

**KUHF (FM)**  
(A Component Unit of the University of Houston System)

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**Years Ended August 31, 2005 and 2004**

**KUHF (FM)**  
(A Component Unit of the University of Houston System)

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2005 and 2004**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
KUHf (FM)

We have audited the accompanying basic financial statements of KUHf (FM) (the "Station"), a component unit of the University of Houston System, as of and for the year ended August 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Station as of August 31, 2004 were audited by other auditors whose report dated January 21, 2005 expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Station, as of August 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule on page 22 is presented for purposes of additional analysis. This schedule is not required as part of the basic financial statements. The information in this schedule 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.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Houston, Texas  
February 10, 2006

**KUHF (FM)**  
(A Component Unit of the University of Houston System)

**Management's Discussion and Analysis**  
**Years Ended August 31, 2005 and 2004**

**Introduction**

The following Annual Financial Statements provide an overview of the activities and the financial position of KUHF (FM) (the Station or KUHF) for the fiscal year ended August 31, 2005. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the Station's basic financial statements and the notes to the basic financial statements.

**Overview of the Basic Financial Statements**

The Station herewith presents its basic financial statements for fiscal years 2005 and 2004. The basic financial statements for both fiscal years have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Governmental Accounting Standards Board Statement No. 35 (GASB 35), *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The three primary financial statements presented are the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The information contained in the basic financial statements of the Station is incorporated within the University of Houston System's Annual Financial Report.

The financial operations of the Station are considered a business-type activity. The Station's largest source of revenue is contributions from individual and corporate donations, which are used to pay for a majority of the cost of the services provided to the listeners. Under the business-type activity classification, the Station's basic financial statements conform to the guidelines and presentation formats prescribed for Enterprise Funds, also referred to as Proprietary Funds.

**Statement of Net Assets**

The Statement of Net Assets reflects the Station's assets and liabilities using the full accrual basis of accounting, and represents financial position as of the conclusion of the fiscal year. Assets and liabilities are presented as either current or noncurrent to provide an indication of their anticipated liquidation. Net assets are equal to assets minus liabilities. Unrestricted net assets are available to the Station for any lawful purpose. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

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**Management's Discussion and Analysis**  
**Years Ended August 31, 2005 and 2004**

Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>
<b>Assets</b>				
Current assets	\$ 1,500,056	\$ 1,339,649	\$ 160,407	\$ 1,586,152
Capital assets (net)	<u>157,418</u>	<u>270,044</u>	(112,626)	<u>393,271</u>
Total assets	<u><u>1,657,474</u></u>	<u><u>1,609,693</u></u>		<u><u>1,979,423</u></u>
<b>Liabilities</b>				
Current liabilities	<u>457,856</u>	<u>403,377</u>	54,479	<u>326,970</u>
Total liabilities	<u><u>457,856</u></u>	<u><u>403,377</u></u>		<u><u>326,970</u></u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	157,418	270,044	(112,626)	393,271
Unrestricted	<u>1,042,200</u>	<u>936,272</u>	105,928	<u>1,259,182</u>
Total net assets	<u><u>1,199,618</u></u>	<u><u>1,206,316</u></u>		<u><u>1,652,453</u></u>
Total liabilities and net assets	<u><u>\$ 1,657,474</u></u>	<u><u>\$ 1,609,693</u></u>		<u><u>\$ 1,979,423</u></u>

Fiscal year 2005 compared to 2004:

- Current asset balances for accounts receivable and claim on cash reflects success in generating increased program underwriting revenues.
- Accrued broadcast fees of \$80,836 resulted in an overall increase in accounts payable. There was also a \$14,000 increase in the employee's compensable leave balance for 2005, reflecting an increase in the amount of leave not taken by employees.
- The upswing in current liabilities contributed to a small decline in net assets for the comparison period.

