PUBLIC BROADCASTING

(A Division of the University of Houston System)

Basic Financial Statements

August 31, 2009

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
700 Louisiana Street
Houston, TX 77002

Independent Auditors' Report

The Board of Regents
University of Houston System:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Public Broadcasting Division, a division of the University of Houston System, as of and for the year ended August 31, 2009, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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, 2009, the changes in its financial position, or its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2009, and the respective changes in financial position and, when applicable, cash flows for the year 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 audit was 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 and 2 as listed in the accompanying table of contents are presented for purposes of

additional analysis and are 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

May 28, 2010

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

Management's Discussion and Analysis

Year ended August 31, 2009

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 year ended August 31, 2009. 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 footnote disclosures, and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus, and are a division of the System. 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 year ended August 31, 2009. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The information contained in the financial statements of the Stations is incorporated within the System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

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

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

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents and shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets, described above. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets described above.

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

Condensed Financial Information

Statement of Net Assets Information

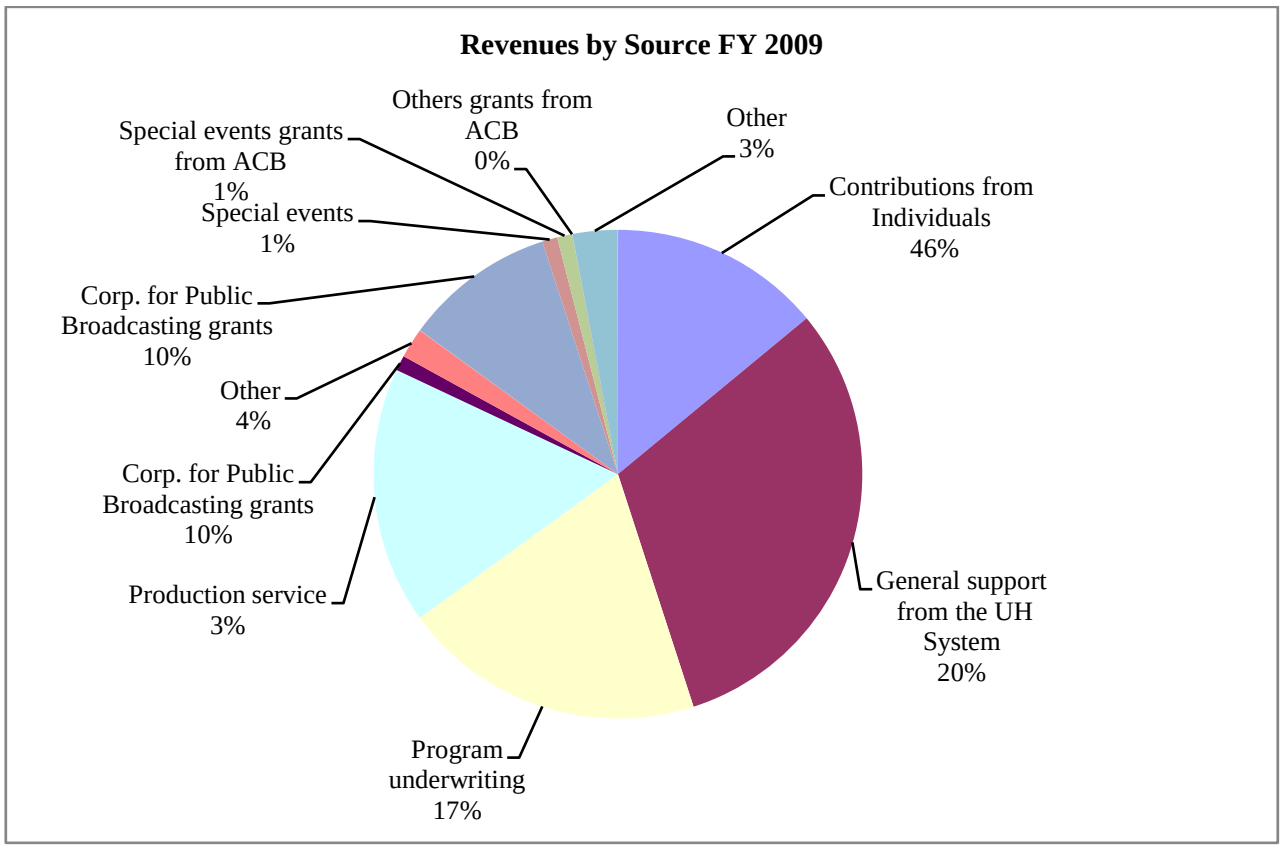
		2009	2008
Assets:			
Current assets	$	2,730,546	3,150,554
Capital assets, net		10,281,793	10,066,617
Other noncurrent assets		213,882	241,688
Total assets	$	13,226,221	13,458,859
Liabilities:			
Current liabilities	$	4,509,610	3,869,606
Total liabilities		4,509,610	3,869,606
Net assets:			
Invested in capital assets, net of related debt		10,281,793	10,066,617
Restricted for endowment funds		39,341	47,256
Unrestricted		(1,604,523)	(524,620)
Total net assets		8,716,611	9,589,253
Total liabilities and net assets	$	13,226,221	13,458,859

