,228,205.56</u>	<u>15,908,205.56</u>

OTHER SUPPLEMENTARY INFORMATION

PUBLIC BROADCASTING
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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
Fundraising	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
	<u>7,942,952</u>	<u>2,211,540</u>	<u>1,048,398</u>	<u>11,202,890</u>	<u>3,598,946</u>	<u>1,992,768</u>	<u>691,396</u>	<u>6,283,110</u>	<u>17,486,000</u>
In-kind:									
General support from the System	—	492,428	—	492,428	—	3,823,756	—	3,823,756	4,316,184
Total expenses before depreciation	<u>\$ 7,942,952</u>	<u>2,703,968</u>	<u>1,048,398</u>	<u>11,695,318</u>	<u>3,598,946</u>	<u>5,816,524</u>	<u>691,396</u>	<u>10,106,866</u>	<u>21,802,184</u>
Percentage of total expenses before depreciation	36%	12%	5%	54%	17%	27%	3%	46%	100%

See accompanying independent auditors' report.

PUBLIC BROADCASTING
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Schedule of Functional Expenses

Year ended August 31, 2010

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	\$ 2,675,919	799,856	716,693	4,192,468	920,915	994,354	596,029	2,511,298	6,703,766
Fringe benefits	606,151	185,827	164,917	956,895	219,194	219,121	152,268	590,583	1,547,478
Financial and legal services	6,865	3,027	1,448	11,340	229,919	203,981	6,946	440,846	452,186
Fundraising	13,758	—	26,876	40,634	693,239	862	4,306	698,407	739,041
Membership fees	387,384	16,475	202	404,061	16,830	43,415	935	61,180	465,241
Other expenses	598,038	8,486	24,336	630,860	104,245	294,489	12,318	411,052	1,041,912
Postage	3,429	651	3,194	7,274	526,227	2,359	3,165	531,751	539,025
Printing and reproduction services	17,486	—	8,513	25,999	116,450	1,318	545	118,313	144,312
Professional services	156,855	74,253	11,506	242,614	148,437	41,833	25,156	215,426	458,040
Program rights	2,730,497	—	—	2,730,497	10,146	—	—	10,146	2,740,643
Rental and leases	19,417	385,541	28,973	433,931	81,700	18,764	—	100,464	534,395
Repair and maintenance	7,214	293,960	337	301,511	2,640	14,590	—	17,230	318,741
Supplies and materials	44,667	203,583	6,862	255,112	24,096	95,204	410	119,710	374,822
Telemarketing services	—	—	—	—	200,674	—	—	200,674	200,674
Telephone	70,336	113,194	6,954	190,484	72,870	24,366	3,646	100,882	291,366
Travel	66,848	2,427	5,753	75,028	29,761	4,301	11,794	45,856	120,884
Utilities	4,500	365,418	—	369,918	—	13,281	—	13,281	383,199
Broadcasting fees	4,181	—	—	4,181	—	—	—	—	4,181
	<u>7,413,545</u>	<u>2,452,698</u>	<u>1,006,564</u>	<u>10,872,807</u>	<u>3,397,343</u>	<u>1,972,238</u>	<u>817,518</u>	<u>6,187,099</u>	<u>17,059,906</u>
In-kind:									
General support from the System	—	508,511	—	508,511	—	4,296,477	—	4,296,477	4,804,988
Total expenses before depreciation	<u>\$ 7,413,545</u>	<u>2,961,209</u>	<u>1,006,564</u>	<u>11,381,318</u>	<u>3,397,343</u>	<u>6,268,715</u>	<u>817,518</u>	<u>10,483,576</u>	<u>21,864,894</u>
Percentage of total expenses before depreciation	34%	14%	4%	52%	16%	29%	4%	48%	100%

