

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Years Ended August 31, 2006 and 2005

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

FINANCIAL STATEMENTS

Years Ended August 31, 2006 and 2005

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INDEPENDENT AUDITORS REPORT

To the Board of Directors of KUHF (FM)

We have audited the accompanying statements of net assets of KUHF (FM) (the "Station") a component unit of the University of Houston System) as of August 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of August 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules on pages 23 and 24 are presented for purposes of additional analysis. These schedules are not required as part of the basic financial statements. The information in these schedules have 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 2 through 9 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
March 12, 2007

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

Management's Discussion and Analysis
August 31, 2006 and 2005

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 years ended August 31, 2006 and 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 financial statements.

Overview of the Financial Statements

The Station herewith presents its basic financial statements for fiscal years 2006 and 2005. The financial 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 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 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.

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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 non-current 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.

Statement of Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006-2005</u> Change	<u>2005-2004</u> Change
Assets					
Current assets	\$ 2,390,662	\$ 1,500,055	\$ 1,339,649	\$ 890,607	\$ 160,406
Non-current assets (net)	<u>215,339</u>	<u>157,419</u>	<u>270,044</u>	57,920	(112,625)
Total assets	<u><u>\$ 2,606,001</u></u>	<u><u>\$ 1,657,474</u></u>	<u><u>\$ 1,609,693</u></u>		
Liabilities					
Current liabilities	<u>\$ 1,141,399</u>	<u>\$ 457,855</u>	<u>\$ 403,377</u>	683,544	54,478
Total liabilities	<u>1,141,399</u>	<u>457,855</u>	<u>403,377</u>		
Net assets					
Invested in capital assets, net of related debt	215,339	157,419	270,044	57,920	(112,625)
Unrestricted	<u>1,249,263</u>	<u>1,042,200</u>	<u>936,275</u>	207,063	105,925
Total net assets	<u>1,464,602</u>	<u>1,199,619</u>	<u>1,206,319</u>		
Total liabilities and net assets	<u><u>\$ 2,606,001</u></u>	<u><u>\$ 1,657,474</u></u>	<u><u>\$ 1,609,696</u></u>		

Fiscal year 2006 compared to 2005:

- The increase in current assets resulted from increased fund raising revenues. The larger ending cash and accounts receivable balances were due to a 5.0% increase in membership revenues and a 9% increase in underwriting.
- Payroll and compensable leave was higher in fiscal year 2006 compared to 2005. Other current liabilities increased significantly with recognition of deferred underwriting revenue of contracts executed in 2006 but earned in fiscal year 2007.

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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.

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.

Combined Statements of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006-2005</u> Change	<u>2005-2004</u> Change
Operating revenues	\$ 6,551,462	\$ 5,962,789	\$ 5,310,402	\$ 588,673	\$ 652,387
Operating expenses	<u>6,286,479</u>	<u>5,969,489</u>	<u>5,756,539</u>	316,990	212,950
Change in net assets	264,983	(6,700)	(446,137)		
Net assets, beginning of year	<u>1,199,619</u>	<u>1,206,319</u>	<u>1,652,456</u>		
Net assets, end of year	<u><u>\$ 1,464,602</u></u>	<u><u>\$ 1,199,619</u></u>	<u><u>\$ 1,206,319</u></u>		

Fiscal year 2006 Compared to 2005:

- Operating revenue increased largely in part due to increased membership and underwriting fundraising efforts. There was a large increase in direct mail to help boost individual gifts. Association for Community Broadcasting (ACB) income increased reflecting the rise in direct mailing and major donor activities on behalf of KUHF.
- Operating expenses increased mainly due to an increase in fundraising efforts. Utility expenses for the station and tower complexes, and a three percent state mandated salary increase of benefits eligible employees contributed to the increase as well.

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Fiscal year 2005 Compared to 2004:

- Operating revenue increased primary as a result of increased program underwriting, however, there was also an increase in General support from 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 2004 and 2005, but the increase in General support mentioned above also contributed to the increase in operating expenses for the year.

