Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

KPBS FM/TV

(A Department of San Diego State University)

June 30, 2017 and 2016

Contents

Report of Independent Certified Public Accountants

Audit • Tax • Advisory

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Tom Karlo, General Manager
KPBS FM/TV

We have audited the accompanying financial statements of KPBS FM/TV, a department of San Diego State University (the "University"), which comprise the statement of net position as of June 30, 2017 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KPBS FM/TV as of June 30, 2017 and the changes in its net position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements of KPBS FM/TV are intended to present the financial position, the changes in net position and cash flows of only that portion of the University that is attributable to the transactions of KPBS FM/TV. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2017 and the changes in its net position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 15 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended June 30, 2017 was conducted for the purpose of forming an opinion on the financial statements. The supplementary schedule of total revenues and transfers for the year ended June 30, 2017 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

San Diego, California
November 22, 2017

Management's Discussion and Analysis (unaudited)

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, 2017 and 2016. 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 Position; the Statements of Revenues, Expenses and Changes in Net Position; 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 Position: The Statements of Net Position include all assets, deferred outflows and inflows of resources and liabilities. Assets and liabilities are reported on an accrual basis as of the statement date. Long-term investments are reported at fair value as of the statement date. Major categories of restrictions on the net position of the Stations are also identified.

Statements of Revenues, Expenses and Changes in Net Position: The Statements of Revenues, Expenses and Changes in Net Position 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, non-capital 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.

Financial 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, 2017 ("FY17") and 2016 ("FY16"). Included is a comparative analysis of current year and prior year activities and balances; a discussion of restrictions of the Stations' net position; and a discussion of capital assets and long-term debt.

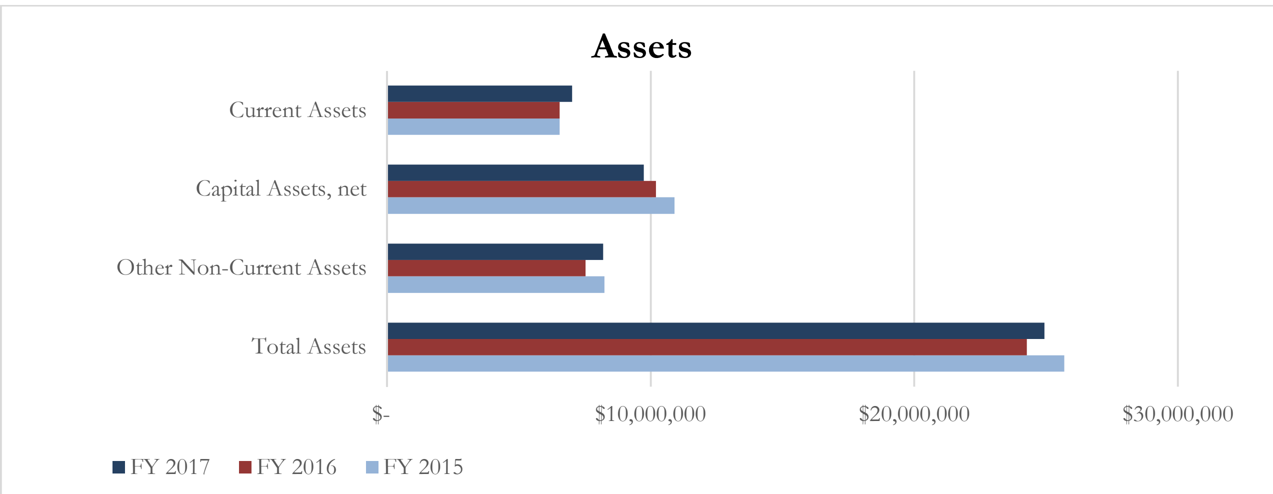
The Stations' condensed summary of net position as of fiscal years June 30, 2017, 2016 and 2015 is as follows:

Condensed Summary of Net Position

	June 30,		
	2017	**2016**	**2015**
Assets:			
Current assets	$ 7,012,079	$ 6,541,992	$ 6,543,794
Capital assets, net	9,734,866	10,202,886	10,899,302
Other noncurrent assets	8,193,180	7,524,791	8,239,621
Total assets	24,940,125	24,269,669	25,682,717
Deferred outflows of resources	$ -	$ -	$ -
Liabilities:			
Current liabilities	$ 3,408,608	$ 3,492,923	$ 3,665,082
Noncurrent liabilities	3,147,499	3,735,436	4,490,964
Total liabilities	6,556,107	7,228,359	8,156,046
Deferred inflows of resources	$ -	$ 600,000	$ 600,000
Net position:			
Invested in capital assets, net of related debt	$ 6,428,123	$ 6,497,154	$ 6,414,377
Restricted - nonexpendable	1,436,299	1,429,076	1,295,418
Restricted - expendable	2,799,108	944,768	1,330,337
Unrestricted	7,720,488	7,570,312	7,886,539
Total net position	$ 18,384,018	$ 16,441,310	$ 16,926,671