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

	Year ended August 31	
	2009	**2008**
Operating revenues	$ 20,745,379	19,895,553
Operating expenses	21,559,236	20,924,957
Operating loss	(813,857)	(1,029,404)
Nonoperating income (expenses):		
Interest	6,787	65,576
Income allocation from endowment fund	(65,572)	70,214
Change in net assets	(872,642)	(893,614)
Net assets, beginning of year	9,589,253	10,482,867
Net assets, end of year	$ 8,716,611	9,589,253

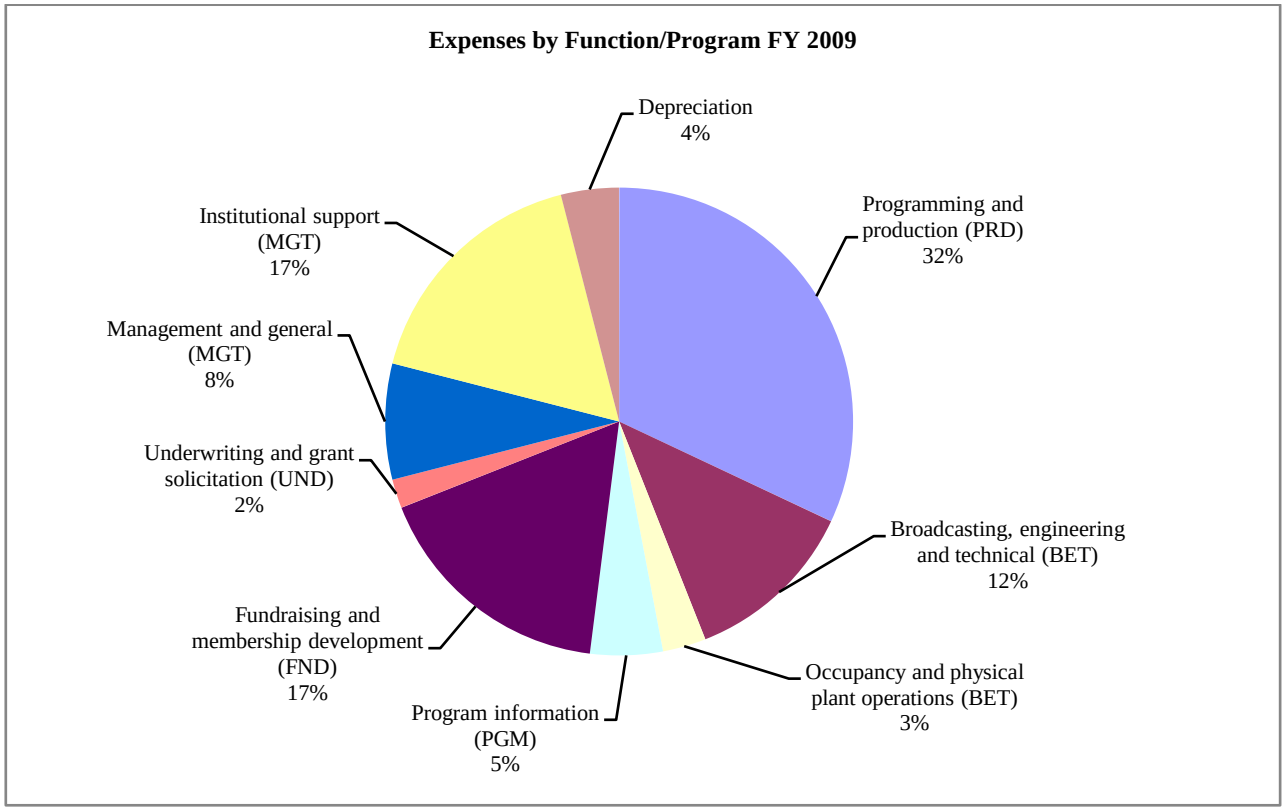
Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2009 and 2008.

