KPBS FM/TV

(A Department of San Diego State University)

Financial Report

June 30, 2011 and 2010

KPBS FM/TV

(A Department of San Diego State University)

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McGladrey

Independent Auditor's Report

Tom Karlo, General Manager
KPBS FM/TV
San Diego, CA

We have audited the accompanying statements of net assets of KPBS FM/TV (KPBS), a department of San Diego State University (the University), as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of KPBS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of KPBS are intended to present the financial position, the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of KPBS. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2011 and 2010, and the changes in its financial position and 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 respective financial position of KPBS FM/TV as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

McGladrey & Pullen, LLP

San Diego, CA
November 17, 2011

Management's Discussion and Analysis

This section of the KPBS FM/TV (the Stations) annual financial report includes Management's Discussion and Analysis of the financial performance of the Stations for the fiscal years ended June 30, 2011 and 2010. This discussion should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

The Stations' financial statements include the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These statements are supported by notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Stations.

Statements of Net Assets: The Statements of Net Assets include all assets and liabilities. Assets and liabilities are reported on an accrual basis as of the statement date. Major categories of restrictions on the net assets of the Stations are also identified.

Statements of Revenues, Expenses and Changes in Net Assets: The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year on an accrual basis.

Statements of Cash Flows: The Statements of Cash Flows present the inflows and outflows of cash for the year and are summarized by operating, noncapital and capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and therefore present gross rather than net amounts for the year's activities.

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the Stations' financial activities as of and for the years ended June 30, 2011 and 2010. Included are a comparative analysis of current year and prior year activities and balances; a discussion of restrictions of the Stations' net assets; and a discussion of capital assets and long-term debt.

The Stations' condensed summary of net assets as of fiscal years June 30, 2011, 2010 and 2009, respectively, are as follows:

Condensed Summary of Net Assets

	June 30,		
	2011	**2010**	**2009**
Assets:			
Current assets	$ 6,778,164	$ 5,742,190	$ 5,744,577
Capital assets, net	10,923,485	7,389,375	8,039,677
Other noncurrent assets	6,004,500	5,356,985	4,729,987
Total assets	23,706,149	18,488,550	18,514,241
Liabilities:			
Current liabilities	4,735,603	3,063,391	2,783,367
Noncurrent liabilities	5,978,281	4,508,086	4,665,389
Total liabilities	10,713,884	7,571,477	7,448,756
Net assets:			
Invested in capital assets, net of related debt	4,452,986	2,733,800	2,850,266
Restricted - nonexpendable	689,406	681,286	658,812
Restricted - expendable	1,423,040	1,243,325	1,127,714
Unrestricted	6,426,833	6,258,662	6,428,693
Total net assets	$ 12,992,265	$ 10,917,073	$ 11,065,485

<u>Assets</u>

Total assets decreased $26,000 from 2009 to 2010 and increased $5,218,000 from 2010 to 2011. Both 2009 and 2010 experienced a significant economic slowdown on a national and local level. The increase in total assets for 2011 was due to the significant investment in capital projects and improved investment performance during the period.

Capital assets decreased by approximately $650,000 from 2009 to 2010 resulting primarily from depreciation exceeding acquisitions, consistent with the Stations' normal equipment replacement cycle.

Capital assets increased approximately $3,534,000 from 2010 to 2011 primarily due to investments in digital studio and broadcast equipment and remodel of the Gateway Center newsroom and administrative offices.

Other noncurrent assets increased by $627,000 from 2009 to 2010, and by $648,000 from 2010 to 2011 due to positive changes in managed investment portfolio values.

Liabilities

Total liabilities increased from 2009 to 2010 and from 2010 to 2011 by $123,000, and $3,142,000, respectively. The increase during 2009 to 2010 resulted from an increase in deferred revenues only partially offset by a decrease in the long-term capital lease obligation. The increase during 2010 to 2011 primarily resulted from both an increase in deferred revenues of approximately $900,000 and the $2,000,000 loan from San Diego State University to finance the Station's investment in digital studio and broadcast equipment.

Net Assets

Total net assets experienced a minor decrease of $148,000 from 2009 to 2010, primarily resulting from the $736,000 operating loss (net of San Diego State University transfers), the net increase in the fair market value of investments of $396,000 and net interest and other income of $192,000. Total net assets increased $2,075,000 from 2010 to 2011 primarily due to $1,151,000 in operating income (net of San Diego State University transfers), the net increase in managed investment portfolio values of $791,000 and net interest and other income of $133,000.

Restrictions on Net Assets

Net assets of the Stations include funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction and the amount:

	June 30,		
	2011	**2010**	**2009**
Nonexpendable	$ 689,406	$ 681,286	$ 658,812
Expendable:			
Capital campaign	$ 647,745	$ 678,412	$ 666,473
Annuity trust agreements	108,111	117,391	130,269
Program production and airing	472,106	294,099	183,188
Scholarship activities	195,078	153,423	147,784
Total restricted expendable net assets	$ 1,423,040	$ 1,243,325	$ 1,127,714

The Capital campaign fund was a result of contributions donated for expenditures of the Gateway building. The Program production and airing fund was a result of a contribution for the KPBS Radio Reading Service. The increase in the restricted expendable net assets primarily resulted from the general increase in investment market values during the year, particularly with regard to the Program production and airing fund. The Stations' condensed summary of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2011, 2010 and 2009, respectively, are as follows:

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,		
	2011	**2010**	**2009**
Operating revenues:			
Contributions	$ 17,160,247	$ 14,847,953	$ 14,696,872
Corporation for Public Broadcasting grants	2,523,830	2,470,033	2,505,026
Stations-generated support	1,489,714	855,988	340,650
Other operating revenues	-	-	51
Total operating revenues	21,173,791	18,173,974	17,542,599
Operating expenses:			
Program services	14,102,699	13,330,272	13,844,403
Support services	12,815,164	11,859,519	10,747,125
Total operating expenses	26,917,863	25,189,791	24,591,528
Operating loss	(5,744,072)	(7,015,817)	(7,048,929)
Nonoperating revenues (expenses):			
Interest expense	(189,957)	(114,709)	(191,618)
Interest income, net	327,856	324,341	287,867
Net increase (decrease) in fair value of investments	790,588	396,064	(1,085,851)
Other nonoperating expense	(3,990)	(18,500)	(1,275,000)
Total nonoperating revenue (expense), net	924,497	587,196	(2,264,602)
Loss before transfers	(4,819,575)	(6,428,621)	(9,313,531)
San Diego State University transfers	6,894,767	6,280,209	6,590,859
Change in net assets	2,075,192	(148,412)	(2,722,672)
Net assets, beginning of year	10,917,073	11,065,485	13,788,157
Net assets, end of year	$ 12,992,265	$ 10,917,073	$ 11,065,485

Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to the Stations' primary business functions.