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHT
Statements of Net Asset Information
August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Current assets:		
Cash and equivalents	\$ —	—
Accounts receivable, net	432,642	480,004
Due from ACB	—	543,553
Pledge receivable from ACB	80,000	90,000
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	361,284	325,847
Other current assets	—	—
Total current assets	<u>873,926</u>	<u>1,439,404</u>
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	75,629	79,722
Capital assets, net	8,536,365	9,126,250
Film rights, net	70,607	63,926
Investments restricted for endowment	47,188	42,323
Total noncurrent assets	<u>8,729,789</u>	<u>9,312,221</u>
Total assets	<u>\$ 9,603,715</u>	<u>10,751,625</u>
Liabilities and net assets:		
Current liabilities:		
Due to UH System	\$ 3,445,265	2,833,983
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	58,717	21,685
Accrued payroll	282,921	289,528
Unearned revenue	—	—
Employees' compensable leave	293,444	284,815
Total current liabilities	<u>4,080,347</u>	<u>3,430,011</u>
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	<u>—</u>	<u>—</u>
Net assets:		
Invested in capital assets	8,536,365	9,126,250
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	47,188	42,323
Unrestricted	(3,060,185)	(1,846,959)
Total net assets	<u>\$ 5,523,368</u>	<u>7,321,614</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
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Primary Institution Financial Information – KUHT

Statements of Revenues, Expenses, and Changes in Net Assets Information

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Contributions	\$ 1,703,621	1,324,894
Contribution grants from ACB	3,480,000	4,095,230
General support from the UH System	2,404,709	2,724,449
Program underwriting	551,449	596,382
Production service	736,528	824,464
Production grants from ACB	—	167,195
Corporation for Public Broadcasting grants (CPB)	1,921,729	1,534,073
Other grants	—	23,068
Royalties	18,245	10,405
Special events	—	59,208
Special events grants from ACB	150,477	116,699
Other grants from ACB	—	14,576
Other	17,028	36,296
	<u>10,983,786</u>	<u>11,526,939</u>
Total operating revenues		
Grants to primary institution	—	—
Programming and production (PRD)	3,809,171	3,775,132
Broadcasting, engineering, and technical (BET)	1,457,463	1,638,621
Occupancy and physical plant operations (BET)	355,117	367,275
Program information (PGM)	658,872	622,288
Fundraising and membership development (FND)	2,278,892	2,116,719
Underwriting and grant solicitation (UND)	224,277	237,889
Management and general (MGT)	929,947	968,913
Institutional support (MGT)	2,049,592	2,357,173
Depreciation	1,061,745	828,412
	<u>12,825,076</u>	<u>12,912,422</u>
Total operating expenses		
Operating income (loss)	<u>(1,841,290)</u>	<u>(1,385,483)</u>
KUHT insurance recovery	—	393,929
Gain (loss) from endowment	43,044	24,702
	<u>43,044</u>	<u>418,631</u>
Total nonoperating income (expense)		
Change in net assets	<u>(1,798,246)</u>	<u>(966,852)</u>
Net assets, beginning of year	<u>7,321,614</u>	<u>8,288,466</u>
Net assets, end of year	<u>\$ 5,523,368</u>	<u>7,321,614</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHT
Schedule of Functional Expenses Information
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	\$ 857,832	588,577	476,981	1,923,390	567,199	517,674	176,572	1,261,445	3,184,835
Fringe benefits	223,571	160,985	125,089	509,645	137,666	133,016	42,543	313,225	822,870
Financial and legal services	7,816	1,530	1,252	10,598	90,172	71,961	—	162,133	172,731
Fundraising	11,684	419	9,928	22,031	808,064	543	—	808,607	830,638
Membership fees	245,246	—	—	245,246	2,375	38,490	—	40,865	286,111
Other expenses	362,009	7,126	13,827	382,962	79,306	114,406	1,887	195,599	578,561
Postage	2,317	260	2,122	4,699	341,762	3,316	250	345,328	350,027
Printing and reproduction services	989	—	1,314	2,303	45,721	4,637	54	50,412	52,715
Professional services	94,332	51,211	2,845	148,388	28,121	3,136	—	31,257	179,645
Program rights	1,805,965	—	—	1,805,965	5,200	—	—	5,200	1,811,165
Rental and leases	73,646	169,024	17,766	260,436	5,305	10,700	—	16,005	276,441
Repair and maintenance	8,980	77,181	—	86,161	—	1,461	—	1,461	87,622
Supplies and materials	24,969	126,878	224	152,071	11,562	9,203	143	20,908	172,979
Telemarketing services	—	—	—	—	122,185	—	—	122,185	122,185
Telephone	68,180	74,964	4,198	147,342	13,650	12,875	1,457	27,982	175,324
Travel	15,045	942	3,326	19,313	20,335	8,529	1,371	30,235	49,548
Utilities	—	198,366	—	198,366	—	—	—	—	198,366
Broadcasting fees	6,590	—	—	6,590	269	—	—	269	6,859
	<u>3,809,171</u>	<u>1,457,463</u>	<u>658,872</u>	<u>5,925,506</u>	<u>2,278,892</u>	<u>929,947</u>	<u>224,277</u>	<u>3,433,116</u>	<u>9,358,622</u>
In-kind:									
General support from the system	—	355,117	—	355,117	—	2,049,592	—	2,049,592	2,404,709
Total expenses before depreciation	<u>\$ 3,809,171</u>	<u>1,812,580</u>	<u>658,872</u>	<u>6,280,623</u>	<u>2,278,892</u>	<u>2,979,539</u>	<u>224,277</u>	<u>5,482,708</u>	<u>11,763,331</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHT
Schedule of Functional Expenses Information
Year ended August 31, 2010

