

KUHT (TV)
(A Component Unit of the University of Houston System)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year Ended August 31, 2005

KUHT (TV)
(A Component Unit of the University of Houston System)

FINANCIAL STATEMENTS

Year Ended August 31, 2005

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
NOTES TO THE BASIC FINANCIAL STATEMENTS	14
SUPPLEMENTAL SCHEDULES	
Statement of Functional Expenses	22

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KUHT (TV)

We have audited the accompanying basic financial statements of KUHT (TV) (the "Station"), a component unit of the University of Houston System, as of and for the year ended August 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule on page 22 is presented for purposes of additional analysis. This schedule is not required as part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

A handwritten signature in blue ink that reads "McConnell & Sons LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 10, 2006

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Introduction

The following section of KUHT (TV) overview of the activities and the financial position of KUHT (TV) (the "Station"), for the fiscal year ended August 31, 2005. This Management's Discussion and Analysis is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read in conjunction with the Station's financial statements and the notes to the financial statements. Responsibility and fairness of the information rests with the Station.

Overview of the Financial Statements

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

The financial operations of the Station are considered a business-type activity. The Station's largest source of revenue is membership and subscriptions which are used to pay for a majority of the cost of the services provided. Additionally, donor contributions are also received from supporting sponsor businesses and organizations to supplement the cost of services. Under this classification, the Station's financial statements conform to the guidelines and presentation formats prescribed for Enterprise Funds, also referred to as Proprietary Funds. Revenues and expenses are classified as either operating or non-operating in the current financial statements.

Statement of Net Assets

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

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets			
Current assets	\$ 1,721,959	\$ 1,943,746	\$ (221,787)
Other noncurrent assets	<u>11,501,123</u>	<u>12,092,701</u>	(591,578)
Total assets	<u><u>13,223,082</u></u>	<u><u>14,036,447</u></u>	
Liabilities			
Current liabilities	<u>2,202,014</u>	<u>1,472,769</u>	729,245
Total liabilities	<u><u>2,202,014</u></u>	<u><u>1,472,769</u></u>	
Net assets			
Invested in capital assets, net of related debt	11,407,015	12,092,701	(685,686)
Restricted for endowment funds	733,203	727,990	5,213
Unrestricted	<u>(1,119,150)</u>	<u>(257,013)</u>	(862,137)
Total net assets	<u><u>11,021,068</u></u>	<u><u>12,563,678</u></u>	
Total liabilities and net assets	<u><u>\$ 13,223,082</u></u>	<u><u>\$ 14,036,447</u></u>	

Fiscal Year 2005 Compared to 2004:

- While larger accounts receivables from the Association for Community Broadcasting (ACB) materialized from a change in the reporting entity from the prior year, an allowance for doubtful accounts was established in the amount of \$500,000 which resulted in an overall decrease in current assets from the prior year.
- Both total assets and net assets decreased in value due to depreciation and bad debt expenses.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets identifies operating revenues received by the Station. Additionally, the operating expenses incurred by the Station during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expense are also reported. Non-operating revenues are those received for which no services are directly provided. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating revenues	\$ 10,706,559	\$ 10,240,350	\$ 466,209
Operating expenses	<u>12,329,583</u>	<u>11,339,003</u>	990,580
Operating income (loss)	<u>(1,623,024)</u>	<u>(1,098,653)</u>	(524,371)
Non-operating revenues (expenses)			
Net increase in fair value of endowed funds	<u>80,418</u>	<u>32,783</u>	47,635
Change in net assets	<u>(1,542,606)</u>	<u>(1,065,870)</u>	(476,736)
Net assets, beginning of year	<u>12,563,674</u>	<u>13,629,544</u>	
Net assets, end of year	<u><u>\$ 11,021,068</u></u>	<u><u>\$ 12,563,674</u></u>	

Fiscal Year 2005 Compared to 2004:

- Overall operating revenues increased mainly because of an increase in production services. There were also significant increases in grants received from the Corporation for Public Broadcasting. In-kind contributions from the Association for Community Broadcasting also increased.
- Operating expenses increased primarily as a result of increased fundraising and membership development. There was also a slight increase in program information. Bad debt expense also contributed to the increase in operating expenses.
- A good year for the financial markets during fiscal year 2005 led to realized gains for the endowment funds.