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

Operating Revenues	2006	2005	2004	2006-2005 Change	2005-2004 Change
Subscriptions and memberships	\$ 2,056,042	\$ 1,941,444	\$ 1,899,738	\$ 114,598	\$ 41,706
General support from the UH System	1,135,225	1,214,323	1,092,770	(79,098)	121,553
Program underwriting	2,467,095	2,262,454	1,864,082	204,641	398,372
CPB grants	457,405	411,905	409,113	45,500	2,792
In-Kind Contributions	240,719	14,709	0	226,010	14,709
Other	194,976	117,954	44,699	77,022	73,255
Total operating revenues	<u>\$ 6,551,462</u>	<u>\$ 5,962,789</u>	<u>\$ 5,310,402</u>		

Fiscal year 2006 Compared to 2005:

- The station worked with a contractor to aid with increasing membership for the year; as a result, there was an increase in subscription and memberships. There was more than usual direct mail as well as additional gifts for new members.
- Program underwriting increased as a result of change in procedures. Underwriting contracts were booked instead of individual invoices.
- In-kind contributions reflect a full year's worth of ACB fundraising activities. ACB provided only a partial year of effort for 2005.
- Other categories consist mostly of income earned from interest, special events, and subcarriers. There was no revenue earned from subcarriers in fiscal year 2005.

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 the preferred media choice for advertising.

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- 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 being received from non-federal sources (NFFS).

Operating Expenses

	2006	2005	2004	2006-2005 Change	2005-2004 Change
Programming and production	\$ 2,319,317	\$ 2,308,707	\$ 2,151,735	\$ 10,610	\$ 156,972
Broadcasting, engineering, and technical	874,000	759,534	275,827	114,466	483,707
Program information	221,437	219,760	349,818	1,677	(130,058)
Fundraising and membership development	963,555	718,376	663,571	245,179	54,805
Underwriting and Grant Solicitation	240,150	242,140	239,445	(1,990)	2,695
Management and general	1,668,020	1,720,972	2,076,143	(52,952)	(355,171)
Total operating expenses	<u>\$ 6,286,479</u>	<u>\$ 5,969,489</u>	<u>\$ 5,756,539</u>		

Fiscal year 2006 Compared to 2005:

- Programming and production was negligible. A new on-air guitar program was added in fiscal year 2006
- Broadcasting, engineering, and technical expenses increased due to increased utility rates.
- Program information had a small increase because of increased fees associated with weather broadcast.
- Fundraising and membership experienced a significant increase because of improved efforts to boost new membership. As a result, more direct mailings were sent out, gifts for potential members increased as well. A contractor was also hired to help with this effort.
- Underwriting and grant solicitation decreased because corporate matching declined during the year.
- Management and general decreased due to the fact that additional bad debt expenses were not accrued during the year. There was also a reduction in outside services for information technology.

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 the result of merit raises for staff members.

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- 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 with the \$75,000 purchase of fundraising software.

Statement of Cash Flows

The Statement of Cash Flows explains the change 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.

Combined Statement of Cash Flows

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006-2005</u> Change	<u>2005-2004</u> Change
Net cash provided by operating activities	\$ 285,362	\$ 144,316	\$ (304,332)	\$ 141,046	\$ 448,648
Cash flows from capital and related financing activities	<u>(126,492)</u>	<u>-</u>	<u>-</u>	(126,492)	-
	<u>158,870</u>	<u>144,316</u>	<u>(304,332)</u>		
Cash and cash equivalents, beginning of year	<u>1,197,167</u>	<u>1,052,851</u>	<u>1,357,183</u>		
Cash and cash equivalents, end of year	<u><u>\$ 1,356,037</u></u>	<u><u>\$ 1,197,167</u></u>	<u><u>\$ 1,052,851</u></u>		

Fiscal year 2006 Compared to 2005:

- The increase in cash flows is a reflection of increased membership which resulted from a very successful fundraising project.
- Cash outflows from capital financing activities increased because of payments made to increase capital assets. There were no capital asset additions during 2005.

Fiscal year 2005 Compared to Fiscal year 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.

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Capital Assets

As of the end of the 2006 fiscal year, the Station had \$197,924 of capital assets, net of accumulated depreciation. These assets included furniture and equipment.