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	\$ 842,814	583,056	459,126	1,884,996	547,801	531,631	182,583	1,262,015	3,147,011
Fringe benefits	207,704	141,384	100,116	449,204	143,750	120,700	48,782	313,232	762,436
Financial and legal services	6,600	3,270	965	10,835	103,263	84,914	127	188,304	199,139
Fundraising	11,171	—	6,017	17,188	536,475	413	—	536,888	554,076
Membership fees	264,350	16,475	197	281,022	6,690	31,607	—	38,297	319,319
Other expenses	468,168	4,815	21,728	494,711	52,455	140,698	2,413	195,566	690,277
Postage	2,061	226	1,260	3,547	404,601	2,227	259	407,087	410,634
Printing and reproduction services	16,964	—	3,631	20,595	30,983	611	—	31,594	52,189
Professional services	46,545	39,661	2,364	88,570	33,520	3,555	—	37,075	125,645
Program rights	1,769,508	—	—	1,769,508	10,146	—	—	10,146	1,779,654
Rental and leases	19,417	270,160	14,957	304,534	3,056	3,493	—	6,549	311,083
Repair and maintenance	2,970	195,593	—	198,563	—	2,682	—	2,682	201,245
Supplies and materials	31,483	85,383	5,121	121,987	14,343	31,315	195	45,853	167,840
Telemarketing services	—	—	—	—	178,187	—	—	178,187	178,187
Telephone	31,526	94,023	4,392	129,941	36,164	13,471	1,457	51,092	181,033
Travel	49,670	2,145	2,414	54,229	15,285	1,596	2,073	18,954	73,183
Utilities	—	202,430	—	202,430	—	—	—	—	202,430
Broadcasting fees	4,181	—	—	4,181	—	—	—	—	4,181
	<u>3,775,132</u>	<u>1,638,621</u>	<u>622,288</u>	<u>6,036,041</u>	<u>2,116,719</u>	<u>968,913</u>	<u>237,889</u>	<u>3,323,521</u>	<u>9,359,562</u>
In-kind:									
General support from the system	—	367,275	—	367,275	—	2,357,173	—	2,357,173	2,724,448
Total expenses before depreciation	\$ <u>3,775,132</u>	<u>2,005,896</u>	<u>622,288</u>	<u>6,403,316</u>	<u>2,116,719</u>	<u>3,326,086</u>	<u>237,889</u>	<u>5,680,694</u>	<u>12,084,010</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHF
Statements of Net Asset Information
August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Current assets:		
Cash and equivalents	\$ —	—
Accounts receivable, net	389,575	396,004
Due from ACB	—	—
Pledge receivable from ACB	—	—
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	—	—
Other current assets	—	—
Total current assets	<u>389,575</u>	<u>396,004</u>
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	—	—
Capital assets, net	249,257	330,448
Film rights, net	—	—
Investments restricted for endowment	—	—
Total noncurrent assets	<u>249,257</u>	<u>330,448</u>
Total assets	<u>\$ 638,832</u>	<u>726,452</u>
Liabilities and net assets:		
Current liabilities:		
Due to UH System	\$ 261,534	520,896
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	37,944	5,812
Accrued payroll	240,249	325,445
Unearned revenue	—	—
Employees' compensable leave	277,391	304,896
Total current liabilities	<u>817,118</u>	<u>1,157,049</u>
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	<u>—</u>	<u>—</u>
Net assets:		
Invested in capital assets	249,257	330,448
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	—	—
Unrestricted	<u>(427,543)</u>	<u>(761,045)</u>
Total net assets	<u>\$ (178,286)</u>	<u>(430,597)</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)

