



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

Basic Financial Statements

August 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Assets	15
Statements of Revenues, Expenses, and Changes in Net Assets	16
Statements of Cash Flows	17
Notes to Basic Financial Statements	18
Other Supplementary Information	
Schedule 1 – Schedules of Functional Expenses	33
Schedule 2 – Primary Institution Financial Information – KUHT	35
Schedule 3 – Primary Institution Financial Information – KUHF	39
Schedule 4 – Component Unit (ACB) Schedule of Functional Expenses Information	43
Schedule 5 – Budgetary Comparison Schedule	45



KPMG LLP
811 Main 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 years ended August 31, 2010 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Broadcasting Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Public Broadcasting Division are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities and the aggregate discretely presented component units of the University of Houston System that is attributable to the transactions of the Public Broadcasting Division. They do not purport to, and do not, present fairly the financial position of the University of Houston System as of August 31, 2010 and 2009, the changes in its financial position, or its cash flows, for the years 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, 2010 and 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Broadcasting Division's financial statements. The supplementary information included in Schedules 1, 2, 3, 4, and 5 as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 22, 2011

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

Management's Discussion and Analysis

August 31, 2010

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of the Public Broadcasting Division of the University of Houston (UH) System (the System) (the Stations) for the fiscal years ended August 31, 2010 and 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 note disclosures, and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus, and are a division of the UH. The Association for Community Broadcasting (ACB) is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

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

Overview of the Financial Statements

The Stations herewith presents its financial statements for fiscal years ended August 31, 2010 and 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.

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

Management's Discussion and Analysis

August 31, 2010

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			
	2010	2009	2008
Assets:			
Current assets	\$ 1,835,408	2,730,546	3,150,554
Capital assets, net	9,456,698	10,281,793	10,066,617
Other noncurrent assets	185,971	213,882	241,688
Total assets	\$ 11,478,077	13,226,221	13,458,859
Liabilities:			
Current liabilities	\$ 4,587,060	4,509,610	3,869,606
Total liabilities	4,587,060	4,509,610	3,869,606
Net assets:			
Invested in capital assets, net of related debt	9,456,698	10,281,793	10,066,617
Restricted for endowment funds	42,323	39,341	47,256
Unrestricted	(2,608,004)	(1,604,523)	(524,620)
Total net assets	6,891,017	8,716,611	9,589,253
Total liabilities and net assets	\$ 11,478,077	13,226,221	13,458,859

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

Management's Discussion and Analysis

August 31, 2010

Statements of Revenues, Expenses and Changes in Net Assets Information

	Year ended August 31		
	2010	2009	2008
Operating revenues	\$ 20,548,612	20,745,379	19,895,553
Operating expenses	22,792,837	21,559,236	20,924,957
Operating loss	(2,244,225)	(813,857)	(1,029,404)
Nonoperating income (expenses):			
KUHT loss funding	393,929	—	—
Interest	—	6,787	65,576
Income allocation from endowment fund	24,702	(65,572)	70,214
Change in net assets	(1,825,594)	(872,642)	(893,614)
Net assets, beginning of year	8,716,611	9,589,253	10,482,867
Net assets, end of year	\$ 6,891,017	8,716,611	9,589,253

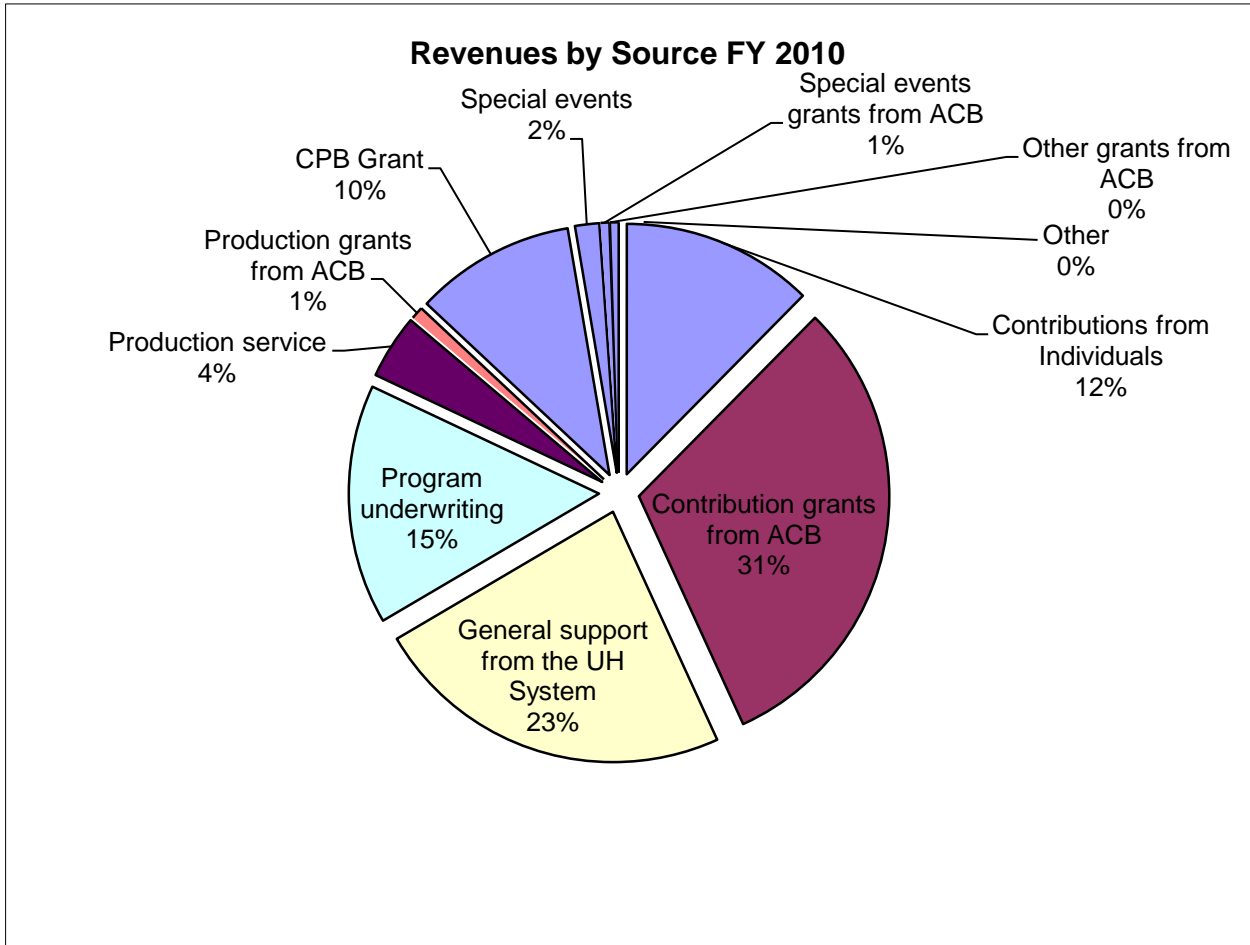
Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2010, 2009 and 2008.