Title to these assets resides with the University of Houston, 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 recommended 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 radio station KUHF, Houston Public Radio 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 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 remains a positive, uplifting influence both vital and necessary to the community. And in this regard, KUHF continues to strive to 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.

Based on a demonstrated, long-term strength in local fundraising from all sources, 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 fiscally responsible administration and management of the Station's donated resources. Furthermore, KUHF management believes that the increased listenership has a direct correlation in the significant growth of program underwriting, proving that KUHF is an excellent choice for corporate support dollars.

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New media technologies provide new opportunities in KUHF's program distribution, including expanded audio streaming via the Internet and HD Digital multi-channel broadcasting. These technologies are creating a greater inventory of availabilities for spot sales and other fundraising opportunities, which management believes will in time result in additional revenue streams for KUHF.

The Station is committed to joint philanthropic fundraising efforts with KUHT Houston PBS in the coming year to establish and fund an Endowment for Public Broadcasting, under the auspices of the Association for Community Broadcasting (ACB).

The Station remains strongly committed to perform in a responsible manner that merits a high level of community confidence.

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Statements of Net Assets
August 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents - cash and claim on cash	\$ 1,356,037	\$ 1,197,167
Accounts receivable, net	<u>1,034,625</u>	<u>302,888</u>
Total current assets	2,390,662	1,500,055
Capital assets, net	<u>215,339</u>	<u>157,419</u>
Total assets	<u><u>2,606,001</u></u>	<u><u>1,657,474</u></u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	21,641	93,922
Accrued payroll	196,496	191,698
Employees' compensable leave	195,348	172,235
Deferred revenue	717,414	-
Other current liabilities	<u>10,500</u>	<u>-</u>
Total current liabilities	<u>1,141,399</u>	<u>457,855</u>
Net assets:		
Invested in capital assets, net of related debt	215,339	157,419
Unrestricted	<u>1,249,263</u>	<u>1,042,200</u>
Total net assets	<u>1,464,602</u>	<u>1,199,619</u>
Total liabilities and net assets	<u><u>\$ 2,606,001</u></u>	<u><u>\$ 1,657,474</u></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, 2006 and 2005

	2006	2005
Operating revenues:		
Subscriptions and memberships	\$ 2,056,042	\$ 1,941,444
General support from the UH System	1,135,225	1,214,323
Program underwriting	2,467,095	2,262,454
Corporation for Public Broadcasting grants (CPB)	457,405	411,905
Other grants	75,000	51,800
In Kind contributions - ACB		
Special Events	45,560	-
Other	195,159	14,709
Interest	23,955	11,931
Royalties	6,068	6,318
Production service	8,893	9,157
Subcarrier income	31,500	-
Special events	39,750	38,665
Other	9,810	83
Total operating revenues	6,551,462	5,962,789
Operating expenses:		
Programming and production	2,319,317	2,308,707
Broadcasting, engineering and technical	874,000	759,534
Program information	221,437	219,760
Fundraising and membership development	963,555	718,376
Underwriting and grant solicitation	240,150	242,140
Management and general	1,668,020	1,720,972
Total operating expenses	6,286,479	5,969,489
Change in net assets	264,983	(6,700)
Net assets, beginning of year	1,199,619	1,206,319
Net assets, end of year	\$ 1,464,602	\$ 1,199,619

See accompanying notes to the basic financial statements

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Statements of Cash Flows
Years Ended August 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Proceeds received from membership	\$ 1,324,307	\$ 1,925,355
Proceeds from CPB grant	457,405	463,705
Proceeds from other grant programs	75,000	-
Proceeds from program underwriting	2,467,095	2,262,455
Proceeds from other revenues	837,390	66,154
Payments to suppliers for goods and services	(1,432,976)	(1,207,603)
Payments to employees	(2,543,097)	(2,441,832)
Payments for broadcasting fees	(910,262)	(923,918)
Payments for other expenses	10,500	-
Net cash provided by operating activities	285,362	144,316
Cash flows from capital and related financing activities -		
Payments for additions to capital assets	(126,492)	-
Net cash used by capital and related financing activities	(126,492)	-
Increase in cash and cash equivalents	158,870	144,316
Cash and cash equivalents, beginning of year	1,197,167	1,052,851
Cash and cash equivalents, end of year	1,356,037	1,197,167
Reconciliation of change in net assets to net cash (used) provided by operating activities:		
Operating income/(loss)	264,983	(6,700)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization and depreciation	68,572	112,626
Operating income and cash flow categories:		
Changes in assets and liabilities:		
Increase in accounts receivable	(731,737)	(16,091)
Increase (decrease) in accounts payable	(72,281)	32,385
Increase in accrued payroll	4,798	7,899
Increase in compensated absences payable	23,113	14,197
Increase in deferred revenues	717,414	-
Increase in other liabilities	10,500	-
Total adjustments	20,379	151,016
Net cash provided by operating activities	\$ 285,362	\$ 144,316