Assets

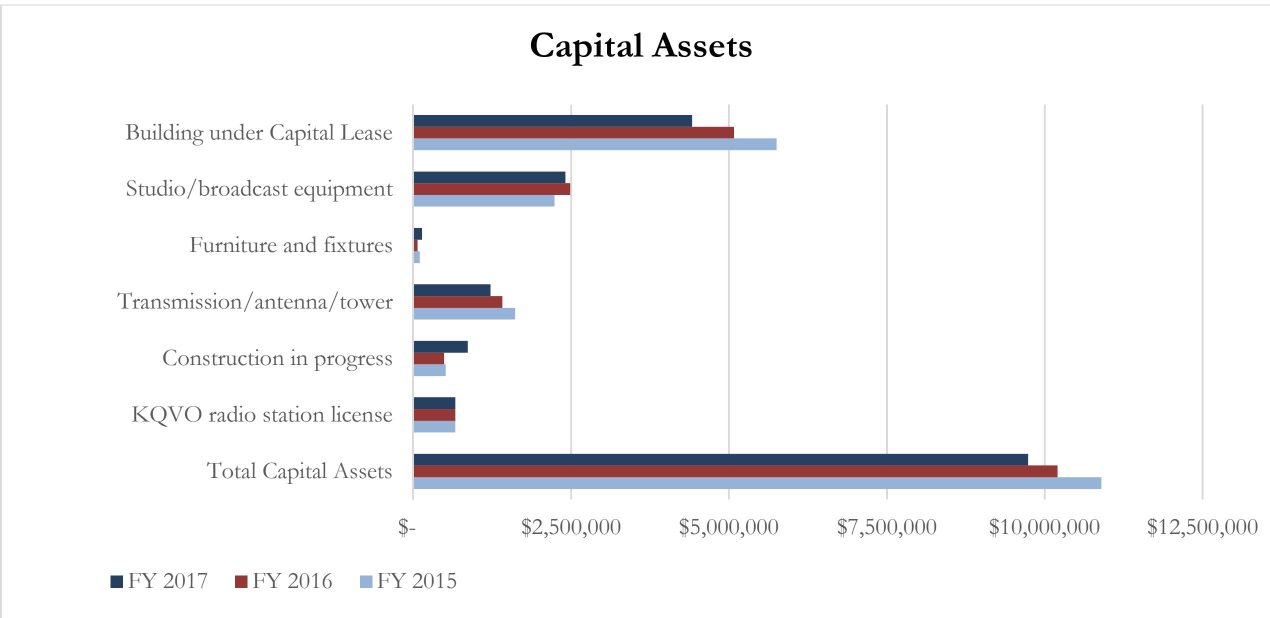
Total assets decreased by $1,413,000 in FY16 and increased $670,000 in FY17. The decrease in total assets for FY16 was primarily due to decline in investments resulting from unfavorable market conditions and required endowment distributions, as well as depreciation of capital assets exceeding capital additions. The increase in total assets in FY17 primarily related to the increase in the due from San Diego State University Research Foundation relating to the sale of donated property, an increase in investments resulting from favorable market conditions, offset by a decrease in accounts receivable and net capital assets as depreciation exceeded capital additions.



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

	June 30,		
	2017	**2016**	**2015**
Building under capital lease	$ 4,418,929	$ 5,078,746	$ 5,754,105
Studio/broadcast equipment	2,412,619	2,486,325	2,237,975
Furniture and fixtures	139,117	68,318	106,293
Transmission/antenna/tower	1,226,760	1,410,410	1,613,798
Construction in progress	867,441	489,087	517,131
KQVO radio station license	670,000	670,000	670,000
Total capital assets, net of accumulated depreciation	$ 9,734,866	$ 10,202,886	$ 10,899,302