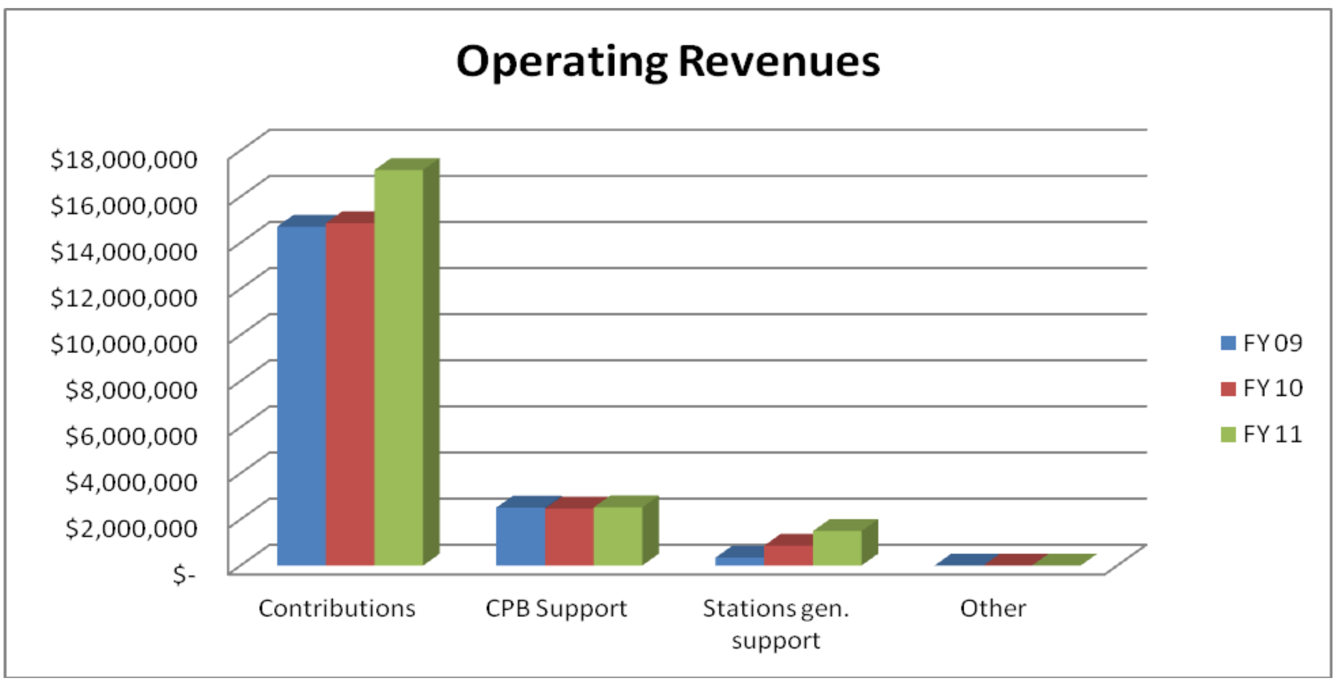
Operating Revenues

Contributions increased slightly from 2009 to 2010 by $151,000, and mirrored the sluggishness of the economy during the period. Contributions increased $2,312,000 from 2010 to 2011 resulting from recognition of major gift revenues of $1,434,000 related to the remodel of the Gateway Center newsroom and administrative offices, $514,000 of revenue related to investments in digital studio and broadcast equipment and $364,000 net revenue due to various new programs.

Funding received from the Corporation for Public Broadcasting (CPB) decreased by $35,000 during 2009 to 2010 and increased $54,000 during 2010 to 2011 due to relative changes in nonfederal financial support during 2008 and 2009. CPB grants are calculated based on nonfederal financial support measured during the fiscal year period which is two fiscal years prior to the grant.

Stations-generated support increased approximately $515,000 during 2009 to 2010 primarily due to the receipt of a multi-year grant. Stations-generated support increased $634,000 in 2010 to 2011 primarily resulting from matching gift revenue designated for investment in digital studio and broadcast equipment.

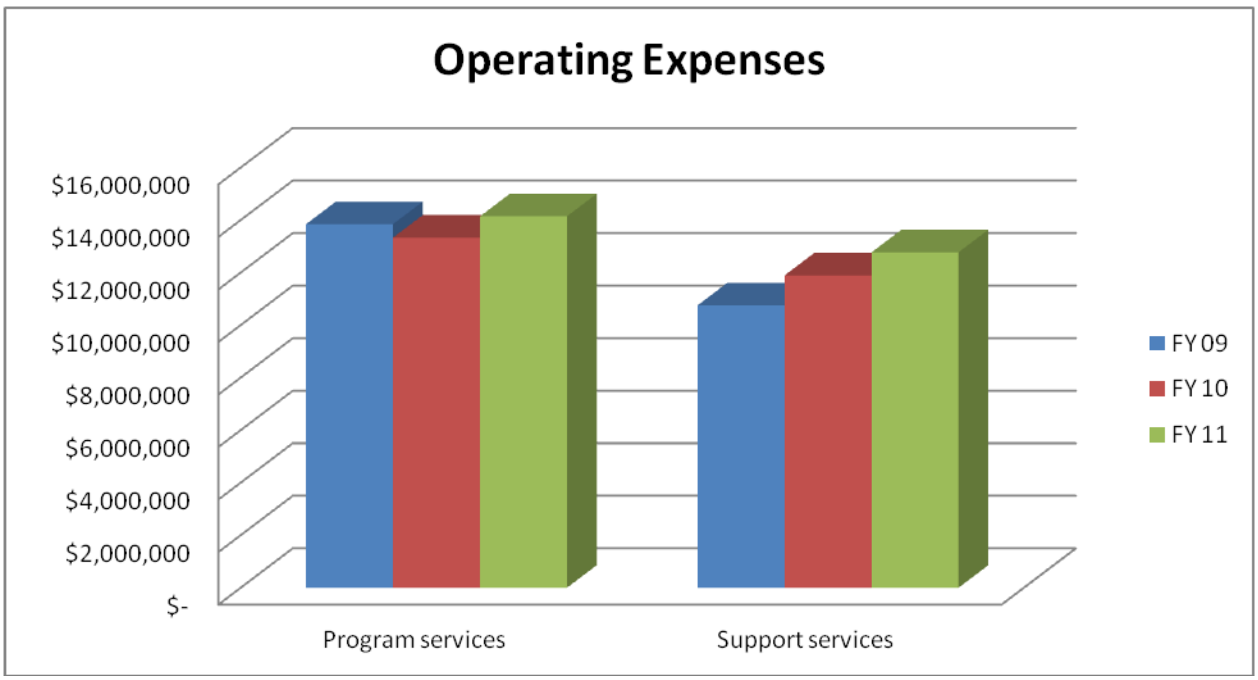
The following chart presents the proportional share that each category of operating revenues contributed to the totals for fiscal years 2009, 2010 and 2011:



Operating Expenses

Program services expenses decreased by $514,000 as a result of cost containment measures in 2009 to 2010. Program services expenses increased by $772,000 in 2010 to 2011 primarily due to new programs and initiatives and expenditure allocations related to San Diego State University indirect financial support.