	FY 2009		FY 2008		Increase/decrease	
Revenues by source	**Amount**	**Percentage of total**	**Amount**	**Percentage of total**	**Amount**	**Percentage of total**
Operating revenues:						
Contributions from individuals	$ 2,825,420	14%	$ 2,613,876	13%	$ 211,544	25%
Contribution grants from ACB	6,518,509	31	6,686,773	34	(168,264)	(20)
General support from the UH System	4,230,552	20	4,087,323	21	143,229	17
Program underwriting	3,579,452	17	3,513,602	18	65,850	8
Production service	279,309	1	555,813	3	(276,504)	(33)
Production service grants from ACB	388,260	2	—	—	388,260	46
Corp. for Public Broadcasting grants	2,112,537	10	1,876,778	9	235,759	28
Special events	172,638	1	411,116	2	(238,478)	(28)
Special events grants from ACB	107,399	1	—	—	107,399	13
Others grants from ACB	1,233	—	—	—	1,233	—
Other	530,070	3	150,272	—	379,798	44
Total operating revenues	$ 20,745,379	100%	$ 19,895,553	100%	$ 849,826	100%



Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations: Alternatively, operating expenses categorized using the natural classification method 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, 2009 and 2008:

	FY 2009		FY 2008		Increase/decrease	
Expenses by function	**Amount**	**Percentage of total**	**Amount**	**Percentage of total**	**Amount**	**Percentage of total**
Operating expenses:						
Programming and production (PRD)	$ 6,797,988	32%	$ 6,461,881	31%	$ 336,107	53%
Broadcasting, engineering, and technical (BET)	2,578,088	12	2,521,257	12	56,831	9
Occupancy and physical plant operations (BET)	542,346	3	594,463	3	(52,117)	(8)
Program information (PGM)	1,062,373	5	1,043,298	5	19,075	3
Fundraising and membership development (FND)	3,670,517	17	4,087,383	19	(416,866)	(66)
Underwriting and grant solicitation (UND)	526,565	2	358,311	2	168,254	27
Management and general (MGT)	1,798,653	8	1,534,846	7	263,807	42
Institutional support (MGT)	3,688,206	17	3,492,860	17	195,346	31
Depreciation	894,500	4	830,658	4	63,842	10
Total operating revenues	$ 21,559,236	100%	$ 20,924,957	100%	$ 634,279	101%



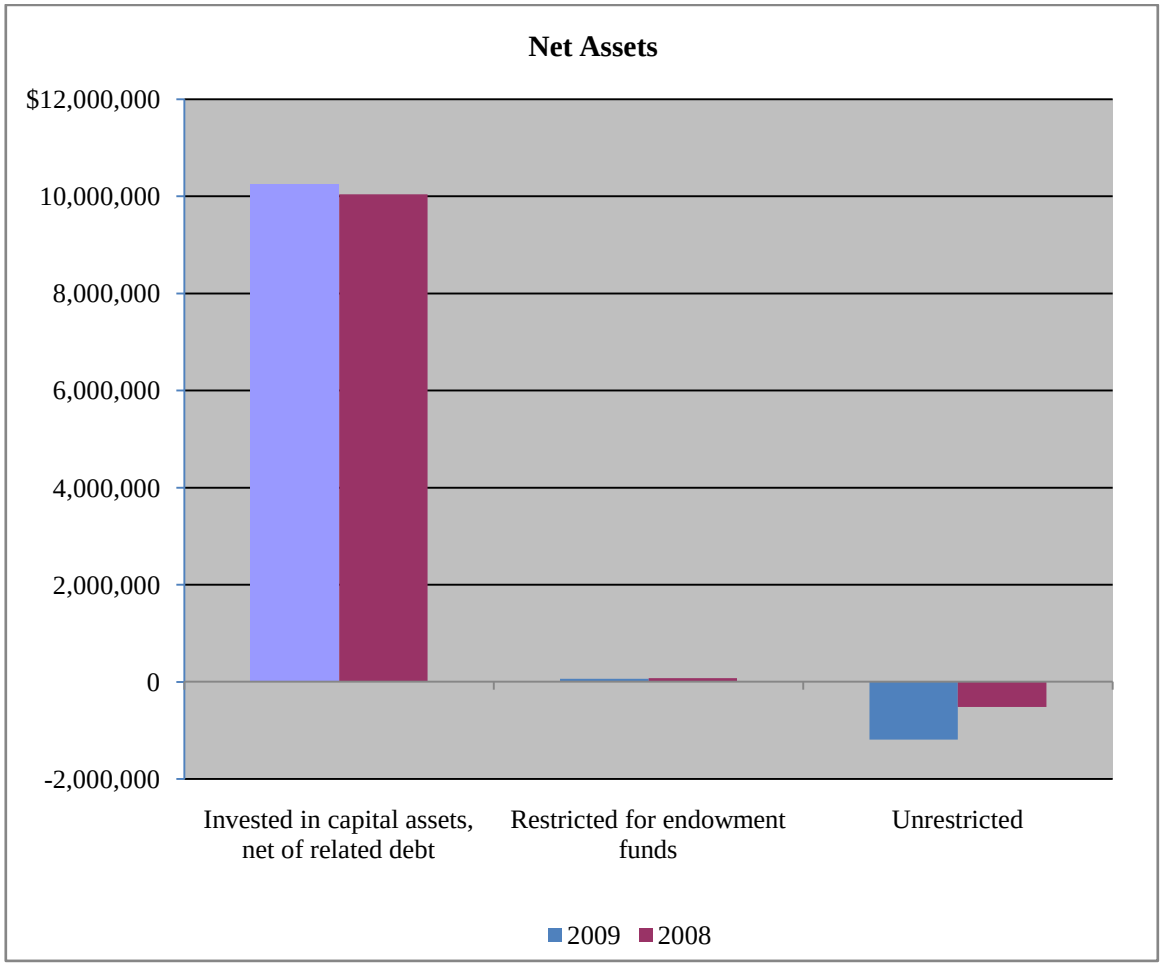
(Continued)