Revenues by source	FY 2010		FY 2009		FY 2008		2010 – 2009 Increase/decrease		2009 – 2008 Increase/decrease	
	(A) Amount	Percentage of total	(B) Amount	Percentage of total	(C) Amount	Percentage of total	(A-B) Amount	Percentage of total	(B-C) Amount	Percentage of total
Operating revenues:										
Contributions	\$ 2,548,219	12%	\$ 2,825,420	14%	\$ 3,091,816	15%	\$ (277,201)	141%	\$ (266,396)	(31)%
Contributions grants from ACB	6,321,296	32	6,518,509	31	6,208,834	31	(197,213)	100	309,675	36
General support from the UH System	4,804,988	23	4,230,552	20	4,087,323	21	574,436	(292)	143,229	17
Program underwriting	3,179,466	15	3,579,452	17	3,513,601	18	(399,986)	203	65,851	8
Production service	852,277	4	279,309	1	317,515	2	572,968	(291)	(38,206)	(4)
Production grants from ACB	167,195	1	388,260	2	238,298	1	(221,065)	112	149,962	18
Corporation for Public Broadcasting grants (CPB)	2,125,322	10	2,112,537	10	1,876,778	9	12,785	(6)	235,759	28
Special events	319,556	2	172,638	1	171,474	1	146,918	(75)	1,164	—
Special events grants from ACB	116,699	1	107,399	1	239,642	1	9,300	(5)	(132,243)	(16)
Other grants from ACB	14,576	—	1,233	—	—	—	13,343	(7)	1,233	—
Other	99,018	—	530,070	3	150,272	1	(431,052)	220	379,798	44
Total operating revenues	\$ 20,548,612	100%	\$ 20,745,379	100%	\$ 19,895,553	100%	\$ (196,767)	100%	\$ 849,826	100%

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

Management's Discussion and Analysis

August 31, 2010



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

Management's Discussion and Analysis

August 31, 2010

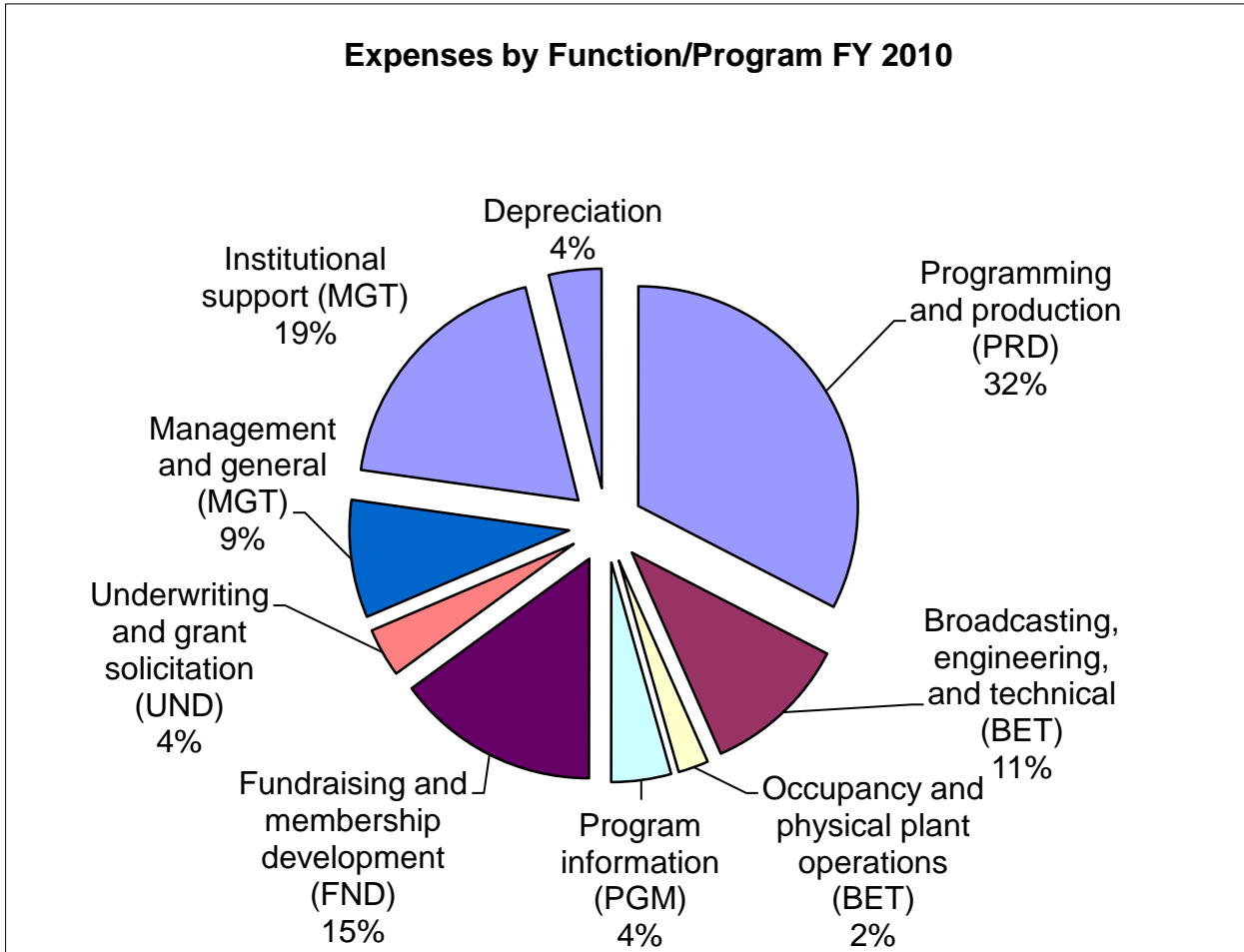
Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Schedule of Functional Expenses. The following schedule presents a summary and comparison of expenses for the fiscal years ended August 31, 2010, 2009 and 2008:

Expenses by function	FY 2010		FY 2009		FY 2008		2010 – 2009 Increase/decrease		2009 – 2008 Increase/decrease	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Operating expense:										
Programming and production (PRD)	\$ 7,413,545	32%	\$ 6,797,988	32%	\$ 6,461,881	30%	\$ 615,557	50%	\$ 336,107	52%
Broadcasting, engineering, and technical (BET)	2,452,698	11	2,578,088	12	2,521,257	12	(125,390)	(10)	56,831	9
Occupancy and physical plant operations (BET)	508,511	2	542,346	3	594,463	3	(33,835)	(3)	(52,117)	(8)
Program information (PGM)	1,006,564	4	1,062,373	5	1,043,298	5	(55,809)	(5)	19,075	3
Fundraising and membership development (FND)	3,397,343	15	3,670,517	17	4,087,383	20	(273,174)	(22)	(416,866)	(66)
Underwriting and grant solicitation (UND)	817,518	4	526,565	2	358,311	2	290,953	24	168,254	27
Management and general (MGT)	1,972,238	9	1,798,653	8	1,534,846	7	173,585	14	263,807	42
Institutional support (MGT)	4,296,477	19	3,688,206	17	3,492,860	17	608,271	49	195,346	31
Depreciation	927,943	4	894,500	4	830,658	4	33,443	3	63,842	10
Total operating revenues	\$ 22,792,837	100%	\$ 21,559,236	100%	\$ 20,924,957	100%	\$ 1,233,601	100%	\$ 634,279	100%

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

Management's Discussion and Analysis

August 31, 2010



Financial Highlights and Analysis

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

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

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

On October 12, 2010, the University entered into an Asset Purchase Agreement with Rice University whereby the University would purchase the FCC license, FM frequency, and broadcast tower used by the student-run Rice radio station, KTRU-FM, as well as certain real property on which the broadcast tower and other transmission equipment is located. The agreed purchase price is \$9,932,000 cash with an additional \$432,000 in noncash