Fiscal year 2004 compared to 2003:

- Current assets decreased due to losses incurred during the year the Station cost center's claim on cash suffered a decline of \$180,000 from equity transfers to other functional areas of the station. There was also a cash transfer of \$90,177 to University of Houston facilities for a 3<sup>rd</sup> floor renovation project.
- Current liabilities increased due to employment of additional employees during the year, which resulted in an increase in accrued payroll and benefits expenses at August 31, 2005. There was also an \$18,000 increase in accrued liabilities largely due to a \$12,466 broadcast fee liability to Minnesota Public Radio not required in fiscal year 2004.
- Annual depreciation charges resulted in a decrease in net capital assets. A current asset balance decrease plus an increase in current year liability balances resulted in an unfavorable change in unrestricted net asset balance.

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**Years Ended August 31, 2005 and 2004**

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

The Statement of Revenues, Expenses, and Changes in Net Assets identifies operating revenues received by the Station. Additionally, the operating expenses incurred by the Station during the fiscal year are displayed. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>
Operating revenues	\$ 5,962,791	\$ 5,310,402	\$ 652,389	\$ 5,491,814
Operating expenses	<u>5,969,489</u>	<u>5,756,539</u>	212,950	<u>5,480,258</u>
Change in net assets	<u>(6,698)</u>	<u>(446,137)</u>		<u>11,556</u>
Net assets, beginning of year	<u>1,206,316</u>	<u>1,652,453</u>		<u>1,640,897</u>
Net assets, end of year	<u>\$ 1,199,618</u>	<u>\$ 1,206,316</u>		<u>\$ 1,652,453</u>

Fiscal year 2005 Compared to 2004

- Operating revenues increased primary as a result of increased program underwriting, however, there was also an increase in general support from the University of Houston System (the "University"). Some areas of support which had been lost due to functional expense reclassifications at the University were recaptured in the current calculation.
- Operating expenses were fairly balanced between fiscal years 2004 and 2005, but the increase in general support mentioned above also contributed to the increase in operating expenses for the year.

Fiscal year 2004 Compared to 2003:

- Operating revenues decreased primarily due to a decrease in subscriptions and membership and general support from the University. Membership renewals declined compared to prior year as well as the cancellation of two membership mailings. Expenses that were previously labeled as institutional support were reclassified to other expenditures functions that better described the purpose and use of those funds. Institutional support expenses comprise a significant base that is used in the overall methodology that is currently used to calculate general support.
- Operating expenses increased due to increase in personnel thus an increase in payroll and related costs. In addition, membership fees for Public Radio International and National Public Radio increased. The station also joined two new associations.

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**Management's Discussion and Analysis**  
**Years Ended August 31, 2005 and 2004**

Operating revenues include sources that are primarily used to provide services to the Station's listeners and are as follows:

Operating Revenues

	2005	2004	Change	2003
Subscriptions and memberships	\$ 1,941,444	\$ 1,899,738	\$ 41,706	\$ 1,987,358
General support from the UH System	1,214,324	1,092,770	121,554	1,356,090
Program underwriting	2,262,455	1,864,082	398,373	1,685,846
CPB grants	411,905	409,113	2,792	361,512
In-Kind Contributions	14,709	0	14,709	0
Other	117,954	44,699	73,255	101,008
Total operating revenues	<u>\$ 5,962,791</u>	<u>\$ 5,310,402</u>		<u>\$ 5,491,814</u>

Fiscal year 2005 Compared to 2004:

- Program underwriting revenue showed substantial growth due to an increase in the station's listening audience. As a result, the Station is becoming a preferred media choice for advertising.
- There was a small increase in revenue from In-kind contributions received from the Association for Community Broadcasting, a related party, that did not exist prior to fiscal year 2005.
- The allocation process used to award grants from the Corporation for Public Broadcasting (CPB) also resulted in more funding due to increased receipts from non-federal sources (NFFS).