Financial Highlights and Analysis

The increase in current liabilities of $640,004 was due to the acquisition of capital assets required for technological changes occurring in HD Radio and digital television. This investment will allow the Stations to meet federal mandates as well as offer enhancements to the on-air activities. The increase in Due to UH System is the result of the accumulation in net losses over the past several fiscal years.

Average number of days to collect underwriting receivables increased causing an increase in the ending accounts receivables balances. Overall, current assets decreased due to the slowing economy which was an after-effect of Hurricane Ike and the U.S. economic recession.

The following graph illustrates the comparative change in net assets in the different categories for fiscal years 2009 and 2008:



Operating Revenues

- Individual contributions increased both in areas of individual annual gifts and major gifts. The individual contributions increased as the result of new direct mail marketing efforts while major gifts increased as gifts were sought as matching funds for federal grants for television digital infrastructure.
- 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' operating expense. Since overall expenses increased from FY2008 to FY2009, so did the general support.
- Production grants grew due to increased television production.
- The increase in grants from the Corporation for Public Broadcasting reflects additional federal funds allocated for television digital conversion and upgrades.
- Other revenues were increased by the receipt of equipment grants from the Department of Commerce and local foundations.

Operating Expenses

- Programming and production expenses increased due to hiring of additional staffing for local radio news production.
- Fundraising expenses decreased because both KUHF and KUHT membership departments sought new vendors for direct mail activities.
- 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:
    - 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.
    - General support from the System has increased due to an increase in overall expenses.

Capital Assets and Debt Administration

As of the end of the 2009 fiscal year, the Stations had $10,281,793 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements, furniture, equipment, 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 not currently engaged in any long-term financing transactions. The operating budgets for the Stations are currently structured such that annual financial obligations are satisfied through operating revenues and nonoperating revenues that are received during each current fiscal year.

Budgetary ***Revenues***

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

	Budgeted amounts			Variance with final budget favorable
	Original	**Final**	**Actual**	**(unfavorable)**
Contributions	$ 2,887,780	2,887,780	2,825,420	(62,360)
Contribution grants from ACB	6,662,380	6,662,380	6,518,509	(143,871)
General support from the UH System	4,276,327	4,276,327	4,230,552	(45,775)
Program underwriting	4,500,000	4,500,000	3,579,452	(920,548)
Production service	152,715	152,715	279,309	126,594
Production service grants from ACB	212,285	212,285	388,260	175,975
Corporation for Public Broadcasting grants (CPB)	1,790,000	1,790,000	2,112,537	322,537
Other grants	—	200,000	331,778	131,778
Royalties	30,000	30,000	111,078	81,078
Special events	169,533	169,533	172,638	3,105
Special events grants from ACB	105,467	105,467	107,399	1,932
Other	123,750	123,750	87,214	(36,536)
Other grants from ACB	1,750	1,750	1,233	(517)
	$ 20,911,987	21,111,987	20,745,379	(366,608)

The final budget increased due to receiving approximately $200,000 in additional grants for digital infrastructure.

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

- Contributions – Cancellation of TV on-air pledge drive due to Hurricane Ike
- Program underwriting – Downturn in corporate support was due to the general economic downturn and Hurricane Ike.
- Production service - Increased National/Local television Production
- Corporation for Public Broadcasting grants (CPB) – Awarded additional grants for digital infrastructure
- Other grants – Awarded additional grants for digital infrastructure

- Royalties – Received unexpected royalty from National Datacasting for prior year

Expenditures

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

	Budgeted amounts			Variance with final budget favorable
	Original	**Final**	**Actual**	**(unfavorable)**
Operating expenses:				
Programming and production (PRD)	$ 6,654,750	6,654,750	6,797,988	(143,238)
Broadcasting, engineering and technical (BET)	2,866,582	2,866,582	2,578,088	288,494
General support from the UH System (BET)	542,346	542,346	542,346	—
Program information (PGM)	1,064,075	1,064,075	1,062,373	1,702
Fundraising and membership development (FND)	3,264,113	3,264,113	3,670,517	(406,404)
Underwriting and grant solicitation (UND)	605,282	605,282	526,565	78,717
Management and general (MGT)	1,639,698	1,639,698	1,798,653	(158,955)
General support from the UH System (MGT)	3,733,981	3,733,981	3,688,206	45,775
Depreciation	894,500	894,500	894,500	—
Total operating expenses	$ 21,265,327	21,265,327	21,559,236	(293,909)