Support services expenses increased by $1,112,000 during 2009 to 2010 and $956,000 during 2010 to 2011, respectively. The 2009 to 2010 increase resulted from recognition and use of donated services, building repairs required, increased underwriting commissions and professional services. The 2010 to 2011 increase is primarily due to expenditure increases in direct mail, the addition of new events including the KPBS Gala and San Diego State University indirect financial support expenditure allocations. The following chart presents the distribution of resources in support of the Stations for fiscal years 2009, 2010 and 2011:



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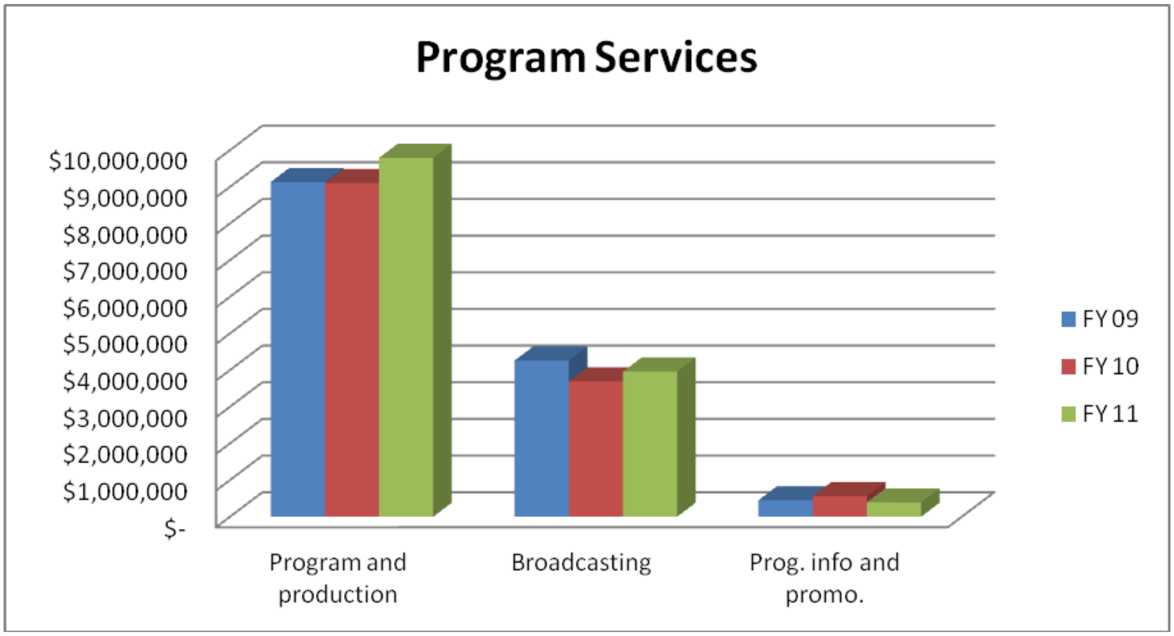
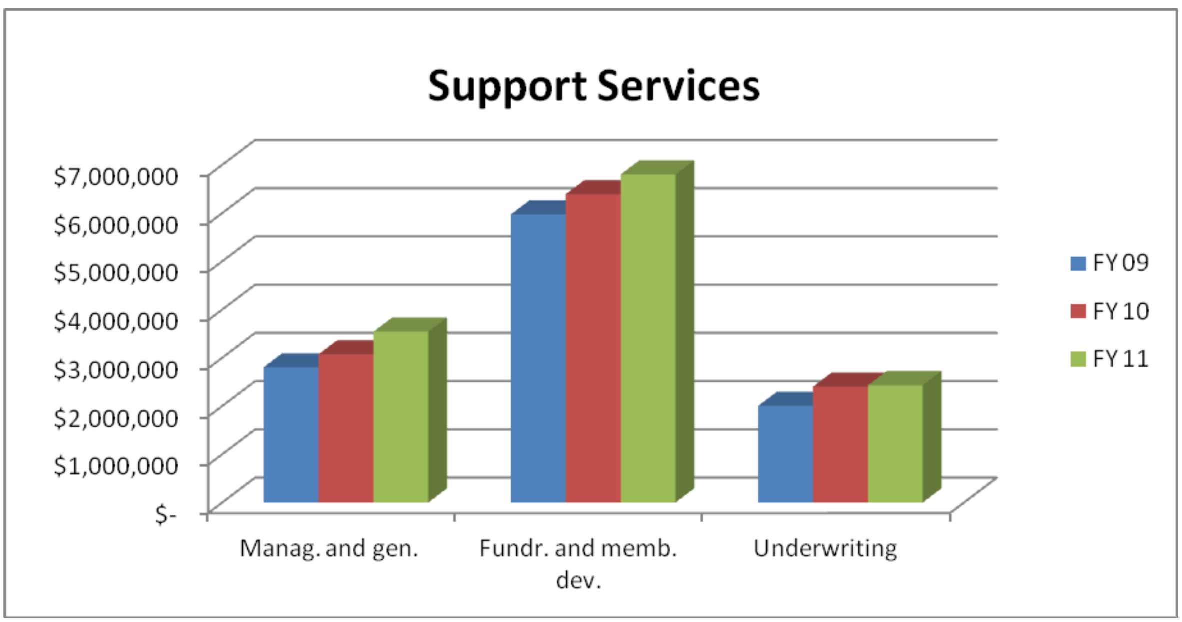
Management's Discussion and Analysis

June 30, 2011 and 2010

A further breakdown of the Program Services and Support Services is provided as follows:





Nonoperating Revenues and Expenses

Nonoperating revenues and expenses come from sources that are not part of the Stations' primary business functions. Included in this classification are changes in the fair value of investments and interest expense. Nonoperating revenues exceeded expenses in 2009 to 2010 and net results in this category increased by $2,852,000 due to improved results in the fair value of investments and interest income, as combined, with no reduction in the KQVO license valuation. Nonoperating revenues exceeded expenses in 2010 to 2011 and net results in this category increased by $337,000 due primarily to improved results in the fair value of investments.