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

Management's Discussion and Analysis

August 31, 2010

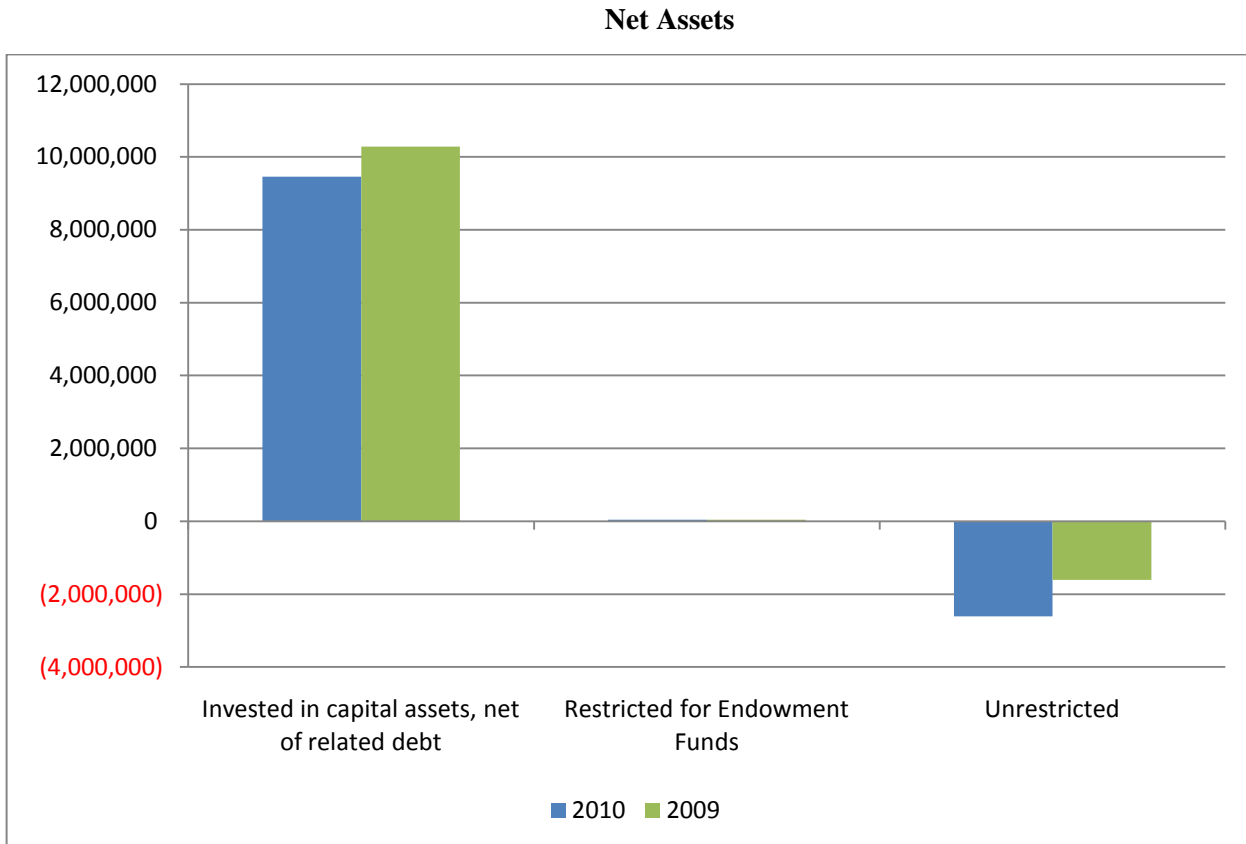
consideration. Federal Communications Commission consent for the sale is pending. The transaction will enable the University to expand its outreach to the Greater Houston community.

Assets and Liabilities – Fiscal year 2009 Compared to Fiscal Year 2008

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 2010 and 2009:



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

Management's Discussion and Analysis

August 31, 2010

Operating Revenues – Fiscal Year 2010 Compared to Fiscal Year 2009

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

Operating Revenues – Fiscal Year 2009 Compared to Fiscal Year 2008

- Overall contributions increased slightly 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 – Fiscal Year 2010 Compared to Fiscal Year 2009

- Programming and production expenses increased due to hiring of additional staffing for local radio news production.
- Underwriting salaries and fringe benefits increased to cover the addition of a sales manager for KUHF and an additional sales person.
- Management and general expenses increased due to the following:
 - Legal fees increased in preparation for KUHF's purchase of a second radio station.

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

Management's Discussion and Analysis

August 31, 2010

- Increased audit fees resulted in higher professional services expense.
- Institutional support has increased due to an increase in overall expenses.

Operating Expenses – Fiscal Year 2009 Compared to Fiscal Year 2008

- 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.
- Institutional support from the System has increased due to an increase in overall expenses.

Capital Assets and Debt Administration

As of the end of the 2010 fiscal year, the Stations had \$9,456,698 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.

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

Management's Discussion and Analysis

August 31, 2010

Budgetary Revenues

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

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Contributions	\$ 900,000	900,000	2,548,219	1,648,219
Contribution grants from ACB	6,700,000	6,700,000	6,321,296	(378,704)
General support from the UH System	4,400,000	4,400,000	4,804,988	404,988
Program underwriting	4,190,000	4,190,000	3,179,466	(1,010,534)
Production service	495,000	495,000	852,277	357,277
Production grants from ACB	150,000	150,000	167,195	17,195
Corporation for Public Broadcasting grants (CPB)	1,823,000	1,823,000	2,125,322	302,322
Other grants	500,000	500,000	47,208	(452,792)
Royalties	15,000	15,000	10,514	(4,486)
Special events	707,000	707,000	319,556	(387,444)
Special events grants from ACB	110,000	110,000	116,699	6,699
Other grants from ACB	10,000	10,000	14,576	4,576
Other	94,000	94,000	41,296	(52,704)
	<u>\$ 20,094,000</u>	<u>20,094,000</u>	<u>20,548,612</u>	<u>454,612</u>

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

- Contributions – slightly favorable as a result of the direct mail programs strength
- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for station activities
- General support from UH System is calculated after UH closes its fiscal year. The calculation is based upon actual expenses of both the Stations and the University themselves; therefore the Stations do not budget general support. The budgeted revenue reflects the offsetting in-kind income of the expenses recognized.
- Program underwriting – Downturn in corporate support was due to the general economic downturn.
- Production service – The increase in production service revenue includes transactions with the ACB not included in the budgets of \$698,989. Excluding this amount leaves an unfavorable variance of \$341,712 resulting from difficulty finding funds, which hampered productions starts.
- Corporation for Public Broadcasting grants (CPB) – Awarded additional grants for digital infrastructure
- Other grants – Awarded additional grants for infrastructure and KUHF local production and economy stimulus

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

Management's Discussion and Analysis

August 31, 2010

- Special events – The budget for special events was increased for year 2010 due to the scheduled events for KUHF's 60th Anniversary celebration. The Garrison Keillor event sponsorships and ticket sales should have been received in 2010 but due to delayed contract negotiations the revenues fell to the next fiscal year.