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

- Programming and production – Increased expenses for producing national television programming and increased fees for broadcast rights for national radio programming
- Broadcasting, engineering and technical – New contract for utilities was negotiated after budget was set, resulting in lower expenditures
- Fundraising and membership development – Mailing expenses for KUHF were under-budgeted by about $150 thousand and credit card fees from ACB were not budgeted

Underwriting and grant solicitation – Budgeted included the addition of a sales manager for KUHF, but the hiring selection was not completed until mid-year

- Management and general – Increased auxiliary, audit, and legal fees were not budgeted. Also, an increase in KUHF staff resulted in some additional expenses in reconfiguring the workstations which was not capitalizable.

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, TX 77204-0008.

BASIC FINANCIAL STATEMENTS

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

Statement of Net Assets

August 31, 2009

Assets		Primary institution	Component unit (ACB)
Current assets:			
Cash and equivalents	$	240,690	374,410
Accounts receivable, net		1,003,229	467,800
Due from ACB		1,122,501	—
Pledge receivable from ACB		60,000	
Pledge receivable		—	60,000
Restricted cash and equivalents		—	217,051
Investments unrestricted for endowment		304,126	—
Other current assets		—	331
Total current assets		2,730,546	1,119,592
Noncurrent assets:			
Pledge receivable		—	133,867
Pledge receivable from ACB		133,867	—
Capital assets, net		10,281,793	186,080
Film rights, net		40,674	—
Investments restricted for endowment		39,341	399,670
Total noncurrent assets		10,495,675	719,617
Total assets	$	13,226,221	1,839,209
Liabilities and Net Assets			
Current liabilities:			
Due to UH System	$	3,145,719	—
Due to primary institution		—	1,122,501
Pledge payable to primary institution		—	60,000
Accounts payable		129,184	—
Accrued payroll		590,445	—
Unearned revenue		—	67,554
Other current liabilities		3,500	—
Employees' compensable leave		640,762	—
Total current liabilities	$	4,509,610	1,250,055
Noncurrent liabilities:			
Pledge payable to primary institution	$	—	133,867
Total noncurrent liabilities	$	—	133,867
Net assets:			
Invested in capital assets		10,281,793	186,080
Restricted:			
Expendable for production and outreach programs		—	217,051
Nonexpendable		39,341	399,670
Unrestricted		(1,604,523)	(347,514)
Total net assets	$	8,716,611	455,287

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended August 31, 2009

Assets		Primary institution	Component unit (ACB)
Operating revenues:			
Contributions	$	2,825,420	7,750,095
Contribution grants from ACB		6,518,509	—
General support from the UH System		4,230,552	—
Program underwriting		3,579,452	10,667
Production service		279,309	864,830
Production service grants from ACB		388,260	—
Corporation for Public Broadcasting grants (CPB)		2,112,537	—
Other grants		331,778	—
Royalties		111,078	—
Special events		172,638	113,573
Special events grants from ACB		107,399	—
Other		87,214	877
Other grants from ACB		1,233	—
Total operating revenues		20,745,379	8,740,042
Operating expenses:			
Grants to primary institution		—	7,015,401
Programming and production (PRD)		6,797,988	315,622
Broadcasting, engineering, and technical (BET)		2,578,088	—
Occupancy and physical plant operations (BET)		542,346	—
Program information (PGM)		1,062,373	3,034
Fundraising and membership development (FND)		3,670,517	1,229,427
Underwriting and grant solicitation (UND)		526,565	—
Management and general (MGT)		1,798,653	62,482
Institutional support (MGT)		3,688,206	—
Depreciation		894,500	28,663
Total operating expenses		21,559,236	8,654,629
Operating income (loss)		(813,857)	85,413
Nonoperating income (expense):			
Interest income		6,787	—
Loss from endowment		(65,572)	(36,787)
Total nonoperating income (expense)		(58,785)	(36,787)
Change in net assets		(872,642)	48,626
Net assets, beginning of year		9,589,253	406,661
Net assets, end of year	$	8,716,611	455,287