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

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

Operating Revenues	2005	2004	Change
Subscriptions and memberships	\$ 4,902,164	\$ 4,872,072	\$ 30,092
General support from the UH System	2,350,976	2,166,851	184,125
Program underwriting	588,974	786,032	(197,058)
CPB grants	1,497,817	1,238,302	259,515
Other	1,366,628	1,177,093	189,535
Total operating revenues	\$ <u>10,706,559</u>	\$ <u>10,240,350</u>	

Fiscal Year 2005 Compared to 2004:

- The allocation process used to award grants from the Corporation for Public Broadcasting (CPB) also resulted in more funding being received from non-federal sources (NFFS).
- General support from the University of Houston System (the "University") increased as a result of higher indirect support. Some areas of support which had been lost due to functional expense reclassifications at the University were recaptured in the current calculation.
- Subscription and membership increased slightly due to efforts made to target new and lapsed members.
- There was also an increase in revenue because the auction house for fiscal year 2004 did not sell until the fall of fiscal year 2005, therefore, nothing was reported in fiscal year 2004.

Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Station. Operating expenses are displayed in the statement using the functional method of classification. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Statement of Functional Expenses.

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Operating Expenses

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Programming and production	\$ 2,516,186	\$ 2,702,498	\$ (186,312)
Broadcasting, engineering, and technical	2,200,455	1,641,638	558,817
Program information	533,777	520,054	13,723
Fundraising and membership development	2,764,067	2,191,340	572,727
Underwriting and grant solicitation	116,885	131,072	(14,187)
Management and general	<u>4,198,213</u>	<u>4,152,401</u>	45,812
Total operating expenses	<u>\$ 12,329,583</u>	<u>\$ 11,339,003</u>	

Fiscal Year 2005 Compared to 2004:

- Fundraising and membership development experienced growth in expenses as a result of increased salaries and benefits. A full time database administrator for the Teamapproach software was also hired during the current fiscal year.
- Management and general increased due to an increase in the allowance for doubtful account. A bad debt account was created for \$500,000 in fiscal year 2005 to account for uncollected accounts receivable resulting in a bad debt expense.
- Broadcasting, engineering and technical expenses were higher in fiscal year 2005 due to a 42% increase in utility costs. Reallocation of general support for indirect plant support from the University from Management and general to Broadcasting, engineering, and technical resulted in a minor increase, but this was also offset by a similar reduction in Management & general expenses.
- Telemarketing services targeting new and lapsed members resulted in a \$50,000 increase in telephone expenses.

Statement of Cash Flows

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

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Statement of Cash Flows

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Net cash (used in) provided by operating activities	\$ (247,221)	\$ 297,868	\$ (545,089)
Cash flows from capital and related financing activities	<u>256,667</u>	<u>(207,466)</u>	464,133
Decrease in cash and cash equivalents	<u>9,446</u>	<u>90,402</u>	(80,956)
Cash and cash equivalents, beginning of year	<u>727,990</u>	<u>637,588</u>	
Cash and cash equivalents, end of year	<u><u>737,436</u></u>	<u><u>727,990</u></u>	
Reconciliation of operating income to net cash provided by operating activities:			
Operating gain	(1,623,024)	(1,098,653)	(524,371)
Amortization and depreciation	951,721	1,200,098	(248,377)
Bad debt expense	500,000	-	500,000
Net change in assets and liabilities	<u>(75,918)</u>	<u>196,423</u>	(272,341)
Net cash provided by operating activities	\$ <u><u>(247,221)</u></u>	\$ <u><u>297,868</u></u>	

Fiscal Year 2005 Compared to 2004:

- Net cash provided by operating activities declined by approximately \$545,000 from the previous fiscal year. The station experienced an operating loss for fiscal year 2005. The resulting decrease in cash is reflected as \$434,000 of additional advances from UH System. Also, an increase in membership receivables of \$160,000 contributed to the overall decline.