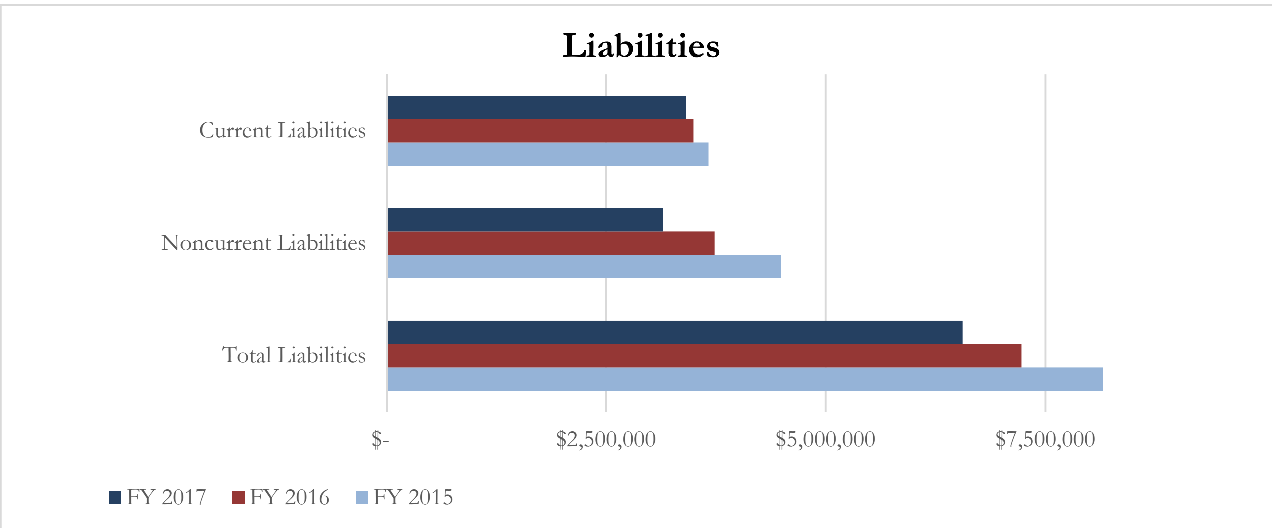
Capital assets decreased $696,000 in FY16 due primarily to depreciation of $1,632,000, offset by project investments of $936,000. FY16 project investments include the completion of the broadcast audio board and satellite truck, as well as work in progress for the membership database conversion project. Capital Assets decreased $468,000 in FY17 due primarily to depreciation of $1,539,000, offset by project investments of $1,071,000. FY17 Project Investments include purchases of studio broadcast equipment, capital lease acquisitions of computers and software as well as continued additions to work in progress for the membership database conversion project.



Other noncurrent assets decreased by $715,000 in FY16 primarily due to a decline in investments of $664,000 resulting from unfavorable market conditions and required endowment distributions, as well as a decrease in non-current underwriter receivables and other assets totaling $51,000. In FY17, noncurrent assets increased $668,000 due primarily to an increase in investments resulting from favorable market conditions.

Liabilities

Total liabilities decreased in FY16 by $928,000 primarily due to scheduled payments made against outstanding notes payable and capital lease obligations. Total liabilities decreased in FY17 by $672,000 primarily due to payments made against outstanding notes payable and capital lease obligations offset by new capital leases for computers and licensed software totaling $383,000.



Long-Term Debt Obligations

Debt outstanding at June 30, 2017, 2016 and 2015 is summarized below by type of debt instrument:

	June 30,		
	2017	**2016**	**2015**
Capital lease obligations	$ 2,484,708	$ 2,568,684	$ 3,043,625
Notes payable	822,036	1,137,047	1,441,300
Total	3,306,744	3,705,731	4,484,925
Less current portion	(788,487)	(734,276)	(731,588)
Total long-term debt	$ 2,518,257	$ 2,971,455	$ 3,753,337