Expenditures

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

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Programming and production (PRD)	\$ 7,306,208	7,306,208	7,413,545	(107,337)
Broadcasting, engineering, and technical (BET)	2,589,523	2,589,523	2,452,698	136,825
Occupancy and physical plant operations (BET)	—	—	508,511	(508,511)
Program information (PGM)	1,109,664	1,109,664	1,006,564	103,100
Fundraising and membership development (FND)	3,453,537	3,453,537	3,397,343	56,194
Underwriting and grant solicitation (UND)	891,404	891,404	817,518	73,886
Management and general (MGT)	1,706,994	1,706,994	1,972,238	(265,244)
Institutional support (MGT)	—	—	4,296,477	(4,296,477)
Depreciation	927,943	927,943	927,943	—
	<u>\$ 17,985,273</u>	<u>17,985,273</u>	<u>22,792,837</u>	<u>(4,807,564)</u>

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

Management's Discussion and Analysis

August 31, 2010

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

- Programming and production – Unfavorable due to hiring of additional staffing for local radio news production.
- Broadcasting, engineering and technical – New contract for utilities was negotiated after budget was set. The negotiated rates were less than previous years, resulting in lower expenditures.
- Underwriting and grant solicitation – Budgeted included the addition of a fourth sales person for KUHF, but the hiring selection was not completed until mid-year. Since this position had been budgeted for a full year, KUHF realized a reduction in actual expenditures.
- 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.
- Institutional support is calculated after UH closes its fiscal year. The calculation is based upon actual expenses of both the Stations and the University themselves; therefore, the Stations do not budget general support.

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)

Statements of Net Assets

August 31, 2010 and 2009

Assets	2010		2009	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Current assets:				
Cash and equivalents	\$ —	284,737	240,690	374,410
Accounts receivable, net	876,008	134,799	1,003,229	467,800
Due from ACB	543,553	—	1,122,501	—
Pledge receivable from ACB	90,000	—	60,000	—
Pledge receivable	—	90,000	—	60,000
Restricted cash and equivalents	—	146,201	—	217,051
Investments unrestricted for endowment	325,847	—	304,126	—
Other current assets	—	—	—	331
Total current assets	1,835,408	655,737	2,730,546	1,119,592
Noncurrent assets:				
Pledge receivable	—	79,722	—	133,867
Pledge receivable from ACB	79,722	—	133,867	—
Capital assets, net	9,456,698	245,585	10,281,793	186,080
Film rights, net	63,926	—	40,674	—
Investments restricted for endowment	42,323	419,623	39,341	399,670
Total noncurrent assets	9,642,669	744,930	10,495,675	719,617
Total assets	11,478,077	1,400,667	13,226,221	1,839,209
Liabilities and Net Assets				
Current liabilities:				
Due to UH System	3,354,879	—	3,145,719	—
Due to primary institution	—	543,553	—	1,122,501
Pledge payable to primary institution	—	90,000	—	60,000
Accounts payable	27,497	77,395	129,184	—
Accrued payroll	614,973	—	590,445	—
Unearned revenue	—	56,886	—	67,554
Other current liabilities	—	—	3,500	—
Employees' compensable leave	589,711	—	640,762	—
Total current liabilities	4,587,060	767,834	4,509,610	1,250,055
Noncurrent liabilities:				
Pledge payable to primary institution	—	79,722	—	133,867
Total noncurrent liabilities	—	79,722	—	133,867
Net assets:				
Invested in capital assets	9,456,698	245,585	10,281,793	186,080
Restricted:				
Expendable for production and outreach programs	—	146,201	—	217,051
Nonexpendable	42,323	419,623	39,341	399,670
Unrestricted	(2,608,004)	(258,298)	(1,604,523)	(347,514)
Total net assets	\$ 6,891,017	553,111	8,716,611	455,287

See accompanying notes to basic financial statements.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended August 31, 2010 and 2009

	2010		2009	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Operating revenues:				
Contributions	\$ 2,548,219	7,389,400	2,825,420	7,750,095
Contribution grants from ACB	6,321,296	—	6,518,509	—
General support from the UH System	4,804,988	—	4,230,552	—
Program underwriting	3,179,466	10,667	3,579,452	10,667
Production service	852,277	738,558	279,309	864,830
Production grants from ACB	167,195	—	388,260	—
Corporation for Public Broadcasting grants (CPB)	2,125,322	—	2,112,537	—
Other grants	47,208	—	331,778	—
Royalties	10,514	—	111,078	—
Special events	319,556	389,584	172,638	113,573
Special events grants from ACB	116,699	—	107,399	—
Other grants from ACB	14,576	—	1,233	—
Other	41,296	60,130	87,214	877
Total operating revenues	<u>20,548,612</u>	<u>8,588,339</u>	<u>20,745,379</u>	<u>8,740,042</u>
Operating expenses:				
Grants to primary institution (MGT)	—	6,619,766	—	7,015,401
Programming and production (PRD)	7,413,545	694,434	6,797,988	315,622
Broadcasting, engineering, and technical (BET)	2,452,698	1,324	2,578,088	—
Occupancy and physical plant operations (BET)	508,511	—	542,346	—
Program information (PGM)	1,006,564	28,258	1,062,373	3,034
Fundraising and membership development (FND)	3,397,343	1,032,264	3,670,517	1,229,427
Underwriting and grant solicitation (UND)	817,518	—	526,565	—
Management and general (MGT)	1,972,238	84,987	1,798,653	62,482
Institutional support (MGT)	4,296,477	—	3,688,206	—
Depreciation	927,943	50,705	894,500	28,663
Total operating expenses	<u>22,792,837</u>	<u>8,511,738</u>	<u>21,559,236</u>	<u>8,654,629</u>
Operating income (loss)	<u>(2,244,225)</u>	<u>76,601</u>	<u>(813,857)</u>	<u>85,413</u>
Nonoperating income:				
KUHT insurance recovery	393,929	—	—	—
Interest income	—	—	6,787	—
Gain (loss) from endowment	24,702	21,223	(65,572)	(36,787)
Total nonoperating income	<u>418,631</u>	<u>21,223</u>	<u>(58,785)</u>	<u>(36,787)</u>
Change in net assets	(1,825,594)	97,824	(872,642)	48,626
Net assets, beginning of year	<u>8,716,611</u>	<u>455,287</u>	<u>9,589,253</u>	<u>406,661</u>
Net assets, end of year	<u>\$ 6,891,017</u>	<u>553,111</u>	<u>8,716,611</u>	<u>455,287</u>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended August 31, 2010 and 2009

	2010	2009
	Primary institution	Primary institution
Cash flows from operating activities:		
Proceeds from contributions	\$ 8,893,660	9,331,023
Proceeds from CPB grant	2,125,322	2,112,537
Proceeds from other grants	58,318	102,387
Proceeds from program underwriting	3,874,525	3,237,358
Proceeds from other revenues	1,916,042	1,147,131
Payments to suppliers for goods and services	(5,135,319)	(5,367,010)
Payments to employees	(8,277,768)	(7,602,600)
Payments for broadcasting fees	(2,684,330)	(2,687,855)
Payments for other expenses	(1,037,887)	(665,919)
Net cash used in operating activities	(267,437)	(392,948)
Cash flows from noncapital financing activities:		
Advances from UH System	209,160	616,185
Net cash provided by noncapital financing activities	209,160	616,185
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(102,848)	(1,109,676)
Payments for additions of film rights	(79,565)	(65,997)
Net cash used in capital and related financing activities	(182,413)	(1,175,673)
Cash flows from investing activities:		
Interest from claim on cash	—	6,787
Net cash provided by investing activities	—	6,787
Decrease in cash and cash equivalents	(240,690)	(945,649)
Cash and cash equivalents, beginning of year	240,690	1,186,339
Cash and cash equivalents, end of year	\$ —	240,690
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,244,225)	(813,857)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	927,943	894,500
Amortization of film rights	56,312	86,980
KUHT insurance recovery	393,929	—
(Increase) decrease in accounts receivable	127,221	(237,868)
(Increase) decrease in amounts due from ACB	578,948	(388,234)
Decrease in pledge receivable	24,145	41,711
Decrease in accounts payable	(101,687)	(135,256)
Increase in accrued payroll	24,528	71,755
Increase (decrease) in compensated absences payable	(51,051)	87,321
Decrease in other liabilities	(3,500)	—
Total adjustments	1,976,788	420,909
Net cash used in operating activities	\$ (267,437)	(392,948)

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

(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 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 Stations and do not purport to, and do not present fairly, the financial position of the System.