See accompanying notes to the basic financial statements

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Notes to Financial Statements
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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 sub-carrier is provided to Houston Taping for the Blind Reading service.

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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 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.

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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 uncollectible receivables and recovery of amounts previously deemed uncollectible 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 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

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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.

Employee's 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 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.

KUHF (FM)
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Notes to Financial Statements
August 31, 2006 and 2005
(Continued)

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.

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. Accounts Receivable

Accounts receivable for the year ended August 31, 2006 (with comparative amounts for fiscal year 2005) were as follows:

	Balance <u>August 31, 2006</u>	Balance <u>August 31, 2005</u>
Accounts receivable	\$ 1,084,499	\$ 360,049
Allowance for doubtful accounts	<u>(49,874)</u>	<u>(57,161)</u>
	<u>\$ 1,034,625</u>	<u>\$ 302,888</u>

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5. Capital Assets

Capital assets' activities for the year ended August 31, 2006 (with comparative amounts for fiscal year 2005) were as follows:

	Balance September 1, 2005	Additions	Deletions	Balance August 31, 2006
Furniture and equipment	\$ 1,188,610	\$ 126,492	\$ -	\$ 1,315,102
Less: accumulated depreciation	<u>1,031,191</u>	<u>68,572</u>	<u>-</u>	<u>1,099,763</u>
Net capital assets	<u>\$ 157,419</u>	<u>\$ 57,920</u>	<u>\$ -</u>	<u>\$ 215,339</u>

	Balance September 1, 2004	Additions	Deletions	Balance August 31, 2005
Furniture and equipment	\$ 1,188,610	\$ -	\$ -	\$ 1,188,610
Less: accumulated depreciation	<u>918,566</u>	<u>112,625</u>	<u>-</u>	<u>1,031,191</u>
Net capital assets	<u>\$ 270,044</u>	<u>\$ 112,625</u>	<u>\$ -</u>	<u>\$ 157,419</u>

6. 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 \$163,675 and \$174,659 in 2006 and 2005, 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 \$971,207 and \$1,039,664 in 2006 and 2005, respectively.

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7. 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 2006 and 2005 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 \$104,218 and \$102,017 in 2006 and 2005, respectively.

According to an independent actuarial valuation as of August 31, 2006 and 2005, 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 of Texas 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 year 2006 and 2005 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 year 2006 and 2005 were 6.00% of annual compensation. Contributions to the plan by the Station amounted to \$13,234 and \$12,086 in 2006 and 2005, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for this program.

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Notes to Financial Statements
August 31, 2006 and 2005
(Continued)

8. 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 web host connection. The lease expenses for 2006 and 2005 were \$180,648 and \$142,936 respectively.

Future minimum lease payments under operating leases are as follows:

Year Ending August 31,	
2007	\$ 164,793
2008	161,975
2009	167,524
2010	144,521
2011	86,231
Thereafter	<u>225,652</u>
	<u>\$ 950,696</u>

9. 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 of Houston System 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.