San Diego State University Transfers

Support from the University decreased in 2009 to 2010 by approximately $311,000 and increased in 2010 to 2011 by $615,000. These services were provided without cost and have been allocated to the Stations. The cost of the services is reported as transfers and operating expense in the accompanying financial statements. The direct financial support received from the University decreased by $377,000 from 2009 to 2010 and increased $31,000 from 2010 to 2011. Direct support consisted primarily of salaries, space rental and utilities. The decrease in direct support from 2009 to 2010 resulted from a headcount reduction of KPBS personnel. Indirect support received from the University increased $66,000 from 2009 to 2010 and $583,000 from 2010 to 2011. Indirect support relates to a portion of the University's general overhead costs and benefits the programs of the Stations. Such items, allocated based upon square footage percentage and proportionate costs, include administration, maintenance and repairs.

Capital Assets

Capital assets, net of accumulated depreciation, are shown below:

	June 30, 2011	June 30, 2010	June 30, 2009
Building under capital lease	$ 4,557,463	$ 4,617,338	$ 4,939,478
Studio/broadcast equipment	2,724,309	907,946	1,222,877
Furniture and fixtures	262,173	93,095	75,727
Transmission/antenna/tower	837,108	987,129	1,131,595
Construction in progress	1,872,432	113,867	-
KQVO radio station license	670,000	670,000	670,000
Total capital assets, net of accumulated depreciation	$ 10,923,485	$ 7,389,375	$ 8,039,677

Capital assets decreased approximately $650,000 from 2009 to 2010 as depreciation exceeded acquisitions in that year. Capital assets increased approximately $3,534,000 from 2010 to 2011 primarily due to investments in digital studio and broadcast equipment and remodel of the Gateway Center newsroom and administrative offices.

Long-Term Debt Obligations

Debt outstanding at June 30, 2011, 2010 and 2009 is summarized below by type of debt instrument:

	June 30,		
	2011	**2010**	**2009**
Capital lease obligations	$ 4,323,460	$ 4,508,536	$ 4,893,174
Notes payable	2,147,039	147,039	296,237
Total	6,470,499	4,655,575	5,189,411
Less current portion	(570,841)	(196,581)	(537,641)
Total long-term debt	$ 5,899,658	$ 4,458,994	$ 4,651,770

Total debt outstanding decreased during 2009 to 2010 by approximately $534,000 due to payment of outstanding obligations. Debt increased during 2010 to 2011 primarily from a $2,000,000 loan provided by San Diego State University to finance the Station's investment in digital studio and broadcast equipment.

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Statements of Net Assets

June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash held by San Diego State University	$ 1,156,870	$ -
Due from San Diego State University Research Foundation	3,038,570	3,941,059
Accounts receivable (note 4)	2,082,477	1,590,452
Grants receivable	421,065	124,644
Prepaid expenses	79,182	86,035
Total current assets	6,778,164	5,742,190
Noncurrent assets:		
Accounts receivable (note 4)	229,381	343,038
Long-term investments (note 3)	3,440,083	2,860,852
Restricted investments (note 3)	2,112,446	1,904,261
Capital assets, net (notes 5 and 8)	10,923,485	7,389,375
Other assets (note 6)	222,590	248,834
Total noncurrent assets	16,927,985	12,746,360
Total assets	23,706,149	18,488,550
Liabilities		
Current liabilities:		
Accounts payable	638,345	372,759
Accrued expenses	843,895	708,784
Deferred revenue	2,682,522	1,785,267
Notes payable, current portion (note 7)	252,095	-
Capital lease obligations, current portion (note 8)	318,746	196,581
Total current liabilities	4,735,603	3,063,391
Noncurrent liabilities:		
Notes payable, net of current portion (note 7)	1,894,944	147,039
Capital lease obligations, net of current portion (note 8)	4,004,714	4,311,955
Other liabilities	78,623	49,092
Total noncurrent liabilities	5,978,281	4,508,086
Total liabilities	10,713,884	7,571,477
Commitments and contingencies (notes 5, 8, 9, 10 and 11)		
Net assets		
Net assets:		
Invested in capital assets, net of related debt	4,452,986	2,733,800
Restricted for:		
Nonexpendable - endowments	689,406	681,286
Expendable:		
Capital campaign	647,745	678,412
Annuity trust agreements	108,111	117,391
Program production and airing	472,106	294,099
Scholarship activities	195,078	153,423
Unrestricted	6,426,833	6,258,662
Total net assets	$ 12,992,265	$ 10,917,073

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets

June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Contributions	$ 17,160,247	$ 14,847,953
Corporation for Public Broadcasting grants	2,523,830	2,470,033
Stations-generated support	1,489,714	855,988
Total operating revenues	21,173,791	18,173,974
Operating expenses (notes 5, 8, 9 and 11):		
Program services:		
Programming and production	9,792,401	9,085,805
Broadcasting	3,918,946	3,681,196
Program information and promotion	391,352	563,271
Total program services	14,102,699	13,330,272
Support services:		
Management and general	3,543,287	3,075,901
Fundraising and membership development	6,845,278	6,383,538
Underwriting	2,426,599	2,400,080
Total support services	12,815,164	11,859,519
Total operating expenses	26,917,863	25,189,791
Operating loss	(5,744,072)	(7,015,817)
Nonoperating revenues (expenses):		
Interest expense (notes 7 and 8)	(189,957)	(114,709)
Interest income, net	327,856	324,341
Net increase in fair value of investments	790,588	396,064
Other nonoperating expense	(3,990)	(18,500)
Total nonoperating revenues, net	924,497	587,196
Loss before transfers	(4,819,575)	(6,428,621)
San Diego State University transfers:		
Direct financial support	2,203,472	2,172,210
Indirect financial support	4,691,295	4,107,999
Total San Diego State University transfers	6,894,767	6,280,209
Change in net assets	2,075,192	(148,412)
Net assets, beginning of year	10,917,073	11,065,485
Net assets, end of year	$ 12,992,265	$ 10,917,073

See accompanying notes to financial statements.