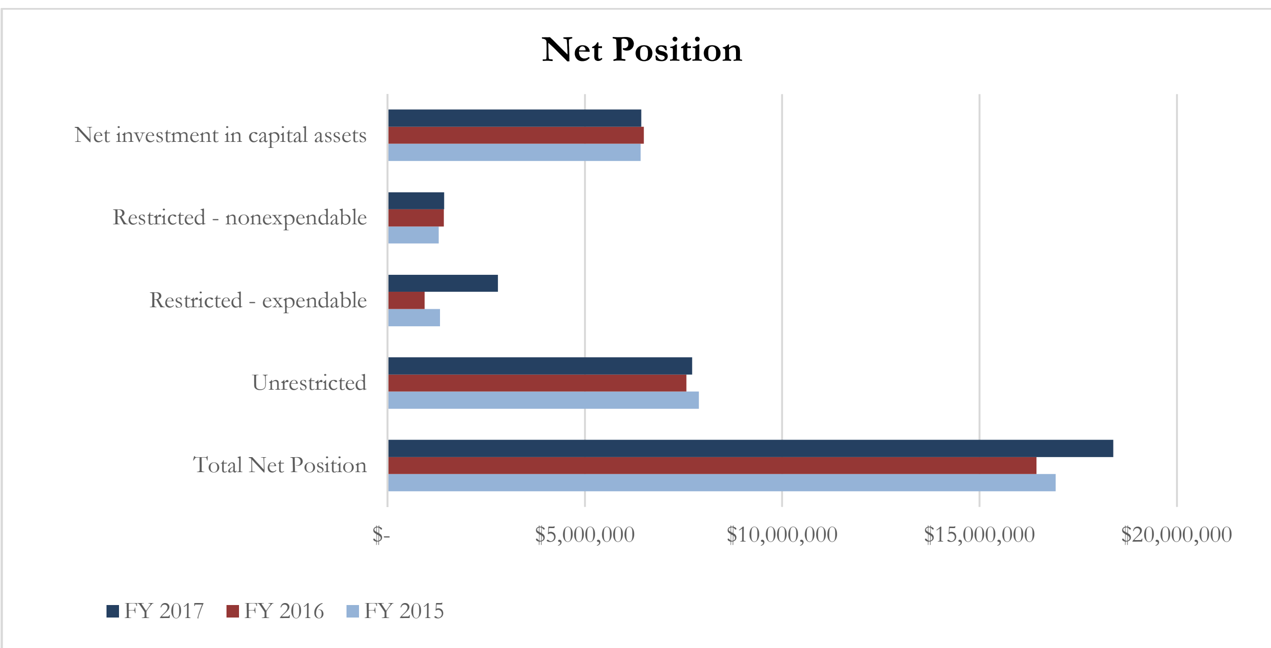
Total debt decreased $779,000 in FY16 due to the payment of scheduled obligations. Total debt decreased approximately $399,000 in FY17 due to the payment of scheduled obligations, net of new financing related to the purchase of capitalized licensed software and computer equipment totaling $398,000.

Deferred Inflows of Resources

For FY16, Deferred Inflows of Resources resulted from a donor contribution received in late June of FY16 for use by the organization in the next fiscal year. For FY17, there were no Deferred Inflows of Resources.

Net Position

Total net position decreased $485,000 in FY16 primarily due to a $45,000 operating loss (net of San Diego State University transfers, depreciation and other non-operating revenues), the net decrease of $486,000 in the fair market value of investments and net interest income of $46,000. Total net position increased $1,943,000 in FY17 primarily due to a $1,234,000 gain on the sale of donated property, $13,000 operating income (net of San Diego State University transfers, depreciation and other non-operating revenues), the net increase of $637,000 in the fair market value of investments and net interest income of $59,000.