The Stations are dedicated to education and outreach through a wide variety of activities like community advancement, and expanding and strengthening partnerships and collaborations with key arts organizations in Houston. In pursuing all the dissimilar goals, the Stations have consistently used cutting-edge technology to extend the value of its services.

KUHT is a full service television station licensed to the University of Houston and is also known as HoustonPBS. The studio facilities are on the University of Houston campus in the LeRoy and Lucile Melcher Center for Public Broadcasting. The transmitter facilities are located in Missouri City, Texas. KUHT began broadcasting May of 1953 and was the first station in the country to operate on a specially reserved noncommercial television channel. The digital video services offered today include one high definition program service and two standard definition services. KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. It was the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the Greater Houston area including access to the Houston Taping for the Blind radio service. The broadcast signal reaches thirty-three counties in southeast Texas and is carried on numerous cable television systems as well as both the Dish Network and DirecTV satellite services.

KUHF's new media technologies are rapidly developing with the changing landscape of on-demand media around the world. Current services include all news and all music internet streams, podcasts, on-demand shows, user interactive event calendar, RSS feeds, iPhone applications, Blackberry applications, and iPad applications. Projects in development include Android applications, option to purchase programming list, and development of two separate web sites to support 24 hours of news and 24 hours of music programming and community support. KUHF's new media group is now 4 full-time staff members, with opportunities for intern training. Such internships are also available in News, Production, Public Relations, Development, Music, and Business.

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

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 are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

The financial statements for both the Stations and ACB are presented using the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been incurred.

(b) Reporting Guidelines

Based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds are reported based on all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) Statements and Interpretation, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The Stations have elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The Stations are reported as a single purpose business-type activity entity. In addition, the Stations' financial statements have been prepared in accordance with the Corporation for Public Broadcasting's (CPB) *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

(c) Net Assets

Invested in capital assets – 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

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

not yet expended for capital assets, such amounts are not included as a component of net assets invested in capital assets, net of related debt.

Nonexpendable restricted net assets – are subject to externally imposed provisions that require the Stations to permanently maintain such net assets. The corpus of KUHT endowments is included in nonexpendable restricted net assets.

Expendable restricted net assets – represent income received from an endowment, which is available for purposes restricted by the donor, and can include gifts restricted by the donor for a specific purpose.

Unrestricted net assets – represent resources that are available for the support of the Stations operations.

When the Stations incur an expense for which both restricted and unrestricted resources may be used, it is the Stations' policy to use restricted resources first, then unrestricted resources.

(d) Revenues

Operating revenues include sources that are primarily used to provide services to the Stations' audience. Substantially all of the Stations' revenues are considered operating with the exception of net change in fair value of endowments, insurance recoveries, and other investment income.

Unrestricted contributions and gifts do not have binding agreements and are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received and when eligibility requirements have been met. Restricted support and revenues are recognized upon incurring the appropriate expenses or meeting the eligibility requirements.

(e) Accounts Receivable

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Stations provide an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections, and existing economic conditions.

(f) Pledges Receivable

Unconditional promises to give (pledges) that are measurable are recorded after being discounted to the anticipated net present value of the future cash flows. The Stations provide an allowance for estimated uncollectable pledges, which is based upon a review of outstanding pledges receivable, historical collections, and existing economic conditions.

(g) Cash and Cash Equivalents

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

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

Cash and cash equivalents represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the System acting as the Stations' fiscal agent to optimize the rate of return. All of the funds included in cash and cash equivalents are insured or registered, or are securities held by the System or its agent in the System's name.

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

For current unrestricted and restricted accounts, the System allocated a percentage of the interest income earned to the Stations at a fixed rate based on its monthly average cash balance.

(h) Capital Assets

Capital assets represent buildings and equipment acquired primarily for the operation of the Stations. Title of the buildings and equipment rests with the State of Texas (the State) in the name of the System, and therefore, such assets can be transferred to or from the Stations at the discretion of the System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight-line basis over the following useful lives of the assets:

Buildings and building improvements	22 – 30 years
Furniture and equipment	5 – 10 years
Other assets	5 years

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

(i) Film Rights

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

(j) In-Kind Contributions

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

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

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

(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 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

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

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

(a) Primary Institution

Gifts to the UH System are placed in the System's endowment fund which is a pooled investment of individual endowments benefitting the entire System.

The System's Endowment Fund allocated income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowment's fair value in the previous three fiscal years. That percentage was 4% and 3% in fiscal years 2010 and 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 Stations and ACB are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The deposits and investments with the University of Houston Endowment Fund are exposed to risks that have the potential to result in losses. Those risks and their definitions are:

- Credit risk – the risk an insurer or counterparty to an investment will not fulfill its obligation
- Custodial risk – the risk that, in the case of default by the counterparty, a government will be unable to recover its deposit/investment or collateralizing securities in the possession of an outside party

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

- 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 2010, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio. The UH System Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return. Further information regarding the investment balances and risks with the UH System Endowment Fund, which does not have a credit rating, may be obtained from the UH System Office of the Treasurer.

The following summarizes activity for the years ended August 31, 2010 and 2009:

Balance, August 31, 2008	\$	409,040
2009 realized/unrealized loss		(65,572)
Balance, August 31, 2009		343,468
2010 realized/unrealized gain		24,702
Balance, August 31, 2010	\$	368,170

The assets of the Stations’ quasi-endowments totaled \$325,847 and \$304,126 at August 31, 2010 and 2009, respectively and are not legally restricted. As of August 31, 2010, the total unrealized gain for the period related to assets still held at the reporting date. Unrealized gains and losses for the current year are recorded in the Statement of Revenue, Expenses, and Changes in Net Assets.

(b) Component Unit (ACB)

The gifts received by ACB to create endowed accounts are invested in the ACB Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the ACB Endowment Fund (the Endowment) and Gift Committee. The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The objectives of the Investment Pool are to protect the real value of the ACB Endowment Fund, while maximizing the amount distributed annually for endowed spending as further described in the ACB Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the ACB Endowment Fund will be reinvested to protect the capital against erosion by inflation.

The Endowment’s spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

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 \$419,623 as of August 31, 2010 and \$399,670 as of August 31, 2009, is not publicly traded, and has been estimated by fund managers in the absence of readily available market values. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk, and investment manager risk.