Primary Institution Financial Information – KUHF

Statements of Revenues, Expenses, and Changes in Net Assets Information

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Contributions	\$ 1,577,210	1,223,325
Contribution grants from ACB	2,175,000	2,226,066
General support from the UH System	1,858,212	2,080,539
Program underwriting	3,258,691	2,583,084
Production service	257,218	27,813
Production grants from ACB	44,000	—
Corporation for Public Broadcasting grants (CPB)	623,146	591,249
Other grants	8,773	24,140
Royalties	—	109
Special events	—	260,348
Special events grants from ACB	264,212	—
Other grants from ACB	—	—
Other	(11,015)	5,000
	<u>10,055,447</u>	<u>9,021,673</u>
Total operating revenues		
Grants to primary institution		—
Programming and production (PRD)	3,891,425	3,638,413
Broadcasting, engineering, and technical (BET)	753,276	814,077
Occupancy and physical plant operations (BET)	137,311	141,236
Program information (PGM)	389,526	384,276
Fundraising and membership development (FND)	1,320,054	1,280,624
Underwriting and grant solicitation (UND)	467,119	579,629
Management and general (MGT)	1,036,332	1,003,325
Institutional support (MGT)	1,720,901	1,939,304
Depreciation	87,192	99,531
	<u>9,803,136</u>	<u>9,880,415</u>
Total operating expenses		
Operating income (loss)	<u>252,311</u>	<u>(858,742)</u>
KUHT insurance recovery	—	—
Gain from endowment	—	—
	<u>—</u>	<u>—</u>
Total nonoperating income (expense)		
Change in net assets	252,311	(858,742)
Net assets, beginning of year	<u>(430,597)</u>	<u>428,145</u>
Net assets, end of year	<u>\$ (178,286)</u>	<u>(430,597)</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHF
Schedule of Functional Expenses Information
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	\$ 1,720,121	168,404	272,416	2,160,941	345,869	433,819	336,627	1,116,315	3,277,256
Fringe benefits	380,377	38,144	74,463	492,984	90,022	79,263	75,518	244,803	737,787
Financial and legal services	2,146	1,007	218	3,371	122,887	248,844	10,986	382,717	386,088
Fundraising	4,753	343	32,612	37,708	121,356	287	358	122,001	159,709
Membership fees	81,357	6,425	—	87,782	130	4,132	375	4,637	92,419
Other expenses	337,892	62,951	(10,052)	390,791	164,973	148,765	9,076	322,814	713,605
Postage	941	248	688	1,877	189,258	805	2,312	192,375	194,252
Printing and reproduction services	360	—	847	1,207	79,541	1,608	599	81,748	82,955
Professional services	136,918	57,112	10,300	204,330	73,680	24,758	20,355	118,793	323,123
Program rights	1,074,107	—	—	1,074,107	—	—	—	—	1,074,107
Rental and leases	3,595	122,505	37	126,137	54,843	34,254	—	89,097	215,234
Repair and maintenance	70,749	31,749	—	102,498	100	15,112	1,584	16,796	119,294
Supplies and materials	15,925	104,840	840	121,605	(330)	27,531	11	27,212	148,817
Telemarketing services	—	—	—	—	54,691	—	—	54,691	54,691
Telephone	28,220	28,042	2,419	58,681	15,792	11,198	2,229	29,219	87,900
Travel	29,464	51	4,738	34,253	7,242	5,956	7,089	20,287	54,540
Utilities	4,500	131,455	—	135,955	—	—	—	—	135,955
Broadcasting fees	—	—	—	—	—	—	—	—	—
	<u>3,891,425</u>	<u>753,276</u>	<u>389,526</u>	<u>5,034,227</u>	<u>1,320,054</u>	<u>1,036,332</u>	<u>467,119</u>	<u>2,823,505</u>	<u>7,857,732</u>
In-kind:									
General support from the System	—	137,311	—	137,311	—	1,720,901	—	1,720,901	1,858,212
Total expenses before depreciation	<u>\$ 3,891,425</u>	<u>890,587</u>	<u>389,526</u>	<u>5,171,538</u>	<u>1,320,054</u>	<u>2,757,233</u>	<u>467,119</u>	<u>4,544,406</u>	<u>9,715,944</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHF
Schedule of Functional Expenses Information
Year ended August 31, 2010