Capital Assets

As of the end of fiscal year 2005 fiscal years, the Station had \$11,407,015 of capital assets, net of accumulated depreciation/amorization. These assets included buildings, furniture and equipment.

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

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

Debt Administration

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

Economic Outlook

Since its first moment on-air in 1953, the Station has remained true to its mission to assure public engagement through programs and services that enlighten, educate and inform. From its roots in instructional television, the Station has always endeavored to be more than just a program delivery system, more than just another channel on the dial, and early on embraced the idea that television can be used to inspire, empower and encourage people to act on their dreams.

Alone among American broadcasters and cable services, public television is directly accountable to the viewers, who represent the full diversity of our communities' cultural and ethnic structure, and who, together, constitute the Station's single largest source of support. At the core of the Station's mission and tradition is education - that is our legacy and our strength. A commitment to the communities that support the Station to reflect their cultural values, needs and aspirations informs all programming decisions. Hallmarks of our service include programs about and in support of education, health, America's international roles, government, environment, history, economics, culture and children.

We seek to fulfill these objectives with programs and services of consequence, excellence and innovation. We also specifically serve the needs and interests of the underserved in our communities - women, ethnic minorities and the underprivileged.

The Station's current financial position continues to be strong. Fund raising efforts were successful in fiscal year 2005, allowing the Station to again finish with a positive balance. Support from the community continued to hold steady, from viewers, supporters, and partnerships. Management believes this reflects the confidence the Station's supporters have in the fiscal administration and management of the Station's resources.

The impact of new digital technologies have allowed the Station to develop potential new revenue streams from non-traditional sources, allowing multiple streams of programming on our broadcast spectrum, and datacasting, which is the delivery of digitized file content simultaneously with the broadcast program streams. As the Station develops relationships with entities like the Department of Homeland Security, Disney/Buena Vista Movie Beam, TEA, and the Texas Medical Center, the future is good for digital service delivery, and the resulting revenue that might be derived from these ventures.

KUHT (TV)
(A Component Unit of the University of Houston System)

Management's Discussion and Analysis
Year Ended August 31, 2005

The Station is positioning itself in our communities to achieve growth during fiscal year 2006 and beyond. A conservative budget projection, combined with a strategy to build new relationships, will allow the Station to accomplish budgetary goals and fulfill its service mission to the communities of Southeast Texas. The Station will continue to perform in a manner that deserves this level of confidence.

KUHT (TV)
(A Component Unit of the University of Houston System)

Statement of Net Assets
August 31, 2005

Assets

Current assets	
Claim on cash - Endowment Funds	\$ 737,436
Accounts receivable, net of allowance for doubtful accounts	984,523
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Total current assets	1,721,959
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Noncurrent assets	
Capital assets, net	11,407,015
Film rights, net	94,108
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Total noncurrent assets	11,501,123
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Total assets	\$ 13,223,082
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Liabilities and Net Assets

Current liabilities	
Advances from UH System in excess of cash	\$ 1,302,452
Accounts payable	203,240
Accrued payroll	255,072
Unearned revenue	211,272
Employees' compensable leave	229,978
	<hr/>
Total current liabilities	2,202,014
	<hr/>
Net assets	
Invested in capital assets, net of related debt	11,407,015
Restricted for endowment funds	733,203
Unrestricted	(1,119,150)
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Total net assets	11,021,068
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Total liabilities and net assets	\$ 13,223,082
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See accompanying notes to the basic financial statements.

KUHT (TV)
(A Component Unit of the University of Houston System)

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended August 31, 2005

Operating revenues	
Subscriptions and memberships	\$ 4,902,164
General support from the UH System	2,350,976
Program underwriting	588,974
Production service	257,233
Corporation for Public Broadcasting grants	1,497,817
Auction	90,240
In-kind contributions	
Association for Community Broadcasting	667,771
Other	21,120
Interest	4,233
Contributions and gifts	3,760
Rental	928
Royalties	38,031
Special events	272,154
Other	11,158
	<hr/>
Total operating revenues	10,706,559
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Operating expenses	
Programming and production	2,516,186
Broadcasting, engineering and technical	2,200,455
Program information	533,777
Fundraising and membership development	2,764,067
Underwriting and grant solicitation	116,885
Management and general	4,198,213
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Total operating expenses	12,329,583
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Operating loss	(1,623,024)
Non-operating revenues	
Income allocation from Endowment Fund	80,418
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Change in net assets	(1,542,606)
Net assets, beginning of year	12,563,674
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Net assets, end of year	\$ 11,021,068
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See accompanying notes to the basic financial statements.