KPBS FM/TV

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Statements of Cash Flows

June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Contributions	$ 17,382,713	$ 15,493,301
Stations-generated support	1,489,714	855,988
Payments to suppliers	(11,694,870)	(10,389,340)
Payments to employees	(8,594,653)	(8,784,560)
Administrative fees paid to San Diego State University Research Foundation	(713,725)	(621,711)
Corporation for Public Broadcasting grants	2,523,830	2,470,033
Net cash provided by (used in) operating activities	393,009	(976,289)
Cash flows from noncapital and related financing activities:		
Transfers from San Diego State University	2,203,472	2,172,210
(Increase) decrease in amounts due from San Diego State University Research Foundation	902,489	(96,511)
Net cash provided by noncapital and related financing activities	3,105,961	2,075,699
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital leases	(196,581)	(553,852)
Additions to long-term debt	2,000,000	67,622
Interest paid	(137,424)	(172,556)
Purchase of capital assets	(4,339,123)	(453,929)
Net cash used in capital and related financing activities	(2,673,128)	(1,112,715)
Cash flows from investing activities:		
Interest income, net	327,856	324,341
Sale of investments	3,172	-
Purchase of investments	-	(311,036)
Net cash provided by investing activities	331,028	13,305
Net change cash and cash equivalents	1,156,870	-
Cash and cash equivalents held by San Diego State University, beginning of year	-	-
Cash and cash equivalents held by San Diego State University, end of year	$ 1,156,870	$ -

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued

June 30, 2011 and 2010

	2011	2010
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (5,744,072)	$ (7,015,817)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Allocated San Diego State University expenses	4,691,295	4,107,999
Depreciation and amortization	890,801	1,116,398
(Increase) decrease in assets:		
Accounts receivable	(378,368)	226,173
Grants receivable	(296,421)	(7,054)
Prepaid expenses	6,853	(59,987)
Other assets	(4,423)	(10,799)
Increase (decrease) in liabilities:		
Accounts payable	265,586	71,811
Accrued expenses	34,972	133,285
Deferred revenue	897,255	426,229
Other liabilities	29,531	35,473
Net cash provided by (used in) operating activities	$ 393,009	$ (976,289)
Supplemental disclosure of noncash financing and related capital activity:		
Noncash refinancing of capital lease	$ 59,111	$ 3,601,769
Supplemental disclosures of noncash investing and capital activity:		
Increase in fair value of investments	$ 790,588	$ 396,064

See accompanying notes to financial statements.

(1) Organization

KPBS FM/TV (KPBS or the Stations) is engaged in the production and broadcast of public television and radio programs. KPBS TV is licensed to the Board of Trustees of The California State University (the CSU) for San Diego State University (the University). KPBS FM is licensed to the State of California on behalf of the University. San Diego State University Research Foundation (SDSU Research Foundation), a not-for-profit California corporation, which is an auxiliary organization of CSU, provides administrative support to the Stations and includes all of the Stations' accounts, except for certain capital assets, notes payable and related interest and expenses related to certain State employees in its financial statements. KPBS is considered a department of the University. Administrative fees paid to SDSU Research Foundation were approximately $714,000 and $622,000 for fiscal years ending June 30, 2011 and 2010, respectively. The accompanying financial statements include only the activities and balances associated with KPBS FM/TV and are not intended to present the financial position, changes in financial position or cash flows of SDSU Research Foundation or the University.

Affiliated Organizations

The Stations are related to auxiliaries of the University, including SDSU Research Foundation, Associated Students of San Diego State University, Aztec Shops, Ltd. and The Campanile Foundation. The auxiliaries and the University periodically provide various services for one another and collaborate on projects.

(2) Summary of Significant Accounting Policies

A summary of the significant accounting policies utilized by the Stations follows:

(a) Basis of Accounting and Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Stations' financial statements are presented in accordance with the requirements of enterprise funds.

(b) Election of Applicable FASB Statements

The Stations apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(c) Classification of Current and Noncurrent Assets and Liabilities

The Stations consider assets to be current if they can reasonably be expected, as a part of their normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that can reasonably be expected, as part of normal operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

(d) Cash Held by San Diego State University

Cash held by San Diego State University includes funds held by the University for future project costs related to digital studio and broadcast equipment and remodel of the Gateway Center newsroom and administrative offices. The Stations had approximately $1,157,000 in cash held by the University at June 30, 2011 and $0 in 2010.

(e) Due From San Diego State University Research Foundation

The amount of cash SDSU Research Foundation administers on behalf of the Stations is reported as due from SDSU Research Foundation on the statements of net assets.

(f) Accounts Receivable

Accounts receivable consist of underwriter and other receivables. It is the policy of management to review outstanding receivables at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

(g) Investments

Investments represent the Stations' share of the internal investment pool of SDSU Research Foundation. Change in fair value of investments is included in the statements of revenues, expenses and changes in net assets as nonoperating revenues (expenses).

(h) Capital Assets and Intangible Assets

Capital assets in excess of $5,000 are recorded at cost if purchased or at fair market value at date of donation if donated. Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets:

Buildings	30 years
Studio/broadcast equipment	3-7 years
Furniture and fixtures	5 years
Transmission/antenna/tower	3-15 years

The portion of the Gateway Center building that houses the main operating offices for radio, TV and studios for the Stations has been recorded as a capital lease (see note 8) and is being amortized over the life of the lease. Amortization expense for the Gateway Center is included with depreciation on owned assets.

Intangible assets are recorded at the lower of cost or fair value. Intangible assets consist of broadcast license associated with the acquisition of the KQVO radio station. The broadcast license is renewable every eight years at a nominal fee to the Stations. The intangible asset has an indefinite life and is not amortized. The Stations' policy is to review the asset annually for impairment and adjust the asset to fair value, if lower than the recorded amount. There was no impairment in value for the years ended June 30, 2011 and 2010.

Construction in progress represents the remodel of the Gateway Center newsroom and administrative offices.

(i) Compensated Absences

The Stations accrue vacation benefits for eligible employees at various rates depending upon length of service. Eligible full-time employees accrue sick leave at the rate of four hours per pay period. Employees are typically not paid for unused sick leave at the end of employment. However, for certain employees, a portion of accumulated sick leave is paid upon retirement. Liabilities for compensated absences of approximately $417,000 and $401,000 for the years ended June 30, 2011 and 2010, respectively, are included in accrued expenses.

(j) Contributions

Revenue from contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Contributions received prior to satisfaction of eligibility requirements are recognized as deferred revenue. The Stations received approximately 81% and 82% of their operating revenue from contributions in the years ended June 30, 2011 and 2010, respectively.