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	\$ 1,833,105	216,800	257,567	2,307,472	373,114	462,723	413,446	1,249,283	3,556,755
Fringe benefits	398,447	44,443	64,801	507,691	75,444	98,421	103,486	277,351	785,042
Financial and legal services	265	(243)	483	505	126,656	119,067	6,819	252,542	253,047
Fundraising	2,587	—	20,859	23,446	156,764	449	4,306	161,519	184,965
Membership fees	123,034	—	5	123,039	10,140	11,808	935	22,883	145,922
Other expenses	129,870	3,671	2,608	136,149	51,790	153,791	9,905	215,486	351,635
Postage	1,368	425	1,934	3,727	121,626	132	2,906	124,664	128,391
Printing and reproduction services	522	—	4,882	5,404	85,467	707	545	86,719	92,123
Professional services	110,310	34,592	9,142	154,044	114,917	38,278	25,156	178,351	332,395
Program rights	960,989	—	—	960,989	—	—	—	—	960,989
Rental and leases	—	115,381	14,016	129,397	78,644	15,271	—	93,915	223,312
Repair and maintenance	4,244	98,367	337	102,948	2,640	11,908	—	14,548	117,496
Supplies and materials	13,184	118,200	1,741	133,125	9,753	63,889	215	73,857	206,982
Telemarketing services	—	—	—	—	22,487	—	—	22,487	22,487
Telephone	38,810	19,171	2,562	60,543	36,706	10,895	2,189	49,790	110,333
Travel	17,178	282	3,339	20,799	14,476	2,705	9,721	26,902	47,701
Utilities	4,500	162,988	—	167,488	—	13,281	—	13,281	180,769
Broadcasting fees	—	—	—	—	—	—	—	—	—
	<u>3,638,413</u>	<u>814,077</u>	<u>384,276</u>	<u>4,836,766</u>	<u>1,280,624</u>	<u>1,003,325</u>	<u>579,629</u>	<u>2,863,578</u>	<u>7,700,344</u>
In-kind:									
General support from the System	—	141,236	—	141,236	—	1,939,304	—	1,939,304	2,080,540
Total expenses before depreciation	<u>\$ 3,638,413</u>	<u>955,313</u>	<u>384,276</u>	<u>4,978,002</u>	<u>1,280,624</u>	<u>2,942,629</u>	<u>579,629</u>	<u>4,802,882</u>	<u>9,780,884</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHA
Statement of Net Assets Information
August 31, 2011

	<u>2011</u>
Assets:	
Current assets:	
Cash and equivalents	\$ —
Accounts receivable, net	(439)
Due from ACB	—
Pledge receivable from ACB	—
Pledge receivable	—
Restricted cash and equivalents	—
Investments unrestricted for endowment	—
Other current assets	—
Total current assets	<u>(439)</u>
Noncurrent assets:	
Pledge receivable	—
Pledge receivable from ACB	—
Capital assets, net	9,681,276
Film rights, net	—
Investments restricted for endowment	—
Total noncurrent assets	<u>9,681,276</u>
Total assets	<u>\$ 9,680,837</u>
Liabilities and net assets:	
Current liabilities:	
Due to UH System	\$ (30,634)
Due to primary institution	—
Pledge payable to primary institution	—
Accounts payable	37
Radio broadcasting internships payable	—
Accrued payroll	70,113
Unearned revenue	—
Other current liabilities	—
Employees' compensable leave	3,764
Total current liabilities	<u>43,280</u>
Noncurrent liabilities:	
Pledge payable to primary institution	—
Radio broadcasting internships payable	—
Due to UH System	9,681,857
Total noncurrent liabilities	<u>9,681,857</u>
Net assets:	
Invested in capital assets	(581)
Restricted:	
Expendable for production and outreach programs	—
Nonexpendable	—
Unrestricted	(43,719)
Total net assets	<u>\$ (44,300)</u>

See accompanying independent auditors' report.