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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. 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

KUHF (FM)
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Statement of Functional Expenses
Year Ended August 31, 2006

	Programming and Production	Broadcasting	Program Information	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total
Non-In-Kind							
Salaries and wages	\$ 1,018,823	\$ 177,974	\$ 123,928	\$ 238,187	\$ 171,048	\$ 333,466	\$ 2,063,426
Fringe benefits	250,292	46,496	26,038	48,629	31,878	104,249	507,582
Broadcasting fees	901,998	-	-	-	-	8,264	910,262
Financial and legal services	2,850	1,106	1,300	31,277	4,514	9,367	50,414
Fundraising	520	-	11,667	128,369	3,946	1,201	145,703
Membership fees	10,246	-	-	220	-	30,186	40,652
Other expenses	9,691	9,350	2,915	15,149	5,830	64,363	107,298
Postage	1,203	2,425	3,769	61,611	187	1,513	70,708
Printing and reproduction services	1,343	191	3,126	31,493	350	190	36,693
Professional services	60,058	16,058	576	62,330	13,085	29,890	181,997
Rental and leases	-	36,597	38,429	51,244	-	11,572	137,842
Repair and maintenance	65	80,987	-	100	-	11,276	92,428
Supplies and materials	10,611	43,211	1,772	14,980	1,235	55,609	127,418
Telephone	37,946	16,207	2,662	25,684	3,373	21,665	107,537
Travel	13,671	-	5,255	13,563	4,704	13,658	50,851
Utilities	-	211,153	-	-	-	-	211,153
	-	-	-	-	-	-	-
Total	<u>2,319,317</u>	<u>641,755</u>	<u>221,437</u>	<u>722,836</u>	<u>240,150</u>	<u>696,469</u>	<u>4,841,964</u>
In-Kind							
Financial and legal services	-	-	-	14,367	-	-	14,367
Fundraising	-	-	-	47,698	-	-	47,698
Membership fees	-	-	-	800	-	-	800
Postage	-	-	-	83,151	-	-	83,151
Printing and reproduction services	-	-	-	21,172	-	-	21,172
Professional services	-	-	-	29,555	-	-	29,555
Rental and leases	-	-	-	5,094	-	-	5,094
Supplies and materials	-	-	-	6,111	-	-	6,111
Telephone	-	-	-	7,612	-	-	7,612
Travel	-	-	-	25,159	-	-	25,159
General support from the UH System	-	163,673	-	-	-	971,551	1,135,224
Total	<u>-</u>	<u>163,673</u>	<u>-</u>	<u>240,719</u>	<u>-</u>	<u>971,551</u>	<u>1,375,943</u>
Total expenses before depreciation	<u>2,319,317</u>	<u>805,428</u>	<u>221,437</u>	<u>963,555</u>	<u>240,150</u>	<u>1,668,020</u>	<u>6,217,907</u>
Depreciation expense - equipment	<u>-</u>	<u>68,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,572</u>
Total expenses including depreciation	<u>\$ 2,319,317</u>	<u>\$ 874,000</u>	<u>\$ 221,437</u>	<u>\$ 963,555</u>	<u>\$ 240,150</u>	<u>\$ 1,668,020</u>	<u>\$ 6,286,479</u>
Percentage of total expenses	37%	14%	4%	15%	4%	27%	100%

KUHF (FM)
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Statement of Functional Expenses
Year Ended August 31, 2005

	Programming and Production	Broadcasting	Program Information	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total
Non-In-Kind							
Salaries and wages	\$ 965,380.00	\$ 167,450.00	\$ 144,021.00	\$ 247,300.00	\$ 164,667.00	\$ 292,156.00	\$ 1,980,974.00
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
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
Total	2,308,707	472,248	219,760	703,667	242,140	681,308	4,627,830
In-Kind							
Financial and legal services	-	-	-	968	-	-	968
Fundraising	-	-	-	9,266	-	-	9,266
Postage	-	-	-	843	-	-	843
Professional services	-	-	-	300	-	-	300
Rental and leases	-	-	-	3,299	-	-	3,299
Supplies and materials	-	-	-	33	-	-	33
General support from the UH System	-	174,660	-	-	-	1,039,664	1,214,324
Total	-	174,660	-	14,709	-	1,039,664	1,229,033
Total expenses before depreciation	2,308,707	646,908	219,760	718,376	242,140	1,720,972	5,856,863
Depreciation expense - equipment	-	112,626	-	-	-	-	112,626
Total expenses including depreciation	\$ 2,308,707	\$ 759,534	\$ 219,760	\$ 718,376	\$ 242,140	\$ 1,720,972	\$ 5,969,489
Percentage of total expenses	39%	13%	4%	12%	4%	29%	100%