Underwriting revenue is recognized as contributions at the time of the pledge, when the underwriting agreement is signed. The underwriting agreement states that the funds are in the form of an unrestricted operating grant.

Management determines bad debts by regularly evaluating individual contribution receivables and considers a donor's financial condition and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of contribution receivables previously written off are recorded when received.

(k) San Diego State University Support

Direct financial support received from the University for the years ended June 30, 2011 and 2010 consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2011 and 2010 was approximately $4,691,000 and $4,108,000, respectively. A portion of the University's general overhead costs relates to and benefits the Stations. Such costs are allocated primarily based on the proportion of KPBS's expenses to certain costs of SDSU Research Foundation and the University, which are then applied to certain administration, maintenance and repair costs of the University. These University services, provided without cost, have been allocated to the Stations and are reported as transfers and operating expense in the accompanying financial statements.

(l) Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. The CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby 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), (1983) Supplement; however, each grant must be expended within two years of the initial grant authorization. Over the last three years, the Stations have expended all funds received under CSGs in the year received.

According to the Communications Act, funds may be used at the discretion of recipients for purposes related primarily to the production or acquisition of programming. Also, the grants may be used to sustain activities which began with the CSGs awarded in prior years.

The grants are reported in the financial statements as operating revenue. Certain guidelines set by the CPB must be satisfied in connection with the application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, record keeping, audits, financial reporting and licensee status with the Federal Communications Commission. Revenue on these grants is recognized as the funds are received and management's policy is to expend the money in the year received. The Stations received and recorded approximately $2,524,000 and $2,470,000 in grant revenue from the CPB in the years ended June 30, 2011 and 2010, respectively.

(m) Deferred Revenue

Revenue from private grants and other program sponsorships are recognized as support in the fiscal year in which all eligibility requirements have been satisfied. Revenue received prior to satisfaction of eligibility requirements, and before incurring the related expenses, have been deferred and are reflected as deferred revenue in the accompanying statements of net assets.

(n) Fundraising and Membership Development

Fundraising and membership development expenses are from fundraising activities.

(o) Net Assets

The Stations' net assets are classified into the following net asset categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation; intangible assets, net of accumulated amortization; and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that require the Stations to retain them in perpetuity.

Restricted – expendable: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Stations or by the passage of time.

Unrestricted: All other categories of net assets. In addition, unrestricted net assets may be designated for specific purposes by the management of the Stations.

Restricted resources are used in accordance with the Stations' policies. Unrestricted resources are used at the Stations' discretion. When both restricted and unrestricted resources are available for use, it is the Stations' policy to determine on a case-by-case basis when to use restricted or unrestricted resources.

(p) Classification of Revenues and Expenses

The Stations consider operating revenues and expenses in the statements of revenues, expenses and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Stations' primary functions. Certain other transactions are reported as nonoperating revenues and expenses, including interest expense, investment income, changes in the fair value of investments and gains (losses) from the disposal of capital assets.

(q) Income Taxes

The University, as a campus of the California State University system, which is an agency of the State of California and is treated as a governmental entity for tax purposes, is generally not subject to federal or state income taxes. SDSU Research Foundation is generally exempt from income taxes under Sections 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code. However, both the University and SDSU Research Foundation are subject to tax on trade or business income earned from an activity which is not in furtherance of their tax-exempt purposes. The Stations are engaged in activities that produce unrelated business income: namely, sales of certain products and services, and advertising. The Stations had no tax liability for the years ended June 30, 2011 and 2010.

(r) 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues, gains, and other support and expenditures and deductions during the reporting period. Actual results could differ from those estimates.

(s) Reclassifications

Certain reclassifications have been made to the June 30, 2010 financial statements in order to conform to the current year presentation. These reclassifications had no effect on results of operations or net assets as previously reported.

(t) Pronouncements Issued

KPBS has implemented the following GASB statement that became effective for the year ended June 30, 2011:

- GASB Statement No. 59, *Financial Instruments Omnibus*

Implementation of GASB Statement No. 59 did not have a significant impact on the financial statements.

The GASB has issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (effective for the year ending June 30, 2013); GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (effective for the year ending June 30, 2013), GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (effective for the year ending June 30, 2013), GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (effective for the year ending June 30, 2013), and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* (effective for the year ending June 30, 2013). Management has not currently determined what, if any, impact implementation may have on the financial statements of KPBS.

(3) Investments

Investments are reported on the statements of net assets as of June 30 as follows:

	2011	2010
Long-term investments	$ 3,440,083	$ 2,860,852
Restricted assets, investments	2,112,446	1,904,261
	$ 5,552,529	$ 4,765,113

KPBS's investments are part of a unitized investment pool managed by SDSU Research Foundation and are therefore not separately identifiable. The pool is approved and monitored by the SDSU Research Foundation Board of Directors, and maintains a 59% stock, 26% fixed income, and 15% alternative investments and real estate.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. SDSU Research Foundation manages a separate pool of fixed income investments, unrelated to the unitized pool referred to above, which has an average maturity of approximately one year.

(b) Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to repay the debt security when due. According to SDSU Research Foundation's investment policy, fixed income investments are limited to 'Investment Grade' issues. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. The investment pool managed by SDSU Research Foundation does not have a rating provided by a nationally recognized statistical rating organization.

(4) Accounts Receivable

Accounts receivable at June 30 consisted of the following:

	2011	
	Current	**Noncurrent**
Underwriter receivables	$ 2,006,830	$ 229,381
Other receivable	110,647	-
Allowance	(35,000)	-
	$ 2,082,477	$ 229,381

	2010	
	Current	**Noncurrent**
Underwriter receivables	$ 1,469,758	$ 264,986
Other receivable	158,018	78,052
Allowance	(37,324)	-
	$ 1,590,452	$ 343,038

(5) Capital Assets

Capital assets activity for the years ended June 30 consisted of the following:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Nondepreciable capital assets:				
Construction in progress [b]	$ 113,867	$ 1,758,565	$ -	$ 1,872,432
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	783,867	1,758,565	-	2,542,432
Depreciable capital assets:				
Building under capital lease [a]	9,664,197	262,265	-	9,926,462
Studio/broadcast equipment	10,535,040	2,134,243	(249,275)	12,420,008
Furniture and fixtures	1,394,891	243,161		1,638,052
Transmission/antenna/tower	2,926,320	-	(42,782)	2,883,538
Total depreciable capital assets	24,520,448	2,639,669	(292,057)	26,868,060
Less accumulated depreciation:				
Building under capital lease	5,046,859	322,140	-	5,368,999
Studio/broadcast equipment	9,627,094	315,458	(246,853)	9,695,699
Furniture and fixtures	1,301,796	74,083	-	1,375,879
Transmission/antenna/tower	1,939,191	148,453	(41,214)	2,046,430
Total accumulated depreciation	17,914,940	860,134	(288,067)	18,487,007
Total depreciable assets	6,605,508	1,779,535	(3,990)	8,381,053
Net capital assets	$ 7,389,375	$ 3,538,100	$ (3,990)	$ 10,923,485

(a) The building under capital lease represents the Stations-occupied portion of the Gateway Center and is pledged as collateral for debt issued by SDSU Research Foundation, whose outstanding balance at June 30, 2011 and 2010 was approximately $4,990,000 and $5,285,000, respectively.