KUHT (TV)
(A Component Unit of the University of Houston System)

Statement of Cash Flows
Year Ended August 31, 2005

Cash flows from operating activities:	
Proceeds received from membership	\$ 4,742,077
Proceeds from CPB grant	1,497,817
Proceeds from program underwriting	588,974
Proceeds from other revenues	677,737
Payments to suppliers for goods and services	(2,868,460)
Payments to employees	(3,422,325)
Payments for broadcasting fees	(1,463,041)
	<hr/>
Net cash used in operating activities	(247,221)
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Cash flows from capital and related financing activities:	
Advances from UH System	433,801
Payments for additions of film rights	(134,515)
Payments for additions to capital assets	(123,037)
Income received from Endowment Fund	80,418
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Net cash provided by capital and related financing activities	256,667
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Decrease in cash and cash equivalents	9,446
Cash and cash equivalents, beginning of year	727,990
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Cash and cash equivalents, end of year	<u><u>\$ 737,436</u></u>
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Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,623,024)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Amortization and depreciation	951,721
Bad debt expense	500,000
Changes in assets and liabilities:	
Increase in accounts receivable	(371,359)
Increase in accounts payable	76,141
Decrease in accrued payroll	(790)
Increase in unearned revenue	211,272
Increase in compensable leave payable	8,818
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Total adjustments	1,375,803
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Net cash used in operating activities	<u><u>\$ (247,221)</u></u>

See accompanying notes to the basic financial statements.

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

1. Entity

KUHT (TV) (the “Station”) is a non-profit viewer supported television station, which serves as Houston's Public Broadcasting Service (PBS) affiliate. The Station signed on the air on May 25, 1953 as the nation's first non-commercial educational television station. PBS provides the building blocks for the Station's schedule with 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. Locally produced programming and acquired programs compliment the national service. In carrying on its instructional roots, the Station continues to provide formal education through the broadcast of University of Houston telecourses and nationally distributed curriculum-based post-secondary programs for a five-institution consortium of area community colleges.

In pursuing all the Station's disparate goals, the Station has consistently used cutting-edge technology to extend the value of its service. The Station was the first Houston station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired people, the first to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional service to the Greater Houston area, in particular, access to the Houston Taping for the Blind radio service.

The Station is a member organization of PBS, a private, non-profit corporation whose members are America's public television stations. PBS provides quality television programming and related services to 349 non-commercial PBS stations serving all 50 states, Puerto Rico, the U.S. Virgin Islands, Guam and America Samoa. PBS oversees program acquisition, distribution and promotion, education services, new media ventures, fundraising support, engineering and technology development, and video marketing.

The Station is licensed by the Federal Communications Commission to the Board of Regents of the University of Houston System (the “University”) and is a component unit of the University. It is located in the fourth largest metropolitan area of the United States. The University serves the upper Texas Gulf Coast, and is part of the state-supported system of higher education in Texas. As a component of the University, the Station is exempt from Federal income taxes.

The Station broadcasts on analog station KUHT-TV, Channel 8 and digital station KUHT-DT, Channel 9. Both are non-commercial, VHF television broadcast stations. KUHT-TV and KUHT-DT's transmitters, transmission line, and antenna are located 1,850 feet above average terrain near Missouri City, Texas, southwest of Houston, about thirteen miles from the LeRoy and Lucile Melcher Center for Public Broadcasting, located on the campus of the University of Houston. The broadcast signal reaches thirty-three counties in southeast Texas.