Fiscal year 2004 Compared to 2003:

- Subscription and membership revenues decreased due to membership renewals were declining along with the cancellation of two membership mailing acquisition drive.
- General support from the University decreased due to a reclassification of expenses that were previously labeled as institutional support to other expenditure functions. The reclassification better describes the purpose and use of those funds. Institutional support expenses comprise a significant base that is used in the overall methodology that is currently used to calculate general support.
- Underwriting revenues showed substantial growth due to the first full-year efforts behind the addition of a third account executive.
- Grant revenues exhibited a moderate increase for the year due to increased funding from non-federal sources (NFFS). Since NFFS is the basis for the formula in the grant calculation and the NFFS was higher in 2003 than 2002, there was an increase in the Corporation for Public Broadcasting station grant allocation.

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- Other revenues decreased due to the discontinuation of sub-carrier contracts due to non payment or conflicts with accommodations for new digital technology. Production services declined because of the diversification of transmission capabilities.

Operating Expenses

	2005	2004	Change	2003
Programming and production	\$ 2,308,707	\$ 2,151,735	\$ 156,972	\$ 1,360,274
Broadcasting, engineering, and technical	646,908	275,827	371,081	268,438
Program information	219,760	349,818	(130,058)	291,481
Fundraising and membership development	718,375	663,571	54,804	680,076
Underwriting and Grant Solicitation	242,140	239,445	2,695	274,112
Management and general	<u>1,833,598</u>	<u>2,076,143</u>	(242,545)	<u>2,605,877</u>
Total operating expenses	<u>\$ 5,969,489</u>	<u>\$ 5,756,539</u>		<u>\$ 5,480,258</u>

Fiscal year 2005 Compared to 2004:

- Operating expenses experienced considerable increases primarily as a result of rising utility expenses for the Melcher Center and the KUHF transmitter.
- Salaries increased by \$170,000, largely as a result of merit raises for staff members.
- The computer support team was reclassified to broadcasting, engineering, and technical thus resulting in an increase for that category.
- There was also a slight increase in broadcasting fees.
- Operating expenses also increased due to a \$75,000 lease of fundraising software.

Fiscal year 2004 Compared to 2003:

- Production expenses increased due to an increase in membership/broadcast fees for Public Radio International and National Public Radio. Several staff positions were added to accommodate an increase in local production, executive producer, audio specialist, news anchor and a broadcast intern. Outlays for travel expenses were decreased in order to accommodate the increase in salaries.
- Broadcasting, engineering and technical expenses decreased due to a significant reduction in supplies and materials purchased for local production in fiscal year 2004. Also in mid fiscal year 2004, the Station hired a full time Maintenance Engineer, but due to the sizable increase in utilities there was a slight net increase in the overall expenses.
- Program information salary and benefits expenses increased with the addition of a second communications coordinator designated as a web editor. This position was added in late fiscal year 2003 but the increase in fiscal year 2004 reflects the full annual salary increase. Also, in fiscal year 2004 all advertising for the station was consolidated in one functional area.

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- Fundraising and membership development expenses decreased due to a delay in the replenishment of paper goods due to an unresolved logo change. Additionally, two membership acquisition mailings were cancelled. This cancellation, as well as the decrease in related postage during the year were the primary reasons for the decrease.
- Underwriting and grant solicitation expenses decreased in two areas, fundraising (advertising) and travel. All advertising was moved to the functional expense area of program information. This move was made in order to coordinate the total expenses related to marketing. In 2003 the conference was located at a resort in Snow Bird, Utah but in 2004 it was located outside of Austin, Texas; therefore the 2004 expenses were greatly reduced.
- Management and general expense increased significantly in facility repairs and maintenance during 2004. Included in these were fire alarm repairs and air conditioning maintenance to the water chiller systems. The broadcast operation was enhanced through the replacement of several obsolete non-capital computers, as well as the installation of a new glass window in the performance studio. However, the overall decrease in management and general expenses was due to the decrease in general support from the University. (See page 6 for an explanation of the variance in operating revenues).