(b) Construction in progress represents the remodel of the Gateway Center newsroom and administrative offices.

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Nondepreciable capital assets:				
Construction in progress [b]	$ -	$ 113,867	$ -	$ 113,867
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	670,000	113,867	-	783,867
Depreciable capital assets:				
Building under capital lease [a]	9,664,197	-	-	9,664,197
Studio/broadcast equipment	10,925,430	224,886	(615,276)	10,535,040
Furniture and fixtures	1,303,608	93,982	(2,699)	1,394,891
Transmission/antenna/tower	2,913,595	21,194	(8,469)	2,926,320
Total depreciable capital assets	24,806,830	340,062	(626,444)	24,520,448
Less accumulated depreciation:				
Building under capital lease	4,724,719	322,140	-	5,046,859
Studio/broadcast equipment	9,702,553	521,317	(596,776)	9,627,094
Furniture and fixtures	1,227,881	76,614	(2,699)	1,301,796
Transmission/antenna/tower	1,782,000	165,660	(8,469)	1,939,191
Total accumulated depreciation	17,437,153	1,085,731	(607,944)	17,914,940
Total depreciable assets	7,369,677	(745,669)	(18,500)	6,605,508
Net capital assets	$ 8,039,677	$ (631,802)	$ (18,500)	$ 7,389,375

Depreciation expense totaled $860,134 and $1,085,731 for the years ended June 30, 2011 and 2010, respectively, and was allocated among expenses in the accompanying statements of revenues, expenses and changes in net assets, as follows:

	2011	2010
Program Services	$ 215,034	$ 271,433
Support Services	645,100	814,298
Total depreciation	$ 860,134	$ 1,085,731

(6) Other Assets

Included in other assets is a building owned by the Stations, from which rental income is derived. The use of the building is subject to two land leases, one of which terminates in 2017. The Stations are amortizing the contributed value of the building over that time. Amortization expense totaled $30,667 for the years ended June 30, 2011 and 2010. The amortized value included in other assets totaled approximately $184,000 and $215,000 at June 30, 2011 and 2010, respectively.

(7) Long-Term Debt Obligations

Long-term debt obligations activity for the years ended June 30 is as follows:

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	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes payable	$ 147,039	$ 2,000,000	$ -	$ 2,147,039	$ 252,095

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Note payable	$ 296,237	$ -	$ (149,198)	$ 147,039	$ -

In 2002 the University obtained a loan for the purchase of equipment, of which the Stations received certain of the equipment in return for payment to the University on a portion of the loan. The University paid the loan in full in 2008 and simultaneously entered into an agreement with the Stations that allowed them to pay their outstanding note balance to the University in annual principal and interest installments of $155,825 due in March of each year. In July 2010, the University amended the note payment schedule, deferred the March 2011 payment, and extended the term of the loan through 2013. The unsecured note payable bears interest at a fixed rate of 3.5%. Aggregate annual principal payments are as follows:

Years Ending June 30:		Principal		Interest		Total
2012	$	69,848	$	10,152	$	80,000
2013		77,191		2,702		79,893
	$	147,039	$	12,854	$	159,893

Interest incurred on the note payable amounted to $4,279 and $8,628 for the years ended June 30, 2011 and 2010, respectively.

In July 2010, KPBS entered into a financing agreement with the University which provided internal financing to KPBS to enable the purchase of digital studio and broadcast equipment in the amount of $2,000,000. Annual principal and interest payments are required each March through 2016. At any time beginning after July 1, 2011, the University may call the loan due and payable in full for all outstanding principal and accrued interest with six months' advance notice to KPBS. In June 2011, the University amended the note payment schedule and extended the term of the loan through 2019. Payments, due each March, are secured by KPBS operating fund allocations provided by the University. The note payable bears interest at a fixed rate of 3.5%. Aggregate annual payments under this financing agreement are as follows:

Years Ending June 30:		Principal		Interest		Total
2012	$	182,247	$	117,753	$	300,000
2013		236,379		63,621		300,000
2014		244,652		55,348		300,000
2015		253,215		46,785		300,000
2016		262,077		37,923		300,000
2017		271,250		28,750		300,000
2018		280,743		19,257		300,000
2019		269,437		9,430		278,867
	$	2,000,000	$	378,867	$	2,378,867

Interest incurred on the note payable amounted to $68,324 and $0 for the years ended June 30, 2011 and 2010, respectively.

(8) Commitments

(a) Capital Lease

Gateway Center

During the year ended June 30, 1995, SDSU Research Foundation completed construction on the Gateway Center, a 160,000 square-foot building built on land leased from the University. The land lease expires in June 2023, at which time title of the building passes to the University.

The main operating office, radio studios and television studio for the Stations are housed in a portion of the Gateway Center. Under the terms of the lease agreement with SDSU Research Foundation, the Stations were allocated approximately $8,345,000 of the construction costs of the building, of which $2,860,000 was paid during construction and $5,485,000 was to be paid through the term of the capital lease.

The capital lease payments were set up based on an allocation of the KPBS portion of the debt service of the Foundation's 1999 Revenue Refunding Bonds. On April 5, 2010, the California State University system issued system-wide revenue bonds (SRB 2010A) to replace the 1999 Revenue Refunding Bonds. The SRB 2010A bonds sold at amounts greater than par, resulting in a bond premium. As a result of the refunding and new issuance, the debt service schedule that was the basis for the capital lease changed, resulting in a gain on refunding of $666,480 which is being amortized over the remaining life of the capital lease. Amortization expense totaled $47,606 for the years ended June 30, 2011 and 2010.

Capital Equipment Lease

During the year ended June 30, 2007, KPBS obtained financing through the University to acquire equipment. Under the original capital lease, payments are due annually from September 2007 until March 2014. In July 2010, the University amended the payment schedule with the March 2011 payment deferred and loan term extended through 2016. In June 2011, the University amended the payment schedule and extended the loan term through 2019. Payments due each March are secured by KPBS operating fund allocations provided by the University.