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

2. Summary of Significant Accounting Policies

General

All financial accounting records of the Station are maintained by the University's Office of the Associate Vice Chancellor for Finance in accordance with generally accepted accounting principles for colleges and universities, as published by the National Association of College and University Business Officers, set forth in *College and University Business Administration*.

Reporting guidelines

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

Net assets

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

Restricted net assets – nonexpendable: Restricted nonexpendable net assets are subject to externally imposed provisions that such net assets be permanently maintained by the Station. The corpus of the Station's endowments is included in nonexpendable net assets.

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

Revenues

Operating revenues include sources that are primarily used to provide services to the Station's audience. Substantially, all of the Station's revenues are considered operating with the exception of net change in fair value of endowment funds.

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

Unrestricted contributions and gifts are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grants are awarded. Restricted support and revenues are recognized upon incurring the appropriate expenditures.

Accounts Receivable

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

Cash and cash equivalents

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

Buildings and equipment

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

Program rights

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

In-kind contributions

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

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

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

Unearned Revenues

Grant revenues received and related to the period after fiscal year end have been reported as unearned revenues.

Advertising

Advertising costs are charged to operations when incurred.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Employees' Compensable Leave

Station employees are classified as state employees and, as such, are entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from state employment, provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Full-time state employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The state's policy is that an employee may carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Accrued leave in excess of the normal maximum is converted to sick leave at the conclusion of fiscal year. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

3. Claim on Cash

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

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

For current unrestricted and restricted funds, the University allocates a percentage of the interest income earned to the Station at a fixed rate based on its monthly average cash balance. The claim on cash in the University's Endowment Funds represents the Station's portion of the University.

The System's assets consist of cash, temporary investments, and marketable securities.

The University Endowment Fund allocates income (net of management fees) to the individual endowment funds based on an established asset allocation policy. The payment rate is based on a percentage of the fiscal year end market value averaged over a rolling three year period. In fiscal year 2005, the payment rate was 5.0% applied to the average market value at the end of fiscal year 2002 through fiscal year 2004. If an endowment were in existence less than three years, the average was based on the number of years in existence.

4. Accounts Receivable

Accounts receivable at fiscal year ended August 31, 2005 were as follows:

Contributions receivable	\$ 1,484,523
Less: Allowance for doubtful receivables	<u>(500,000)</u>
	<u><u>\$ 984,523</u></u>

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

5. Capital Assets

Capital assets' activities for the fiscal year ended August 31, 2005 were as follows:

	Balance September 1, 2004	Additions	Deletions	Balance August 31, 2005
Buildings	\$ 12,415,863	\$ -	\$ -	\$ 12,415,863
Furniture and equipment	8,642,858	123,037	66,753	8,699,142
Other assets	75,000	-	-	75,000
	21,133,721	123,037	66,753	21,190,005
Less: accumulated depreciation	9,041,020	808,723	66,753	9,782,990
Net capital assets	<u>\$ 12,092,701</u>	<u>\$ (685,686)</u>	<u>\$ -</u>	<u>\$ 11,407,015</u>

6. General Support from the University of Houston System

General support includes building and related occupancy costs donated by the University and are recorded as revenues and expenses at their estimated fair rental values based on the occupancy allowance computation permitted by the Corporation for Public Broadcasting. Building and related occupancy support amounted to \$461,046 in fiscal year 2005. The University provides indirect administrative support and maintenance support, which are recorded in revenues and expenses based on the University's allocation methods. Indirect administrative support amounted to \$1,889,930 in fiscal year 2005.

7. Pension Plan

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

The Retirement System does not account for each of its component governmental agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

contributions fixed by the Texas State Legislature. Contributions to the plan by the Station amounted to \$133,413 in fiscal year 2005. According to an independent actuarial valuation as of August 31, 2005, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retired and active members and their beneficiaries, was in excess of the Retirement System's assets. The actuary projected that such assets, augmented by projected future contributions and earnings, would not be sufficient to amortize the unfunded difference assuming payroll growth of 3.0%. Further information regarding actuarial assumptions and conclusions, together with the audited financial statements, is included in the annual financial report of the Retirement System.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity or mutual fund contracts. For employees participating prior to September 1, 1995, the contributory percentages of participant salaries provided by the Station and by each participant during fiscal year 2005 was 8.50% of the annual compensation. For employees hired on September 1, 1995, or later, the contributory percentages of participant salaries provided by the Station and by each participant during fiscal year 2005 was 6.00% of the annual compensation. Contributions to the plan by the Station amounted to \$22,372 in fiscal year 2005. Since these are individual investment product contracts, the Station has no additional or unfunded liability for the Optional Retirement Program.