**Statement of Cash Flows**

The Statement of Cash Flows explains the changes during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about the Station, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments.

Statement of Cash Flows

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>
Net cash provided by operating activities	\$ 144,317	\$ (304,333)	\$ 448,650	\$ 103,281
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	-	<u>32,395</u>
Net increase (decrease)	<u>144,317</u>	<u>(304,333)</u>		<u>135,676</u>
Cash and cash equivalents, beginning of year	<u>1,052,851</u>	<u>1,357,184</u>		<u>1,492,860</u>
Cash and cash equivalents, end of year	<u>\$ 1,197,168</u>	<u>\$ 1,052,851</u>		<u>\$ 1,357,184</u>

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Fiscal year 2005 Compared to 2004

- The increase in cash flows is primarily the result of measured success in program underwriting during the year, as reflected in a \$400k increase in program underwriting revenues between fiscal years 2004 and 2005.

Fiscal year 2004 Compared to Fiscal year 2003:

- Net cash out-flows from operating activities continued to increase during fiscal year 2004. The success achieved in the area of program underwriting was not enough to offset a decline in membership renewals along with increases in salary expenses and broadcasting fees during the year.

**Capital Assets**

As of the end of the 2005 fiscal year, the Station had \$157,418 of capital assets, net of accumulated depreciation. These assets included furniture and equipment.

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

**Debt Administration**

The Station does not separately issue long-term debt. The Station is not currently engaged in any long-term financing transactions. The operating budget for the Station is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

**Economic Outlook**

The management and staff of the Station endorse and uphold the Station's Mission Statement - to entertain, educate and uplift its audience through informational and cultural programming. In light of this purpose, the Station has established a set of core values: KUHF (FM) exists to serve the community in general and its listeners in particular. In devoting its resources to providing programming about arts, culture, information and education, KUHF (FM) remains a positive, uplifting influence both vital and necessary to the community. Management's vision for the Station's future supports the goal, that by 2006, KUHF (FM) will be Houston's first choice in electronic media for intelligent, high quality news, information, classical music and cultural programming and outreach, as well as a primary contributor to the quality of life of the community.

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The Station's financial position remains strong. Community fundraising efforts have been successful, with growing financial support from both individual listeners and business/corporate sponsors. Management believes this reflects the perceived value of public radio programming throughout the community and the confidence the Station's supporters have in the fiscal administration and management of the Station's donated resources. Furthermore, the Station management believes that the increased listenership has a direct correlation in the significant growth of program underwriting proving that the Station is an excellent choice for corporate advertising dollars.

The Station is committed to continue to perform in a responsible manner that merits this high level of community confidence. In addition, the Station is committed to joint fundraising efforts with KUHT Houston PBS in the coming year to establish and fund an Endowment for Public Broadcasting.

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**Statements of Net Assets**  
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<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents - cash and claim on cash	\$ 1,197,167	\$ 1,052,851
Accounts receivable	302,889	286,798
Total current assets	1,500,056	1,339,649
Capital assets, net	157,418	270,044
Total assets	<u>\$ 1,657,474</u>	<u>\$ 1,609,693</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 93,923	\$ 61,537
Accrued payroll	191,698	183,799
Employees' compensable leave	172,235	158,041
Total current liabilities	457,856	403,377
Net assets:		
Invested in capital assets, net of related debt	157,418	270,044
Unrestricted	1,042,200	936,272
Total net assets	1,199,618	1,206,316
Total liabilities and net assets	<u>\$ 1,657,474</u>	<u>\$ 1,609,693</u>

See accompanying notes to the basic financial statements.