Capitalized Licensed Software

During the year ended June 30, 2007, the University purchased a software package for KPBS broadcasting and radio needs. Payments are due annually through 2012 for the use of the software. During the year ended June 30, 2009, the University purchased software with payments due through 2011, which was extended during the year ended June 30, 2011 with payments due through 2013.

Capital lease obligations activity for the years ended June 30 is as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Capital lease obligations	$ 3,889,662	$ 59,111	$ (196,581)	$ 3,752,192	$ 318,746
Unamortized refinancing gain	618,874	-	(47,606)	571,268	-
	$ 4,508,536	$ 59,111	$ (244,187)	$ 4,323,460	$ 318,746

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Capital lease obligations	$ 4,893,174	$ 3,002,911	$ (4,006,423)	$ 3,889,662	$ 196,581
Unamortized refinancing gain	-	666,480	(47,606)	618,874	-
	$ 4,893,174	$ 3,669,391	$ (4,054,029)	$ 4,508,536	$ 196,581

The following is a schedule of the future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2011:

Years Ending June 30:	Principal	Interest	Total
2012	$ 318,746	$ 185,271	$ 504,017
2013	322,137	146,532	468,669
2014	304,665	134,861	439,526
2015	316,856	121,587	438,443
2016	331,958	108,512	440,470
Thereafter	2,157,830	350,762	2,508,592
	3,752,192	$ 1,047,525	$ 4,799,717
Unamortized refinancing gain	571,268		
	$ 4,323,460		

(b) Operating Leases

KPBS leases certain land, buildings and transmitter space under noncancelable operating leases, which expire on various dates through January 2099. The current monthly rental payments range from approximately $395 to $11,972 and several of the agreements allow for annual increases in the base rent. KPBS incurred rental expense for the years ended June 30, 2011 and 2010 of $251,700 and $246,600, respectively.

The total minimum rental commitment at June 30, 2011 under the leases mentioned above is due as follows:

Years Ending June 30:		
2012	$	257,933
2013		238,708
2014		167,080
2015		173,315
2016		181,631
Thereafter		1,905,342
	$	2,924,009

(c) Consulting Agreement

The Stations' former General Manager retired as of December 31, 2008. On June 20, 2008, the University and the former General Manager entered into a consulting agreement for his services for 12 months beginning January 1, 2009 for a fee of $75,000. The Stations paid $37,500 of that fee during the year ended June 30, 2010.

(9) Pension and Postretirement Benefits

For the Stations' staff employed through SDSU Research Foundation, SDSU Research Foundation provides health insurance benefits for the Stations' retirees who meet certain eligibility requirements as established by Board policy. There are three groups of eligible retirees, as follows:

(i) **Group 1 Retirees** – individuals who retired prior to July 1, 1991 and, as of July 1, 1991, were receiving benefits under SDSU Research Foundation's "Health Insurance at Retirement" policy, which was approved by the SDSU Research Foundation Board of Directors on May 14, 1984.

(ii) **Group 2 Retirees** – individuals who were employed as eligible employees on June 30, 1991 and, at the time of retirement, had 10 years of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 55 (or after attaining age 50 if the individual was employed by SDSU Research Foundation and covered by PERS on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

(iii) **Group 3 Retirees** – individuals who were employed as eligible employees on or after July 1, 1991 and, at the time of retirement, had 15 years of service as an eligible employee, and retired either (a) under the "SDSURF Defined Contribution Retirement Plan" offered through TIAA-CREF after attaining age 60, or (b) due to permanent total disability, as approved by TIAA-CREF, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

SDSU Research Foundation contracts with TIAA-CREF to provide retirement and disability benefits to its employees. All pension plan liabilities are fully funded through individually owned annuity contracts. The obligation for the payment of benefits has been transferred from SDSU Research Foundation to TIAA-CREF.

In order for the Stations' employees to be eligible for retiree pension and health benefits, the employee must be appointed to an approved class code, work a regular schedule of 20 hours or more per week, and not be a temporary or leased employee. Amounts charged to KPBS from SDSU Research Foundation for pension and other postretirement benefits totaled $106,934 and $104,113 for the years ended June 30, 2011 and 2010, respectively, and are recorded as either program services or support services, depending upon the employee's function, on the accompanying statements of revenues, expenses and changes in net assets.

SDSU Research Foundation issues a separate financial report which includes further information on the pension and post-retirement benefits. Copies of the SDSU Research Foundation annual financial report may be obtained from the SDSU Research Foundation Executive Office, 5250 Campanile Drive, San Diego, California 92182.

For the Stations' staff employed through San Diego State University, the University, as an agency of the State of California, contributes to the California Public Employees' Retirement System (CalPERS) on behalf of certain employees of the Stations. The State's plan with CalPERS is an agent multiple-employer defined-benefit plan which provides a defined-benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital act (PEMHCA) for medical benefits.

The Stations' University-employed personnel are required to contribute 5% of their monthly earnings in excess of $513 to CalPERS. The University is required to contribute at an actuarially determined rate. The contribution requirements (i.e., annual required contribution) of the plan members are established and may be amended by CalPERS. Amounts charged to KPBS for its annual required contribution from the University totaled $191,242 and $229,035 for the years ended June 30, 2011 and 2010, respectively, and are recorded as direct support and program services or support services expense, depending upon the employee's function. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

(10) Contingencies

From time to time, the Stations are subject to claims and legal suits in the normal course of business. Management believes there will be no material adverse results on their net assets as a result of these matters.

(11) Risk Management

The Stations are exposed to risks related to general and commercial liability and workers' compensation. The Stations are covered by insurance through SDSU Research Foundation and the University to mitigate those risks. Insurance policies provide varying levels of coverage with varying deductibles. The University and SDSU Research Foundation participate in the California State University risk management pool for most of its insurance needs. However, SDSU Research Foundation is partially self-insured for its unemployment and workers' compensation plans. Using insurance policies with commercial carriers to cover these risks of loss, SDSU Research Foundation maintains excess unemployment insurance coverage in the aggregate of $1,000,000 and excess workers' compensation coverage for claims in excess of $250,000 per occurrence.

Insurance through the University is included in San Diego State University indirect support and allocated to program and support services on the statements of revenues, expenses and changes in net assets. Premiums to SDSU Research Foundation on these insurance policies totaled approximately $84,000 and $98,000 for the years ended June 30, 2011 and 2010, respectively.