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended August 31, 2009

		Primary institution
Cash flows from operating activities:		
Proceeds from contributions	$	9,331,023
Proceeds from CPB grant		2,112,537
Proceeds from other grants		102,387
Proceeds from program underwriting		3,237,358
Proceeds from other revenues		1,147,131
Payments to suppliers for goods and services		(5,367,010)
Payments to employees		(7,602,600)
Payments for broadcasting fees		(2,687,855)
Payments for other expenses		(665,919)
Net cash used in operating activities		(392,948)
Cash flows from noncapital financing activities:		
Advances from UH System		616,185
Net cash provided by noncapital financing activities		616,185
Cash flows from capital and related financing activities:		
Payments for additions to capital assets		(1,109,676)
Payments for additions of film rights		(65,997)
Net cash used in capital and related financing activities		(1,175,673)
Cash flows from investing activities:		
Interest from claim on cash		6,787
Net cash used in investing activities		6,787
Decrease in cash and cash equivalents		(945,649)
Cash and cash equivalents, beginning of year		1,186,339
Cash and cash equivalents, end of year	$	240,690
Reconciliation of loss from operations to net cash used in operating activities:		
Operating loss	$	(813,857)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense		894,500
Amortization of film rights		86,980
Increase in accounts receivable		(237,868)
Increase in amounts due from ACB		(388,234)
Decrease in pledge receivable		41,711
Decrease in accounts payable		(135,256)
Increase in accrued payroll		71,755
Increase in compensated absences payable		87,321
Total adjustments		420,909
Net cash used in operating activities	$	(392,948)

See accompanying notes to financial statements.

(1) Entity

The Public Broadcasting Division (the Stations), of the University of Houston (UH) System (the System) which consists of a noncommercial, listener supported radio station (KUHF) 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. 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 University of Houston System, are located at the System's Central campus, 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 Public Broadcasting Division 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. In pursuing all the dissimilar goals, the Stations have consistently used cutting-edge technology to extend the value of its services.

KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. PBS also 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. KUHT broadcasts on digital station, Channel 8 a noncommercial, VHF television broadcast station. KUHT transmitters, transmission line, and antenna are located 1,850 feet above average terrain near Missouri City, Texas, southwest of Houston, about thirteen miles from the LeRoy and Lucile Melcher Center for Public Broadcasting, located on the Central campus of the System. The broadcast signal reaches thirty-three counties in southeast Texas.

KUHF's new media technologies provide new opportunities in program distribution, including expanded audio streaming via the standard Internet and wireless Internet, along with HD digital multi-channel broadcasting. With the implementation of digital radio (HD) broadcasting, KUHF began in fiscal year 2007 to provide three independent channels of 24/7 programming: (1) news and information; (2) classical music and fine arts; and (3) Spanish language news and information. KUHF has internship opportunities for hands-on training in news, production, and marketing. It actively participates in community-wide events serving Greater Houston area youth, the arts and multicultural population.

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, APB Opinions, and 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 *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

(c) Net Assets

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

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 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

Useful lives are established by a uniform classification system maintained by the State of Texas and are measured from the date of acquisition.

(i) Film Rights

Film rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Estimated useful lives of such rights range from one to five years.

(j) In-Kind Contributions

In-kind contributions included in revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Assets consist of general support from the System which is further described in note 10.

The fair value of merchandise contributed by third parties in connection with the Stations' fund-raising activities is not included in the financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise and donated personal services, are also not included in the financial statements.

(k) Unearned Revenues

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

(l) Advertising

Advertising costs are charged to operations when incurred.

(m) Use of Estimates

The preparation of financial statements in conformity with 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. Neither 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) New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance, to be applied in addition to the existing authoritative guidance for capital assets, include guidance on recognizing intangible assets in the statement of net assets, guidance on determining the useful life of intangible assets and guidance on amortizing intangible assets. The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The Stations do not believe that the adoption of Statement No. 51 will have any significant impact on its financial position, changes in financial position or cash flows.

(q) Presentation of Discrete Component Unit

ACB is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

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

(3) Endowment Funds

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 5% in fiscal years 2008 and 2007 and 3% in fiscal year 2009. 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 Public Broadcasting Division 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 2009, the Endowment Management Committee of the UH System Board of Regents (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 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 year ended August 31, 2009:

August 31, 2008	$	409,039
Current year realized/unrealized losses		(65,572)
Balance, August 31, 2009	$	343,467

The assets of the Stations' quasi endowments totaled $304,126 at August 31, 2009 and are not legally restricted. As of August 31, 2009, the total unrealized loss 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.

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 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 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 $399,670 as of August 31, 2009, are not publicly traded, and have been estimated by fund managers in the absence of readily available market values. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk, and investment manager risk.

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

The following summarizes activity for the year ended August 31, 2009:

August 31, 2008	$	387,426
Unrealized losses		(37,856)
Purchases		50,100
Balance, August 31, 2009	$	399,670

As of August 31, 2009, the total unrealized loss 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, 2009 comprised the following:

		Primary institution	Component unit
Accounts receivable	$	1,065,003	481,000
Allowance for doubtful accounts		(61,774)	(13,200)
Total	$	1,003,229	467,800

Accounts receivable for Public Broadcasting and ACB consists primarily of production grants.