Schedule 4

PUBLIC BROADCASTING

(A Division of the University of Houston System)

Primary Institution Financial Information – KUHA

Statement of Revenues, Expenses, and Changes in Net Assets Information

Period from May 16, 2011 through August 31, 2011

	<u>2011</u>
Contributions	\$ 1,959
Contribution grants from ACB	—
General support from the UH System	53,263
Program underwriting	1,080
Production service	—
Production grants from ACB	—
Corporation for Public Broadcasting grants (CPB)	—
Other grants	56,600
Royalties	—
Rental Income	2,100
Special events	—
Special events grants from ACB	—
Other grants from ACB	—
Proceeds from Bond	—
Other	168,241
	<u>283,243</u>
Total operating revenues	<u>283,243</u>
Grants to primary institution	—
Programming and production (PRD)	242,356
Broadcasting, engineering, and technical (BET)	801
Occupancy and physical plant operations (BET)	—
Program information (PGM)	—
Fundraising and membership development (FND)	—
Underwriting and grant solicitation (UND)	—
Management and general (MGT)	26,489
Institutional support (MGT)	53,263
Depreciation	4,634
	<u>327,543</u>
Total operating expenses	<u>327,543</u>
Operating income (loss)	<u>(44,300)</u>
KUHT loss funding	—
Gain from endowment	—
	<u>—</u>
Total nonoperating income (expense)	<u>—</u>
Change in net assets	(44,300)
Net assets, beginning of year	—
Net assets, end of year	<u><u>\$ (44,300)</u></u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHA
Schedule of Functional Expenses Information
Period from May 16, 2011 through 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	\$ 193,846	—	—	193,846	—	—	—	—	193,846
Fringe benefits	48,510	—	—	48,510	—	—	—	—	48,510
Financial and legal services	—	—	—	—	—	—	—	—	—
Fundraising	—	—	—	—	—	—	—	—	—
Membership fees	—	—	—	—	—	—	—	—	—
Other expenses	—	—	—	—	—	28	—	28	28
Postage	—	—	—	—	—	317	—	317	317
Printing and reproduction services	—	—	—	—	—	—	—	—	—
Professional services	—	3	—	3	—	26,097	—	26,097	26,100
Program rights	—	—	—	—	—	—	—	—	—
Rental and leases	—	—	—	—	—	—	—	—	—
Repair and maintenance	—	—	—	—	—	—	—	—	—
Supplies and materials	—	35	—	35	—	47	—	47	82
Telemarketing services	—	—	—	—	—	—	—	—	—
Telephone	—	—	—	—	—	—	—	—	—
Travel	—	—	—	—	—	—	—	—	—
Utilities	—	763	—	763	—	—	—	—	763
Broadcasting fees	—	—	—	—	—	—	—	—	—
	<u>242,356</u>	<u>801</u>	<u>—</u>	<u>243,157</u>	<u>—</u>	<u>26,489</u>	<u>—</u>	<u>26,489</u>	<u>269,646</u>
In-kind:									
General support from the System	—	—	—	—	—	53,263	—	53,263	53,263
Total expenses before depreciation	<u>\$ 242,356</u>	<u>801</u>	<u>—</u>	<u>243,157</u>	<u>—</u>	<u>79,752</u>	<u>—</u>	<u>79,752</u>	<u>322,909</u>
Percentage of total expenses before depreciation	75%	—%	—%	75%	—%	25%	—%	25%	100%

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Component Unit (ACB) Schedule of Functional Expenses Information
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	46,408	—	218,580	221,531
Fundraising	—	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	—	72,442	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	99,701	—	1,476,519	8,039,187

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)