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

The following summarizes activity for the years ended August 31, 2010 and 2009:

Balance, August 31, 2008	\$	387,427
Loss from endowment		(37,857)
Purchases		50,100
		399,670
Balance, August 31, 2009		399,670
Gain from endowment		21,223
Administrative charges		(1,270)
		419,623
Balance, August 31, 2010	\$	419,623

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

As of August 31, 2010 and 2009, the total unrealized gain for the period related to assets still held at the reporting date. Unrealized gains and losses for the current year are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

(4) Accounts Receivable

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

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

Accounts receivable as of August 31, 2009 comprised the following:

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

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

(5) Pledge Receivable

As of August 31, 2010 and 2009, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

	<u>2010</u>	<u>2009</u>
Receivable within one year	\$ 90,000	60,000
Receivable in two to five years	90,000	150,000
Less discount at 4.125%	<u>(10,278)</u>	<u>(16,133)</u>
Pledge receivable in two to five years, present value	<u>\$ 169,722</u>	<u>193,867</u>

As of August 31, 2010 and 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.

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

(6) Capital Assets

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

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

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

	Balance, August 31, 2009	Additions	Dispositions	Balance, August 31, 2010
Capital assets:				
Land	\$ 14,100	—	—	14,100
Program costs	652,089	—	—	652,089
Equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Accounting software	—	110,210	—	110,210
Total capital assets	1,094,488	110,210	—	1,204,698
Less accumulated depreciation	908,408	50,705	—	959,113
Net capital assets	\$ 186,080	59,505	—	245,585

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

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

	Balance, August 31, 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	10,668,518	1,091,798	1,743,118	10,017,198
Other assets	75,000	—	—	75,000
Total capital assets	23,499,393	1,109,676	1,743,118	22,865,951
Less accumulated depreciation	13,432,776	894,500	1,743,118	12,584,158
Net capital assets	\$ 10,066,617	215,176	—	10,281,793

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

	Balance, August 31, 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

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

(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, 2010 and 2009 were as follows:

Balance, August 31, 2008	\$	61,657
2009 additions		65,997
Total		127,654
2009 amortization		(86,980)
Total		40,674
Balance, August 31, 2009		40,674
2010 additions		79,564
Total		120,238
2010 amortization		(56,312)
Total		63,926
Balance, August 31, 2010	\$	63,926

(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, 2010 and 2009.

(9) Unrestricted Net Deficit

The Stations have been experiencing a net excess of expenses over revenues, resulting in a net deficit of unrestricted net assets. The net deficit of unrestricted net assets at August 31, 2010 and 2009 was \$(2,608,004) and \$(1,604,523), respectively. 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, 2010 and 2009 was \$(258,298) and \$(347,514), respectively. The decrease in the 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 both fiscal year 2010 and fiscal year 2009. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.), which was

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

\$183,082 in fiscal year 2010 and \$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 \$4,296,477 in fiscal year 2010 and \$3,688,206 in fiscal year 2009.

(11) Corporation for Public Broadcasting Grants

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

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

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

(12) Pension Plan

The Stations participate in the State joint contributory retirement plans and thereby provide retirement plans for substantially all of its employees designated as "benefit eligible." One of the primary plans in which the Stations participate is administered by the Teacher Retirement System of Texas (the TRS), a cost-sharing, multiple-employer pension plan. The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4% of their salary to the plan and the Stations contribute an amount equal to 6.644% 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 \$372,618, \$345,953, and \$302,407 in 2010, 2009, and 2008, respectively. The total amount of employee contributions was \$56,713, \$53,535, and \$46,413 in 2010, 2009, and 2008, 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.

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

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

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.5% of the participants' annual compensation. Employees hired on or after September 1, 1995, may contribute 6.65% of their gross salary monthly with the Stations contributing 6.4% of the employee's gross salary to the ORP account. Contributions to the plan by the Stations amounted to \$51,428, \$54,980, and \$49,695 in 2010, 2009, and 2008, respectively. The total amount of employee contributions was \$7,187, \$9,917, and \$7,778 in 2010, 2009, and 2008, 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, 2010 and 2009, the lease expense was \$420,536 and \$470,847, respectively.

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

	Amount
Year ending August 31:	
2011	\$ 267,647
2012	274,227
2013	207,774
2014	167,959
2015	169,186
2016	104,460
	\$ 1,191,253

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

Notes to Basic Financial Statements

August 31, 2010 and 2009

(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, 2010 and 2009 amounted to \$1,879,021 and \$1,762,154, respectively, and have been included in the contributions and production service revenues and in operating expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

(15) Income Taxes

The System, of which the Stations is a division, is a university established as an agency of the State prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under section 115 of the Internal Revenue Code of 1986 (IRC). However, as a state college or university, the System is subject to unrelated business income pursuant to IRC section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2010 and 2009. ACB, whose purpose is to raise money for the Stations, is exempt from income taxes under IRC section 501(a) as an organization described in IRC Section 501(c)(3). No material unrelated business income tax was incurred by ACB for the years ended August 31, 2010 and 2009. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(16) Insurance Recovery

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

(17) Risk Management

The Stations are exposed to various risks of loss related to torts, injuries to employees, and natural disasters. The System carries commercial insurance to cover losses to which the Stations may be exposed.

(18) Subsequent Event Disclosure

On October 12, 2010, the University entered into an Asset Purchase Agreement with Rice University whereby the University would purchase the FCC license, FM frequency, and broadcast tower used by the student-run Rice radio station, KTRU-FM, as well as certain real property on which the broadcast and other transmission equipment is located. The agreed purchase price is \$9,932,000 cash with an additional \$432,000 in noncash consideration. Federal Communications Commission consent for the sale is pending.

OTHER SUPPLEMENTARY INFORMATION

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

Schedule of Functional Expenses

Year ended August 31, 2010

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

See accompanying independent auditors' report.

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
	<u>6,797,988</u>	<u>2,578,088</u>	<u>1,062,373</u>	<u>10,438,449</u>	<u>3,670,517</u>	<u>1,798,653</u>	<u>526,565</u>	<u>5,995,735</u>	<u>16,434,184</u>
In-kind:									
General support from the System	—	542,346	—	542,346	—	3,688,206	—	3,688,206	4,230,552
Total expenses before depreciation	<u>\$ 6,797,988</u>	<u>3,120,434</u>	<u>1,062,373</u>	<u>10,980,795</u>	<u>3,670,517</u>	<u>5,486,859</u>	<u>526,565</u>	<u>9,683,941</u>	<u>20,664,736</u>
Percentage of total expenses before depreciation	33%	15%	5%	53%	18%	27%	3%	47%	100%

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHT
Statement of Net Asset Information
August 31, 2010 and 2009

Assets	2010	2009
	<u> </u>	<u> </u>
Current assets:		
Cash and equivalents	\$ —	—
Accounts receivable, net	480,004	584,560
Due from ACB	543,553	1,058,992
Pledge receivable from ACB	90,000	60,000
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	325,847	304,126
Other current assets	—	—
Total current assets	<u>1,439,404</u>	<u>2,007,678</u>
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	79,722	133,867
Capital assets, net	9,126,250	9,863,453
Film rights, net	63,926	40,674
Investments restricted for endowment	42,323	39,341
Total noncurrent assets	<u>9,312,221</u>	<u>10,077,335</u>
Total assets	<u>10,751,625</u>	<u>12,085,013</u>
Liabilities and Net Assets		
Current liabilities:		
Due to UH System	2,833,983	3,148,460
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	21,685	65,756
Accrued payroll	289,528	272,093
Unearned revenue	—	—
Employees' compensable leave	284,815	310,238
Total current liabilities	<u>3,430,011</u>	<u>3,796,547</u>
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	<u>—</u>	<u>—</u>
Net assets:		
Invested in capital assets	9,126,250	9,863,453
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	42,323	39,341
Unrestricted	(1,846,959)	(1,614,328)
Total net assets	<u>\$ 7,321,614</u>	<u>8,288,466</u>

See accompanying independent auditors' report.