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**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended August 31, 2005 and 2004**

	2005	2004
Operating revenues:		
Subscriptions and memberships	\$ 1,941,444	\$ 1,899,738
General support from the UH System	1,214,324	1,092,770
Program underwriting	2,262,455	1,864,082
Corporation for Public Broadcasting grants (CPB)	411,905	409,113
Other grants	51,800	-
In Kind contributions - ACB	14,709	-
Interest	11,931	6,092
Royalties	6,318	6,591
Production service	9,157	8,329
Subcarrier income	-	2,600
Special events	38,665	21,040
Other	83	47
	<u>5,962,791</u>	<u>5,310,402</u>
Operating expenses:		
Programming and production	2,308,707	2,151,735
Broadcasting, engineering and technical	646,908	275,827
Program information	219,760	349,818
Fundraising and membership development	718,376	663,571
Underwriting and grant solicitation	242,140	239,445
Management and general	1,833,598	2,076,143
	<u>5,969,489</u>	<u>5,756,539</u>
Change in net assets	(6,698)	(446,137)
Net assets, beginning of year	<u>1,206,316</u>	<u>1,652,453</u>
Net assets, end of year	<u>\$ 1,199,618</u>	<u>\$ 1,206,316</u>

See accompanying notes to the basic financial statements.

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**Statements of Cash Flows**  
**Years Ended August 31, 2005 and 2004**

	2005	2004
Cash flows from operating activities:		
Proceeds received from membership	\$ 1,925,355	\$ 1,841,908
Proceeds from grants	463,705	409,113
Proceeds from program underwriting	2,262,455	1,864,082
Proceeds from other revenues	66,154	44,699
Payments to suppliers for goods and services	(1,207,603)	(1,303,739)
Payments to employees	(2,441,832)	(2,232,816)
Payments for broadcasting fees	(923,918)	(813,532)
Payments for other expenses	-	(114,048)
	144,316	(304,333)
Net cash provided by (used in) operating activities		
	144,316	(304,333)
Increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year	1,052,851	1,357,184
Cash and cash equivalents, end of year	\$ 1,197,167	\$ 1,052,851
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (6,698)	\$ (446,137)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	112,626	123,227
Changes in assets and liabilities:		
Increase in accounts receivable	(16,091)	(57,830)
Increase in accounts payable	32,386	14,707
Increase in accrued payroll	7,899	33,061
Increase in compensated absences payable	14,194	28,639
	151,014	141,804
Total adjustments		
	\$ 144,316	\$ (304,333)
Net cash provided by (used in) operating activities		

See accompanying notes to the basic financial statements..

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**Notes to the Basic Financial Statements**  
**August 31, 2005 and 2004**

**1. Entity**

KUHF (FM) (the “Station”) signed on the air in 1950 as a public radio station. As a non-profit, listener supported radio station, the Station serves as Houston's National Public Radio affiliate and classical music source. The Station provides news and cultural programming on both local and national levels. The Station currently operates 24 hours a day and serves the greater Gulf Coast region. The Station is licensed to the Board of Regents of the University of Houston System (the “University”) and is located at the University of Houston’s main campus. It employs a full time local news department and professional music programming and recording staff to fulfill the mission of entertaining, educating and uplifting its audience. The Station maintains strong ties to Houston area arts and cultural organizations as well as local community and governmental leaders. It also produces and broadcasts digitally recorded concerts by Houston's major arts organizations.

The Station is dedicated to education and outreach through a wide variety of activities. Several internship opportunities are available for hands on training in news, production and marketing. The Station actively participates in community-wide events serving greater Houston area youth, the arts and multicultural population.

The Station also delivers its programming via audio streaming on the Internet. Its website has received statewide honors for news content and community service. This site has served as a successful, secure fund raising vehicle offering an alternative and cost effective method for processing contributions.

The Station is a component unit of the University, which is located in the fourth largest metropolitan area of the United States. The University serves the upper Texas Gulf Coast, and is part of the state supported system of higher education in Texas. The Station has no separate legal status or existence. As a component unit of the University, the Station is exempt from Federal income tax.