Component Unit (ACB) Schedule of Functional Expenses Information

Year ended August 31, 2010

Class	Grants to primary institution	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)	Total	Grand total
Financial and legal services	\$ —	—	—	1,015	194,351	75,546	—	269,897	270,912
Fundraising	—	11,171	—	6,580	113,124	—	—	113,124	130,875
Grants to KUHF-FM	2,226,068	—	—	—	—	—	—	—	2,226,068
Grants to KUHT-TV	4,393,700	—	—	—	—	—	—	—	4,393,700
Membership fees	—	135	—	—	16,725	—	—	16,725	16,860
Other expenses	—	478,916	—	16,534	76,752	3,490	—	80,242	575,692
Mail services	—	732	—	548	359,249	18	—	359,267	360,547
Printing and reproduction services	—	16,927	—	738	7,264	840	—	8,104	25,769
Professional services	—	60,306	—	292	61,655	1,346	—	63,001	123,599
Program rights	—	30,310	—	—	—	—	—	—	30,310
Rental and leases	—	8,065	—	—	11,268	—	—	11,268	19,333
Repair and maintenance	—	11,517	—	—	—	633	—	633	12,150
Supplies and materials	—	16,998	1,324	1,565	1,649	3,112	—	4,761	24,648
Telemarketing services	—	—	—	—	167,843	—	—	167,843	167,843
Telephone	—	11,716	—	—	19,943	—	—	19,943	31,659
Travel	—	47,641	—	986	2,441	—	—	2,441	51,068
Total expenses before depreciation	\$ 6,619,768	694,434	1,324	28,258	1,032,264	84,985	—	1,117,249	8,461,033

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)

Schedule of Budgetary Comparison

Year ended August 31, 2011

	Budgeted amounts original	Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:				
Contributions	\$ 4,219,443	4,069,443	3,282,790	(786,653)
Contributions grants from ACB	5,655,000	5,655,000	5,655,000	—
General support from the UH System	4,316,184	4,316,184	4,316,184	—
Program underwriting	4,806,000	4,005,000	3,811,220	(193,780)
Production service	805,000	945,000	993,746	48,746
Production grants from ACB	640,000	260,000	44,000	(216,000)
Corporation for Public Broadcasting grants (CPB)	1,950,000	2,534,875	2,544,875	10,000
Other grants	62,000	55,616	65,373	9,757
Royalties	14,809	10,000	18,245	8,245
Rental Income	—	—	2,100	2,100
Special events	200,000	410,000	414,689	4,689
Other grants from ACB	54,000	10,000	174,254	164,254
Total operating revenues	<u>22,722,436</u>	<u>22,271,118</u>	<u>21,322,476</u>	<u>(948,642)</u>
Operating expenses:				
Programming and production (PRD)	7,353,811	7,222,669	7,942,952	(720,283)
Broadcasting, engineering, and technical (BET)	2,877,350	2,448,408	2,211,540	236,868
Occupancy and physical plant operations (BET)	492,428	492,428	492,428	—
Program information (PGM)	1,300,438	1,105,188	1,048,398	56,790
Fundraising and membership development (FND)	2,979,839	3,282,851	3,598,946	(316,095)
Underwriting and grant solicitation (UND)	629,203	626,454	691,396	(64,942)
Management and general (MGT)	2,088,697	1,953,197	1,992,768	(39,571)
Institutional support (MGT)	3,823,756	3,823,756	3,823,756	—
Depreciation	1,153,571	1,153,571	1,153,571	—
Total operating expenses	<u>22,699,093</u>	<u>22,108,522</u>	<u>22,955,755</u>	<u>(847,233)</u>
Operating gain (loss)	<u>23,343</u>	<u>162,596</u>	<u>(1,633,279)</u>	<u>(1,795,875)</u>
Nonoperating income (expense):				
KUHT insurance recovery	—	—	—	—
Gain from endowment	—	—	43,044	43,044
Total nonoperating revenues	<u>—</u>	<u>—</u>	<u>43,044</u>	<u>43,044</u>
Change in net assets	<u>23,343</u>	<u>162,596</u>	<u>(1,590,235)</u>	<u>(1,752,831)</u>
Fund balance, beginning of year	—	—	6,891,017	6,891,017
Fund balances, end of year	<u>\$ 23,343</u>	<u>162,596</u>	<u>5,300,782</u>	<u>5,138,186</u>
Capital expenses	\$ —	—	10,163,771	10,163,771

See accompanying independent auditors' report.