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

Primary Institution Financial Information – KUHT

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

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Contributions	\$ 1,324,894	1,289,240
Contribution grants from ACB	4,095,230	5,008,509
General support from the UH System	2,724,449	2,407,791
Program underwriting	596,382	530,371
Production service	824,464	275,247
Production grants from ACB	167,195	388,260
Corporation for Public Broadcasting grants (CPB)	1,534,073	1,612,951
Other grants	23,068	311,978
Royalties	10,405	109,294
Special events	59,208	96,745
Special events grants from ACB	116,699	107,399
Other grants from ACB	14,576	1,233
Other	36,296	85,770
	<u>11,526,939</u>	<u>12,224,788</u>
Total operating revenues		
Grants to primary institution	—	—
Programming and production (PRD)	3,775,132	3,521,822
Broadcasting, engineering, and technical (BET)	1,638,621	1,692,661
Occupancy and physical plant operations (BET)	367,275	392,153
Program information (PGM)	622,288	645,178
Fundraising and membership development (FND)	2,116,719	2,105,067
Underwriting and grant solicitation (UND)	237,889	165,503
Management and general (MGT)	968,913	851,198
Institutional support (MGT)	2,357,173	2,015,638
Depreciation	828,412	811,252
	<u>12,912,422</u>	<u>12,200,472</u>
Total operating expenses		
Operating income (loss)	<u>(1,385,483)</u>	<u>24,316</u>
Interest income	—	—
KUHT insurance recovery	393,929	—
Gain (loss) from endowment	24,702	(65,572)
	<u>418,631</u>	<u>(65,572)</u>
Total nonoperating income (expense)		
Change in net assets	(966,852)	(41,256)
Net assets, beginning of year	<u>8,288,466</u>	<u>8,329,722</u>
Net assets, end of year	<u>\$ 7,321,614</u>	<u>8,288,466</u>

See accompanying independent auditors' report.

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

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

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHT
Schedule of Functional Expenses Information
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	\$ 856,331	575,516	453,988	1,885,835	540,253	474,900	126,924	1,142,077	3,027,912
Fringe benefits	216,324	159,571	113,311	489,206	136,034	101,325	32,723	270,082	759,288
Financial and legal services	7,891	2,032	149	10,072	89,515	67,490	853	157,858	167,930
Fundraising	—	—	4,763	4,763	456,647	—	100	456,747	461,510
Membership fees	264,139	445	481	265,065	14,745	40,485	—	55,230	320,295
Other expenses	213,546	8,739	25,795	248,080	32,023	96,402	1,581	130,006	378,086
Postage	861	249	1,143	2,253	533,518	2,871	190	536,579	538,832
Printing and reproduction services	66	104	4,073	4,243	17,386	74	52	17,512	21,755
Professional services	46,058	32,546	3,696	82,300	22,889	1,032	67	23,988	106,288
Program rights	1,796,567	—	4,711	1,801,278	11,778	—	—	11,778	1,813,056
Rental and leases	22,457	286,808	18,320	327,585	10,835	11,357	—	22,192	349,777
Repair and maintenance	6,741	109,839	—	116,580	—	2,572	—	2,572	119,152
Supplies and materials	31,593	106,178	7,258	145,029	18,359	35,914	290	54,563	199,592
Telemarketing services	—	—	—	—	125,967	—	—	125,967	125,967
Telephone	28,134	111,385	5,004	144,523	68,117	14,926	1,483	84,526	229,049
Travel	29,277	1,809	2,486	33,572	27,001	1,850	1,240	30,091	63,663
Utilities	—	297,218	—	297,218	—	—	—	—	297,218
Broadcasting fees	1,837	222	—	2,059	—	—	—	—	2,059
	<u>3,521,822</u>	<u>1,692,661</u>	<u>645,178</u>	<u>5,859,661</u>	<u>2,105,067</u>	<u>851,198</u>	<u>165,503</u>	<u>3,121,768</u>	<u>8,981,429</u>
In-kind:									
General support from the System	—	392,153	—	392,153	—	2,015,638	—	2,015,638	2,407,791
Total expenses before depreciation	<u>\$ 3,521,822</u>	<u>2,084,814</u>	<u>645,178</u>	<u>6,251,814</u>	<u>2,105,067</u>	<u>2,866,836</u>	<u>165,503</u>	<u>5,137,406</u>	<u>11,389,220</u>

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHF
Statement of Net Asset Information
August 31, 2010 and 2009

Assets	2010	2009
	<u> </u>	<u> </u>
Current assets:		
Cash and equivalents	\$ —	243,431
Accounts receivable, net	396,004	418,669
Due from ACB	—	63,509
Pledge receivable from ACB	—	—
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	—	—
Other current assets	—	—
Total current assets	<u>396,004</u>	<u>725,609</u>
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	—	—
Capital assets, net	330,448	418,340
Film rights, net	—	—
Investments restricted for endowment	—	—
Total noncurrent assets	<u>330,448</u>	<u>418,340</u>
Total assets	<u>726,452</u>	<u>1,143,949</u>
Liabilities and Net Assets		
Current liabilities:		
Due to UH System	520,896	—
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	5,812	63,428
Accrued payroll	325,445	318,352
Unearned revenue	—	—
Employees' compensable leave	304,896	330,524
Total current liabilities	<u>1,157,049</u>	<u>712,304</u>
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	<u>—</u>	<u>—</u>
Net assets:		
Invested in capital assets	330,448	418,340
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	—	—
Unrestricted	<u>(761,045)</u>	<u>9,805</u>
Total net assets	<u>\$ (430,597)</u>	<u>428,145</u>

See accompanying independent auditors' report.

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

Primary Institution Financial Information – KUHF

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

Years ended August 31, 2010 and 2009

	2010	2009
Contributions	\$ 1,223,325	1,536,180
Contribution grants from ACB	2,226,066	1,510,000
General support from the UH System	2,080,539	1,822,761
Program underwriting	2,583,084	3,049,081
Production service	27,813	4,062
Production grants from ACB	—	—
Corporation for Public Broadcasting grants (CPB)	591,249	499,586
Other grants	24,140	19,800
Royalties	109	1,784
Special events	260,348	75,893
Special events grants from ACB	—	—
Other grants from ACB	—	—
Other	5,000	1,444
	9,021,673	8,520,591
Total operating revenues		
Grants to primary institution	—	—
Programming and production (PRD)	3,638,413	3,276,166
Broadcasting, engineering, and technical (BET)	814,077	885,427
Occupancy and physical plant operations (BET)	141,236	150,193
Program information (PGM)	384,276	417,195
Fundraising and membership development (FND)	1,280,624	1,565,450
Underwriting and grant solicitation (UND)	579,629	361,062
Management and general (MGT)	1,003,325	947,455
Institutional support (MGT)	1,939,304	1,672,568
Depreciation	99,531	83,248
	9,880,415	9,358,764
Total operating expenses		
Operating income (loss)	(858,742)	(838,173)
Interest income	—	6,787
KUHT insurance recovery	—	—
Gain (loss) from endowment	—	—
	—	6,787
Total nonoperating income (expense)		
Change in net assets	(858,742)	(831,386)
Net assets, beginning of year	428,145	1,259,531
Net assets, end of year	\$ (430,597)	428,145

See accompanying independent auditors' report.