(5) Pledge Receivable

As of August 31, 2009, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

Receivable within one year	$	60,000
Receivable in two to five years	$	150,000
Less discount at 4.125%		(16,133)
Pledge receivable in two to five years, present value	$	133,867

As of August 31, 2009, there was no allowance for estimated uncollectable pledges. The pledge receivable from ACB due to the primary institution consisted of the same amounts presented above.

(6) Capital Assets

Capital asset activities for the year ended August 31, 2009 were as follows for the Public Broadcasting Division:

		Balance, September 1, 2008	Additions	Dispositions	Balance, August 31, 2009
Capital assets:					
Construction in progress	$	118,012	17,878	—	135,890
Buildings and building improvements		12,637,863	—	—	12,637,863
Furniture and equipment		10,668,517	1,091,799	1,743,118	10,017,198
Other assets		75,000	—	—	75,000
Total capital assets		23,499,392	1,109,677	1,743,118	22,865,951
Less accumulated depreciation		13,432,776	894,500	1,743,118	12,584,158
Net capital assets	$	10,066,616	215,177	—	10,281,793

Capital asset activities for the year ended August 31, 2009 were as follows for ACB:

	Balance, September 1, 2008	Additions	Dispositions	Balance, August 31, 2009
Capital assets:				
Land	$ 14,100	—	—	14,100
Program costs	652,089	—	—	652,089
Furniture and equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Total capital assets	1,094,488	—	—	1,094,488
Less accumulated depreciation	879,745	28,663	—	908,408
Net capital assets	$ 214,743	(28,663)	—	186,080

(7) Film Rights

KUHT pays for the right to use certain films in its broadcasting activities. The costs of those rights are amortized over the purchased periods. Changes in the costs of film rights for the year ended August 31, 2009 were as follows:

Balance at beginning of year, net	$ 61,657
Additions	65,997
Total	127,654
Current year amortization	(86,980)
Balance at end of year, net	$ 40,674

(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, 2009.

(9) Unrestricted Net Deficit

The Stations have been experiencing a net excess of expenses over revenues, resulting in an increasing net deficit of unrestricted net assets. The net deficit of unrestricted net assets at August 31, 2009 was $(1,604,523). The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues. The ACB net deficit of unrestricted assets at August 31, 2009 was $(347,514). The increase in the deficit balance was due to the usage of funds from the unrestricted pool to cover the over-expended restricted projects. In response to this situation, 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 fiscal year 2009. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.) which was $216,917 in fiscal year 2009. 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 $3,688,206 in fiscal year 2009.

(11) Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain General Provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These General Provisions pertain to the use of grant funds record-keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

(12) Pension Plan

The Stations participate in the State of Texas (the State) joint contributory retirement plans and thereby provide retirement plans for substantially all of its employees designated as "benefit eligible." One of the primary plans in which the Stations participate is administered by the Teacher Retirement System of Texas (the TRS), a cost-sharing, multiple-employer pension plan. The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4% of their salary to the plan and the Stations contribute an amount equal to 6% 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 $345,953, $302,407, and $260,751 in 2009, 2008, and 2007, respectively. The total amount of employee contributions was $53,535, $46,413, and $38,842 in 2009, 2008, and 2007, respectively. These contributions represent 100% of the required contribution.

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

The State of Texas has also established an Optional Retirement Program (the ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP is an individualized defined contribution plan which provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Stations' and participants contributions were 6.00% of the participants' annual compensation. Contributions to the plan by the Stations amounted to $54,980, $49,695, and $44,773 in 2009, 2008, and 2007, respectively. The total amount of employee contributions was $9,917, $7,778, and $7,204 in 2009, 2008, and 2007, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

(13) Leases

The Stations have entered into operating leases for various business purposes including a tower antenna, fund-raising software, a utility van, fax and copy machine, 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, 2009, the lease expense was $470,847.

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

		Amount
Year ending August 31:		
2010	$	444,505
2011		274,083
2012		137,734
2013		103,057
2014		64,117
Thereafter		104,607
	$	1,128,103

(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, 2009 amounted to $1,762,154, 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 of, is a university established as an agency of the State of Texas prior to 1969, and is exempt from income taxes under Section 115(1) of the Internal Revenue Code. ACB is exempt from income taxes under Section 501(c)(3) whose purpose is to raise money for the Stations. Accordingly, provisions for income taxes have been made in the accompanying financial statements.

(16) Contingent Gain

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 financial statements. The claim was settled for $393,929 and the check was received in December 2009.