The Station broadcasts in stereo on a frequency of 88.7 MHz, with 100,000 watts, from an antenna 1,671 feet high. The Station's closed-circuit subcarrier is provided to Houston Taping for the Blind Reading service.

**2. Summary of Significant Accounting Policies**

General

All financial accounting records of the Station are maintained by the University's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally

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accepted in the United States of America for colleges and universities, as published by the National Association of College and University Business Officers, set forth in *College and University Business Administration*.

The assets, liabilities, and net assets (fund equity) are reported in a self-balancing fund. The operations of the Station are reported as an enterprise fund. This type of fund is used to account for any activity for which a fee is charged to external users for goods or services. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. Enterprise funds are accounted for using the accrual basis of accounting.

Reporting guidelines

The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The University has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. Under GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the University is reported as an enterprise fund. In addition, the Station's basic financial statements have been prepared in accordance with the Corporation for Public Broadcasting's "*Application of Accounting Principles and Financial Reporting to Public Broadcasting Entities*".

Net assets

*Invested in capital assets, net of related debt:* This represents the Station's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Unrestricted net assets - expendable:* These net assets represent resources which are available for the support of the Station's operations.

Revenues

Operating revenues include sources that are primarily used to provide services to the Station's listeners. Substantially, all of the Station's revenues are considered operating.

Contributions and gifts are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grants are awarded. Restricted support and revenues are recognized upon incurring the appropriate expenditures. Provisions for uncollectable receivables and

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recovery of amounts previously deemed uncollectable are recorded as reductions or increases in revenues in the year it is deemed that the provision is required or the recovery occurs.

Cash and cash equivalents

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

Capital assets

Capital assets represent equipment acquired primarily for the operation of the Station. Title to equipment rests with the State of Texas in the name of the University and, therefore, such assets can be transferred to or from the Station at the discretion of the University. Equipment is recorded at cost, and in accordance with the accounting policies of the University, as revised by GASB 34. Depreciation is recorded over the useful life of the asset. Useful lives are established by a uniform classification system maintained by the State of Texas and are measured from the date of acquisition. Expenditures for repairs and maintenance are charged to current operating expenses as incurred.

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 Station provides an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections and existing economic conditions.

In-Kind contributions

In-kind contributions, shown as revenues and expenses in the accompanying 2005 statement of revenues, expenses and changes in net assets, consist of certain net expenses provided on behalf of the Station by the Association for Community Broadcasting, a related party.

The fair market value of merchandise contributed in connection with the Station's fundraising activities is not recorded as revenues and expenses in the financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise, and donated personal services, are not included in the financial statements as revenues and expenses.

Employees' Compensable Leave

Station 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

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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. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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.

Advertising

Advertising costs are charged to current operations when incurred.

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.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

**3. Claim on Cash**

Claim on cash represents the Station's prorated share of commingled cash and temporary investments invested by the University to optimize the rate of return. Substantially all of the funds in claim on cash are insured or registered, or are securities held by the University or its agent in the University's name. The University allocates a percentage of the interest income earned to the Station.

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

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For current unrestricted funds, the University allocates a percentage of the interest income earned to the Station at a fixed rate based on its monthly average cash balance.

**4. Capital Assets**

There were no new capital additions or deletions during fiscal year 2005, however, depreciation expense increased during the year. Capital assets' activities for the year ended August 31, 2005 (with comparative amounts for fiscal year 2004) were as follows:

	Balance September 1, 2004	Additions	Deletions	Balance August 31, 2005
Furniture and equipment	\$ 1,188,610	\$ -	\$ -	\$ 1,188,610
Less: accumulated depreciation	918,566	112,626	-	1,031,192
Net capital assets	<u>\$ 270,044</u>	<u>\$ 112,626</u>	<u>\$ -</u>	<u>\$ 157,418</u>