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

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

See accompanying independent auditors' report.

PUBLIC BROADCASTING
(A Division of the University of Houston System)
Primary Institution Financial Information – KUHF
Schedule of Functional Expenses Information
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	\$ 1,575,421	219,002	252,019	2,046,442	426,816	459,997	254,230	1,141,043	3,187,485
Fringe benefits	362,289	58,864	66,009	487,162	106,274	130,582	62,973	299,829	786,991
Financial and legal services	2,556	629	500	3,685	101,447	52,703	6,482	160,632	164,317
Fundraising	10,502	—	17,391	27,893	221,533	987	687	223,207	251,100
Membership fees	131,316	—	25	131,341	3,992	2,360	320	6,672	138,013
Other expenses	68,980	8,806	11,409	89,195	85,084	100,973	12,582	198,639	287,834
Postage	1,169	936	3,391	5,496	267,159	229	362	267,750	273,246
Printing and reproduction services	631	—	2,898	3,529	56,939	1,782	665	59,386	62,915
Professional services	115,238	33,873	1,724	150,835	130,112	56,817	6,372	193,301	344,136
Program rights	961,779	—	—	961,779	—	—	—	—	961,779
Rental and leases	(78,544)	194,077	42,165	157,698	64,455	12,356	24	76,835	234,533
Repair and maintenance	5,893	55,375	—	61,268	422	21,279	—	21,701	82,969
Supplies and materials	31,870	101,872	7,547	141,289	15,795	81,440	607	97,842	239,131
Telemarketing services	—	—	—	—	18,834	—	—	18,834	18,834
Telephone	60,789	22,848	3,934	87,571	43,114	10,192	2,319	55,625	143,196
Travel	26,277	1,993	8,183	36,453	23,474	15,758	13,439	52,671	89,124
Utilities	—	187,152	—	187,152	—	—	—	—	187,152
Broadcasting fees	—	—	—	—	—	—	—	—	—
	<u>3,276,166</u>	<u>885,427</u>	<u>417,195</u>	<u>4,578,788</u>	<u>1,565,450</u>	<u>947,455</u>	<u>361,062</u>	<u>2,873,967</u>	<u>7,452,755</u>
In-kind:									
General support from the System	—	150,193	—	150,193	—	1,672,568	—	1,672,568	1,822,761
Total expenses before depreciation	<u>\$ 3,276,166</u>	<u>1,035,620</u>	<u>417,195</u>	<u>4,728,981</u>	<u>1,565,450</u>	<u>2,620,023</u>	<u>361,062</u>	<u>4,546,535</u>	<u>9,275,516</u>

See accompanying independent auditors' report.

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

Component Unit (ACB) Schedule of Functional Expenses Information

Year ended August 31, 2010

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

See accompanying independent auditors' report.

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

Component Unit (ACB) Schedule of Functional Expenses Information

Year ended August 31, 2009

Class	Grants to primary institution	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Financial and legal services	\$ —	376	—	1,131	78,941	23,341	—	102,282	103,789
Fundraising	—	3,799	—	—	33,816	—	—	33,816	37,615
Grants to KUHF-FM	1,610,000	—	—	—	—	—	—	—	1,610,000
Grants to KUHT-TV	5,405,401	—	—	—	—	—	—	—	5,405,401
Membership fees	—	—	—	—	41,476	—	—	41,476	41,476
Other expenses	—	179,118	—	—	134,080	7,571	—	141,651	320,769
Mail services	—	420	—	—	537,762	—	—	537,762	538,182
Printing and reproduction services	—	3,481	—	—	7,938	—	—	7,938	11,419
Professional services	—	28,495	—	—	114,174	2,326	—	116,500	144,995
Program rights	—	—	—	—	172,057	—	—	172,057	172,057
Rental and leases	—	13,443	—	—	12,238	—	—	12,238	25,681
Repair and maintenance	—	2,199	—	—	—	—	—	—	2,199
Supplies and materials	—	23,096	—	1,903	7,931	29,244	—	37,175	62,174
Telemarketing services	—	—	—	—	44,825	—	—	44,825	44,825
Telephone	—	28,826	—	—	26,800	—	—	26,800	55,626
Travel	—	32,369	—	—	17,389	—	—	17,389	49,758
Total expenses before depreciation	\$ 7,015,401	315,622	—	3,034	1,229,427	62,482	—	1,291,909	8,625,966

See accompanying independent auditors' report.

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

Schedule of Budgetary Comparison

Year ended August 31, 2010

	Budgeted amounts Original	Final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:				
Contributions	\$ 900,000	900,000	2,548,219	1,648,219
Contributions grants from ACB	6,700,000	6,700,000	6,321,296	(378,704)
General support from the UH System	4,400,000	4,400,000	4,804,988	404,988
Program underwriting	4,190,000	4,190,000	3,179,466	(1,010,534)
Production service	495,000	495,000	852,277	357,277
Production grants from ACB	150,000	150,000	167,195	17,195
Corporation for Public Broadcasting grants (CPB)	1,823,000	1,823,000	2,125,322	302,322
Other grants	500,000	500,000	47,208	(452,792)
Royalties	15,000	15,000	10,514	(4,486)
Special events	707,000	707,000	319,556	(387,444)
Special events grants from ACB	110,000	110,000	116,699	6,699
Other grants from ACB	10,000	10,000	14,576	4,576
Other	94,000	94,000	41,296	(52,704)
Total operating revenues	<u>20,094,000</u>	<u>20,094,000</u>	<u>20,548,612</u>	<u>454,612</u>
Operating expenses:				
Programming and production (PRD)	7,306,208	7,306,208	7,413,545	(107,337)
Broadcasting, engineering, and technical (BET)	2,589,523	2,589,523	2,452,698	136,825
Occupancy and physical plant operations (BET)	—	—	508,511	(508,511)
Program information (PGM)	1,109,664	1,109,664	1,006,564	103,100
Fundraising and membership development (FND)	3,453,537	3,453,537	3,397,343	56,194
Underwriting and grant solicitation (UND)	891,404	891,404	817,518	73,886
Management and general (MGT)	1,706,994	1,706,994	1,972,238	(265,244)
Institutional support (MGT)	—	—	4,296,477	(4,296,477)
Depreciation	927,943	927,943	927,943	—
Total operating expenses	<u>17,985,273</u>	<u>17,985,273</u>	<u>22,792,837</u>	<u>(4,807,564)</u>
Operating gain (loss)	<u>2,108,727</u>	<u>2,108,727</u>	<u>(2,244,225)</u>	<u>(4,352,952)</u>
Nonoperating income (expense):				
KUHT insurance recovery	393,929	393,929	393,929	—
Gain from endowment	—	—	24,702	24,702
Total nonoperating revenues	<u>393,929</u>	<u>393,929</u>	<u>418,631</u>	<u>24,702</u>
Change in net assets	2,502,656	2,502,656	(1,825,594)	(4,328,250)
Fund balance, beginning of year	(2,502,656)	(2,502,656)	8,716,611	11,219,267
Fund balances, end of year	<u>\$ —</u>	<u>—</u>	<u>6,891,017</u>	<u>6,891,017</u>
Capital expenses	\$ 100,000	100,000	102,848	2,848

See accompanying independent auditors' report.