Restrictions on Net Position

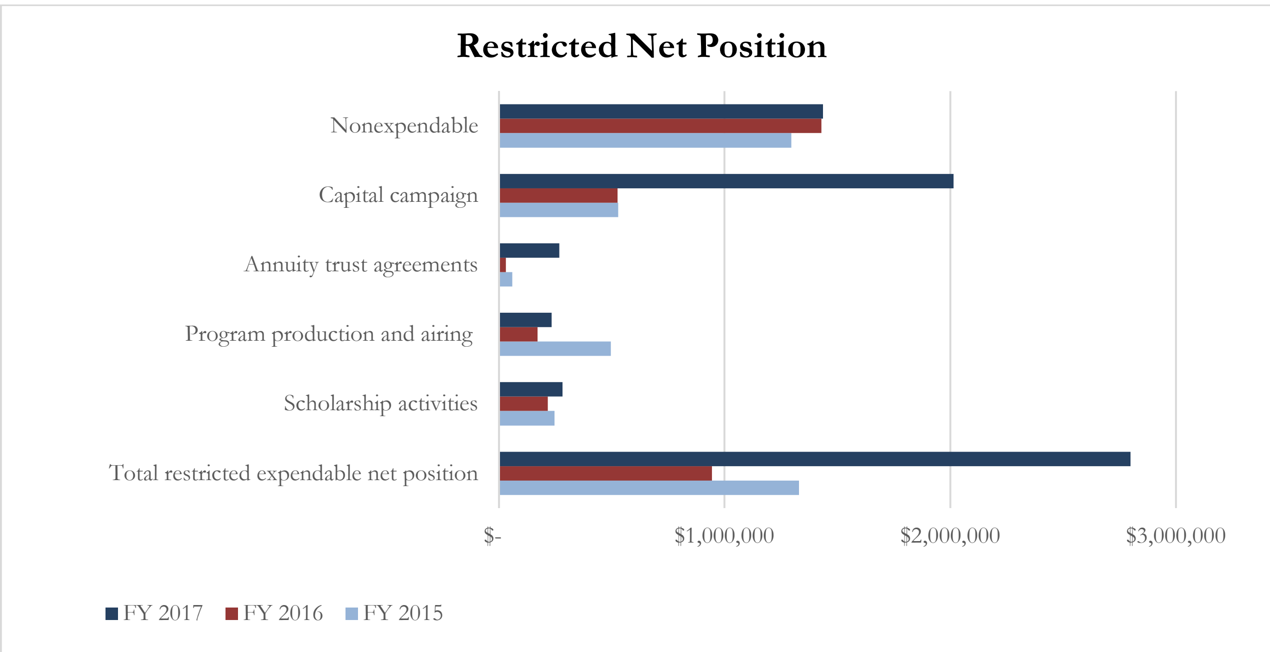
Net position of the Stations includes funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction and the amount:

	June 30, 2017	June 30, 2016	June 30, 2015
Nonexpendable	$ 1,436,299	$ 1,429,076	$ 1,295,418
Expendable:			
Capital campaign	$ 2,013,861	$ 526,451	$ 528,320
Annuity trust agreements	268,203	30,820	58,990
Program production and airing	234,299	171,163	495,834
Scholarship activities	282,745	216,334	247,193
Total restricted expendable net position	$ 2,799,108	$ 944,768	$ 1,330,337

The nonexpendable net position increase in FY16 results from an additional endowment received during the period. The nonexpendable net position increase in FY17 results from a net increase in the fair value of investments.

The Capital campaign fund represents donations for expenditures specifically for the Gateway Center building. The Program production and airing fund represents donations for expenditures specifically for the KPBS Radio Reading Service.

The restricted expendable net position decreased in FY16 due primarily to a net decrease in the fair value of investments resulting from unfavorable market conditions during the period and a reduction resulting from certain program production and airing expenditures. The restricted expendable net position increased in FY17 due primarily to the sale of Capital campaign donated property and a net increase in the fair value of investments resulting from favorable market conditions during the period.



The Stations' condensed summary of revenues, expenses and changes in net position for the fiscal years ended June 30, 2017, 2016 and 2015, respectively, is as follows:

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		
	2017	**2016**	**2015**
Operating revenues:			
Contributions	$ 21,491,038	$ 20,849,333	$ 20,129,094
Corporation for Public Broadcasting grants	3,285,201	3,176,778	3,250,579
Stations-generated support	369,097	546,308	668,942
Total operating revenues	25,145,336	24,572,419	24,048,615
Operating expenses:			
Program services	18,209,884	18,151,316	17,343,047
Support services	14,272,801	14,852,969	14,642,347
Total operating expenses	32,482,685	33,004,285	31,985,394
Operating loss	(7,337,349)	(8,431,866)	(7,936,779)
Nonoperating revenues (expenses):			
Interest expense	(96,309)	(118,180)	(129,628)
Interest income, net	154,849	164,274	148,432
Net increase (decrease) in fair value of investments	637,430	(486,470)	67,176
Gain on Sale of Donated Property	1,234,339	-	-
Other nonoperating revenues	243,795	352,246	(6,599)
Total nonoperating revenue (expense), net	2,174,104	(88,130)	79,381
Loss before transfers	(5,163,245)	(8,519,996)	(7,857,398)
San Diego State University transfers	7,105,953	8,034,635	7,892,269
Change in net assets	1,942,708	(485,361)	34,871
Net assets, beginning of year	16,441,310	16,926,671	16,891,800
Net assets, end of year	$ 18,384,018	$ 16,441,310	$ 16,926,671