(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.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

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

Schedule of Functional Expenses

Year ended August 31, 2009

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	$ 2,431,752	794,518	706,007	3,932,277	967,069	934,897	381,154	2,283,120	6,215,397
Fringe benefits	578,613	218,435	179,320	976,368	242,308	231,907	95,696	569,911	1,546,279
Financial and legal services	10,447	2,661	649	13,757	190,962	120,193	7,335	318,490	332,247
Fundraising	10,502	—	22,154	32,656	678,180	987	787	679,954	712,610
Membership fees	395,455	445	506	396,406	18,737	42,845	320	61,902	458,308
Other expenses	282,526	17,545	37,204	337,275	117,107	197,375	14,163	328,645	665,920
Postage	2,030	1,185	4,534	7,749	800,677	3,100	552	804,329	812,078
Printing and reproduction services	697	104	6,971	7,772	74,325	1,856	717	76,898	84,670
Professional services	161,296	66,419	5,420	233,135	153,001	57,849	6,439	217,289	450,424
Program rights	2,758,346	—	4,711	2,763,057	11,778	—	—	11,778	2,774,835
Rental and leases	(56,087)	480,885	60,485	485,283	75,290	23,713	24	99,027	584,310
Repair and maintenance	12,634	165,214	—	177,848	422	23,851	—	24,273	202,121
Supplies and materials	63,463	208,050	14,805	286,318	34,154	117,354	897	152,405	438,723
Telemarketing services	—	—	—	—	144,801	—	—	144,801	144,801
Telephone	88,923	134,233	8,938	232,094	111,231	25,118	3,802	140,151	372,245
Travel	55,554	3,802	10,669	70,025	50,475	17,608	14,679	82,762	152,787
Utilities	—	484,370	—	484,370	—	—	—	—	484,370
Broadcasting fees	1,837	222	—	2,059	—	—	—	—	2,059
	6,797,988	2,578,088	1,062,373	10,438,449	3,670,517	1,798,653	526,565	5,995,735	16,434,184
In kind:									
General support from the System	—	542,346	—	542,346	—	3,688,206	—	3,688,206	4,230,552
Total expenses before depreciation	$ 6,797,988	3,120,434	1,062,373	10,980,795	3,670,517	5,486,859	526,565	9,683,941	20,664,736
Percentage of total expenses before depreciation	33%	15%	5%	53%	18%	27%	2%	47%	100%

See accompanying independent auditors' report.

Schedule 2

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

Budgetary Comparison Schedule

Year ended August 31, 2009

	Budgeted amounts			Variance with final budget favorable
	Original	**Final**	**Actual**	**(unfavorable)**
Operating revenues:				
Contributions	$ 2,887,780	2,887,780	2,825,420	(62,360)
Contribution grants from ACB	6,662,380	6,662,380	6,518,509	(143,871)
General support from the UH System	4,276,327	4,276,327	4,230,552	(45,775)
Program underwriting	4,500,000	4,500,000	3,579,452	(920,548)
Production service	152,715	152,715	279,309	126,594
Production service grants from KUHT TV	212,285	212,285	388,260	175,975
Corporation for Public Broadcasting grants (CPB)	1,790,000	1,790,000	2,112,537	322,537
Other grants	—	200,000	331,778	131,778
Royalties	30,000	30,000	111,078	81,078
Special events	169,533	169,533	172,638	3,105
Special events grants from KUHT TV	105,467	105,467	107,399	1,932
Other	123,750	123,750	87,214	(36,536)
Other grants from KUHT TV	1,750	1,750	1,233	(517)
Total operating revenues	20,911,987	21,111,987	20,745,379	(366,608)
Operating expenses:				
Programming and production	6,654,750	6,654,750	6,797,988	(143,238)
Broadcasting, engineering and technical	2,866,582	2,866,582	2,578,088	288,494
General support from the UH System (BET)	542,346	542,346	542,346	—
Program information	1,064,075	1,064,075	1,062,373	1,702
Fundraising and membership development	3,264,113	3,264,113	3,670,517	(406,404)
Underwriting and grant solicitation	605,282	605,282	526,565	78,717
Management and general	1,639,698	1,639,698	1,798,653	(158,955)
General support from the UH System (MGT)	3,733,981	3,733,981	3,688,206	45,775
Depreciation	894,500	894,500	894,500	—
Total operating expenses	21,265,327	21,265,327	21,559,236	(293,909)
Operating gain (loss)	(353,340)	(153,340)	(813,857)	(660,517)
Nonoperating revenues:				
Interest	—	—	6,787	6,787
Income allocation from endowment fund	2,494	2,494	(65,572)	(68,066)
Total nonoperating revenues	2,494	2,494	(58,785)	(61,279)
Change in net assets	(350,846)	(150,846)	(872,642)	(721,796)
Fund balances, beginning of year	350,846	150,846	9,589,253	9,438,407
Fund balances, end of year	$ —	—	8,716,611	8,716,611
Capital expenses	$ 275,000	475,000	1,109,676	(634,676)

See accompanying independent auditors' report.