	Balance September 1, 2003	Additions	Deletions	Balance August 31, 2004
Furniture and equipment	\$ 1,188,610	\$ -	\$ -	\$ 1,188,610
Less: accumulated depreciation	795,339	123,227	-	918,566
Net capital assets	<u>\$ 393,271</u>	<u>\$ 123,227</u>	<u>\$ -</u>	<u>\$ 270,044</u>

**5. General Support from the University of Houston System**

General support includes building and related occupancy costs donated by the University and are recorded in revenues and expenses at their estimated fair rental values based on the occupancy allowance computation permitted by the Corporation for Public Broadcasting. Building and related occupancy support amounted to \$174,659 and \$93,119 in fiscal years 2005 and 2004, respectively. The University provides indirect administrative support and maintenance support, which are recorded in revenues and expenses based on the University's allocation methods. Indirect administrative support amounted to \$1,039,664 and \$999,651 in fiscal years 2005 and 2004, respectively.

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**6. Pension Plan**

The Station participates in the State of Texas (the State) joint contributory retirement plans and thereby provides retirement plans for substantially all of its employees designated as "benefits eligible." One of the primary plans in which the Station participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages of participant salaries by the Station and by each participant during both fiscal years 2005 and 2004 were 6.00% of annual compensation.

The Retirement System does not account for each of its component governmental agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the plan by the Station amounted to \$102,017 and \$92,698 in fiscal years 2005 and 2004, respectively.

According to an independent actuarial valuation as of August 31, 2005 and 2004, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the Retirement System's assets. The actuary projected that such assets, augmented by projected future contributions and earnings, would not be sufficient to amortize the unfunded difference, assuming payroll growth of 3.0%. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the annual financial report of the Retirement System.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributory percentages of participant salaries provided by the Station and by each participant during both fiscal years 2005 and 2004 were 8.50% of annual compensation. For employees hired on September 1, 1995, or later, the contributory percentages of participant salaries provided by the Station and by each participant during both fiscal years 2005 and 2004 were 6.00% of annual compensation. Contributions to the plan by the Station amounted to \$12,086 and \$11,552 in fiscal years 2005 and 2004, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for this program.

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**7. Leases**

The Station has entered into operating leases for various business purposes in support of their operations including a tower antenna, fundraising software, a utility van, fax and copy machine, and a webhost connection.

Future minimum lease payments under operating leases are as follows:

Year Ending August 31,	
2006	\$ 165,957
2007	157,259
2008	119,591
2009	125,140
2010	109,342
Thereafter	311,883
	<u>\$ 989,172</u>

**8. Related Parties**

The Association for Community Broadcasting, (ACB) formerly known as the Association for Community Television was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to KUHT (TV), Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the University and ACB agreed that the same services provided to KUHT (TV) would also be given to KUHF (FM), FM Radio Station 88.7 and thus adopting the ACB name. KUHT (TV) and KUHF (FM) are ancillary enterprises of the University and both are a nonprofit educational television and radio station, respectively, the licenses for which are held by the Board of Regents of the University.

The University and ACB, as part of an ongoing agreement, have stipulated that all grants for programming and other activities will be deposited with the University Office of Sponsored Programs, or, at the discretion of the general manager of KUHT (TV) and KUHF (FM), deposited in accounts maintained by ACB and immediately and exclusively available to KUHT (TV) and KUHF (FM). Any such account maintained by ACB will be the subject of periodic reports by the general manager of KUHT (TV) and KUHF (FM) to ACB.

Operating expenses relating to ACB are borne by KUHT (TV) and KUHF (FM), except for certain expenditures associated primarily with fundraising and production of certain programs.

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ACB is directed by a Board of Directors and is managed on a daily basis by a combination of Board officers and KUHT (TV) and KUHF (FM) employees.