8. Leases

The Station leases its transmitting facility and other equipment under a long-term operating lease agreement. During the year ended August 31, 2005, rent incurred for the leased facility and equipment amounted to \$311,982.

Future minimum lease payments under this non-cancelable operating lease are as follows:

<u>Year Ending August 31,</u>	
2006	\$ 296,648
2007	283,215
2008	219,639
2009	224,143
2010	199,823
Thereafter	<u>53,613</u>
	<u>\$ 1,277,081</u>

KUHT (TV)
(A Component Unit of the University of Houston System)

Notes to the Basic Financial Statements
Year End August 31, 2005

9. Related Parties

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

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

Operating expenses relating to ACB are borne by the Station and KUHF (FM), except for certain expenditures associated primarily with fundraising and production of certain programs. ACB is directed by a Board of Directors and is managed on a daily basis by a combination of Board officers and the Station and KUHF (FM) employees.

10. Comparative Financial Information

The accompanying financial statements do not present comparative information for the previous fiscal year. Prior years' statements presented the combined results of operations of the Station and its support organization. As a result of the restructuring of the reporting entity described above, prior years' financial data is not comparable to the accompanying financial data. Although not required by generally accepted accounting principles, multiple year comparative information is required by Corporation for Public Broadcasting reporting requirements, unless such a presentation would not be meaningful.

SUPPLEMENTAL SCHEDULE

KUHT (TV)
(A Component Unit of the University of Houston System)

Statement of Functional Expenses
Year Ended August 31, 2005

	Programming and Production	Broadcasting, Engineering, and Technical	Program Information	Fundraising and Membership Development	Underwriting and Grant Solicitation	Management and General	Total
Salary and wages	\$ 423,041	\$ 818,032	\$ 349,523	\$ 650,016	\$ 90,324	\$ 445,672	\$ 2,776,608
Fringe benefits	108,130	190,287	77,006	149,064	17,806	111,452	653,745
Financial and legal services	4,221	334	-	11,117	-	10,332	26,004
Fundraising	38	1,500	18,706	392,542	499	2,584	415,869
In Kind contributions							
General	-	-	21,120	-	-	-	21,120
ACB Special Events	-	-	-	110,867	-	-	110,867
ACB Other	239,408	-	-	317,496	-	-	556,904
Membership fees	13,284	-	30	204,324	-	47,870	265,508
Other expenses	13,958	7,444	33,786	82,145	690	90,384	228,407
Postage	2,386	1,735	476	177,976	270	9,995	192,838
Printing and reproduction services	673	-	1,778	188,787	500	470	192,208
Professional services	20,582	1,848	112	34,967	-	69,454	126,963
Program rights	1,463,041	-	-	-	-	-	1,463,041
Rental and leases	34,579	164,100	19,050	134,415	-	49,310	401,454
Repair and maintenance	5,065	104,918	21	-	-	9,810	119,814
Supplies and materials	20,501	70,727	2,078	14,607	305	63,876	172,094
Telephone	9,381	66,038	9,826	279,002	3,823	81,655	449,725
Travel	14,900	3,933	265	16,742	2,668	6,696	45,204
Utilities	-	308,513	-	-	-	-	308,513
Bad debt expense	-	-	-	-	-	500,000	500,000
Amortization of program rights	142,998	-	-	-	-	-	142,998
Depreciation expense	-	-	-	-	-	808,723	808,723
General support from the UH System	-	461,046	-	-	-	1,889,930	2,350,976
Total	\$ 2,516,186	\$ 2,200,455	\$ 533,777	\$ 2,764,067	\$ 116,885	\$ 4,198,213	\$ 12,329,583