**SUPPLEMENTAL SCHEDULES**

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**Statement of Functional Expenses**  
**Year Ended August 31, 2005**

	Programming and Production	Broadcasting, Engineering, and Technical	Program Information	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total
Salary and wages	\$ 965,380	\$ 167,450	\$ 144,021	\$ 247,300	\$ 164,667	\$ 292,156	\$ 1,980,974
Fringe benefits	232,590	39,752	36,108	57,060	42,301	75,139	482,950
Broadcasting fees	923,193	-	-	-	-	724	923,917
Financial and legal services	2,852	15	-	16,091	2,880	13,542	35,380
Fundraising	3,764	-	19,524	107,105	2,358	8,077	140,828
In Kind contributions:							
ACB Special Events	-	-	-	9,550	-	-	9,550
ACB Other	-	-	-	5,159	-	-	5,159
Membership fees	14,598	-	-	4,970	-	3,675	23,243
Other expenses	19,276	74	1,972	29,517	14,815	87,342	152,996
Postage	1,483	419	5,836	38,307	255	212	46,512
Printing and reproduction services	2,151	-	7,509	22,356	524	318	32,858
Professional services	68,882	6,000	611	28,540	9,282	31,316	144,631
Rental and leases	1,095	43,500	-	79,180	-	56,872	180,647
Repair and maintenance	372	15,412	-	90	-	29,993	45,867
Supplies and materials	22,108	33,070	624	10,196	972	64,746	131,716
Telephone	33,761	16,723	1,551	48,890	2,014	11,506	114,445
Travel	17,202	415	2,004	14,065	2,072	5,690	41,448
Utilities	-	149,418	-	-	-	-	149,418
Depreciation - equipment	-	-	-	-	-	112,626	112,626
General support from the UH System	-	174,660	-	-	-	1,039,664	1,214,324
<b>Total</b>	<b>\$ 2,308,707</b>	<b>\$ 646,908</b>	<b>\$ 219,760</b>	<b>\$ 718,376</b>	<b>\$ 242,140</b>	<b>\$ 1,833,598</b>	<b>\$ 5,969,489</b>

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**Statement of Functional Expenses**  
**Year Ended August 31, 2004**

	Programming and Production	Broadcasting, Engineering, and Technical	Program Information	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total
Salary and wages	\$ 873,520	\$ 84,153	\$ 133,286	\$ 226,011	\$ 171,200	\$ 322,236	\$ 1,810,406
Fringe benefits	237,974	23,926	30,474	60,909	44,297	86,530	484,110
Broadcasting fees	813,432	-	-	100	-	-	813,532
Financial and legal services	2,471	2,441	1,022	24,123	1,932	4,672	36,661
Fundraising	9,695	-	32,034	93,877	4,906	250	140,762
Membership fees	65,037	-	-	8,730	500	6,053	80,320
Other expenses	16,002	2,722	1,551	12,684	8,224	72,865	114,048
Postage	1,152	802	33,933	43,145	296	532	79,860
Printing and reproduction services	1,701	-	106,172	36,965	-	2,413	147,251
Professional services	42,962	17,090	3,250	113,644	-	63,615	240,561
Rental and leases	-	-	-	1,289	-	49,216	50,505
Repair and maintenance	3,673	25,074	-	172	-	162,810	191,729
Supplies and materials	28,299	37,973	4,505	2,988	369	30,497	104,631
Telephone	47,907	10,143	1,823	26,161	2,103	9,991	98,128
Travel	7,910	287	1,768	12,773	5,618	5,395	33,751
Utilities	-	71,216	-	-	-	43,071	114,287
Depreciation - equipment	-	-	-	-	-	123,227	123,227
General support from the UH System	-	-	-	-	-	1,092,770	1,092,770
<b>Total</b>	<b>\$ 2,151,735</b>	<b>\$ 275,827</b>	<b>\$ 349,818</b>	<b>\$ 663,571</b>	<b>\$ 239,445</b>	<b>\$ 2,076,143</b>	<b>\$ 5,756,539</b>