Operating Revenues and Expenses

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

Operating Revenues

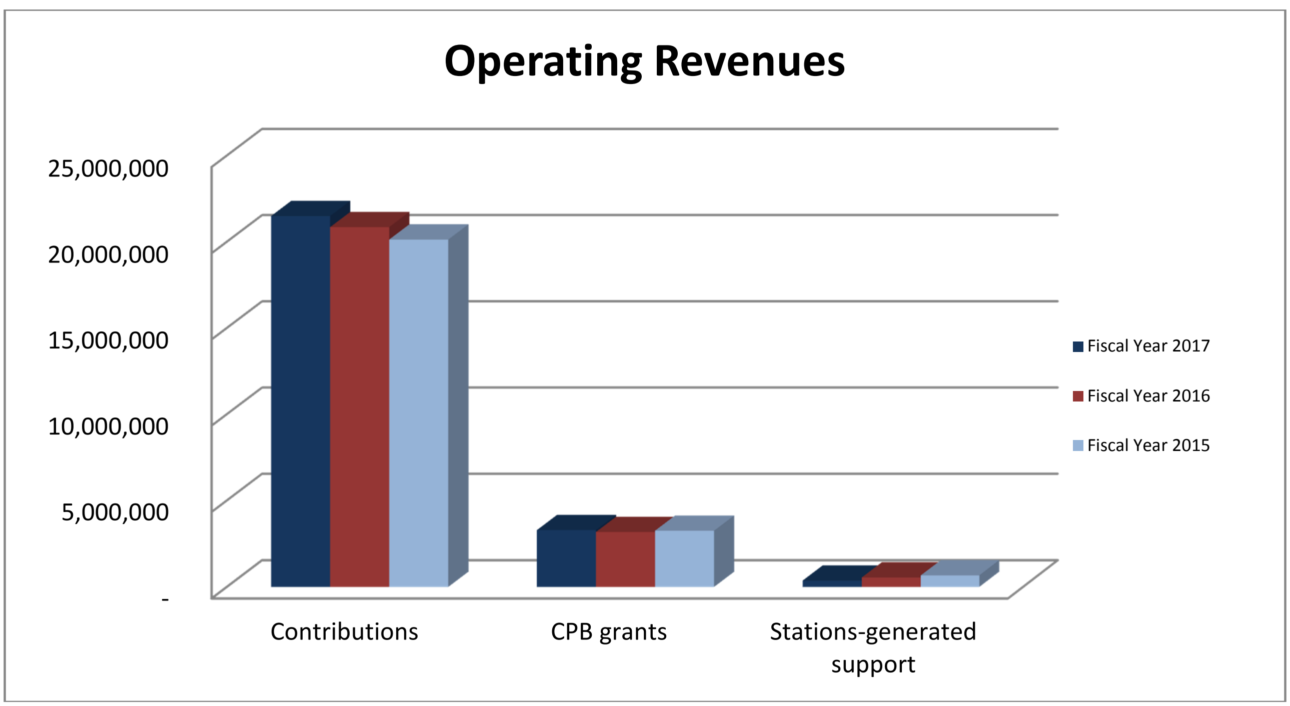
Contributions increased $720,000 in FY16 resulting primarily from net increases in Underwriting $340,000, Vehicle Donations $426,000, Membership & Producers' Club $464,000 and a net increase in other revenue categories $159,000, offset by a reduction in Major Gifts $669,000 resulting from a one-time donation in FY15.

Contributions increased $642,000 in FY17 resulting primarily from net increases in Membership & Producers Club $612,000, Outreach programs $307,000, Vehicle Donations $188,000, Special Events $180,000 and Major Gifts $154,000, offset by reductions in Planned Giving $346,000, Underwriting $248,000 and $205,000 in other revenue categories.

Funding received from the Corporation for Public Broadcasting (CPB) decreased $74,000 in FY16 and increased $108,000 in FY17. CPB annual grants are determined based on non-federal financial support ("NFFS") and an incentive rate of return measured two fiscal years prior to the current period. For example, FY17 CPB grants are based on the FY15 NFFS and incentive rate of return. The incentive rate of return, which fluctuates from year to year, is a function of total FM or TV system NFFS and the respective CPB appropriation.

Stations-generated support decreased $123,000 in FY16 primarily due to reductions in special events and web sponsorships. Stations-generated support decreased $177,000 in FY17 primarily due to a decrease web sponsorships and rental revenues. Rental revenues relate to donated property sold during the year.

The following chart presents the proportional share that each category of operating revenues contributed to the totals for fiscal years 2017, 2016 and 2015:

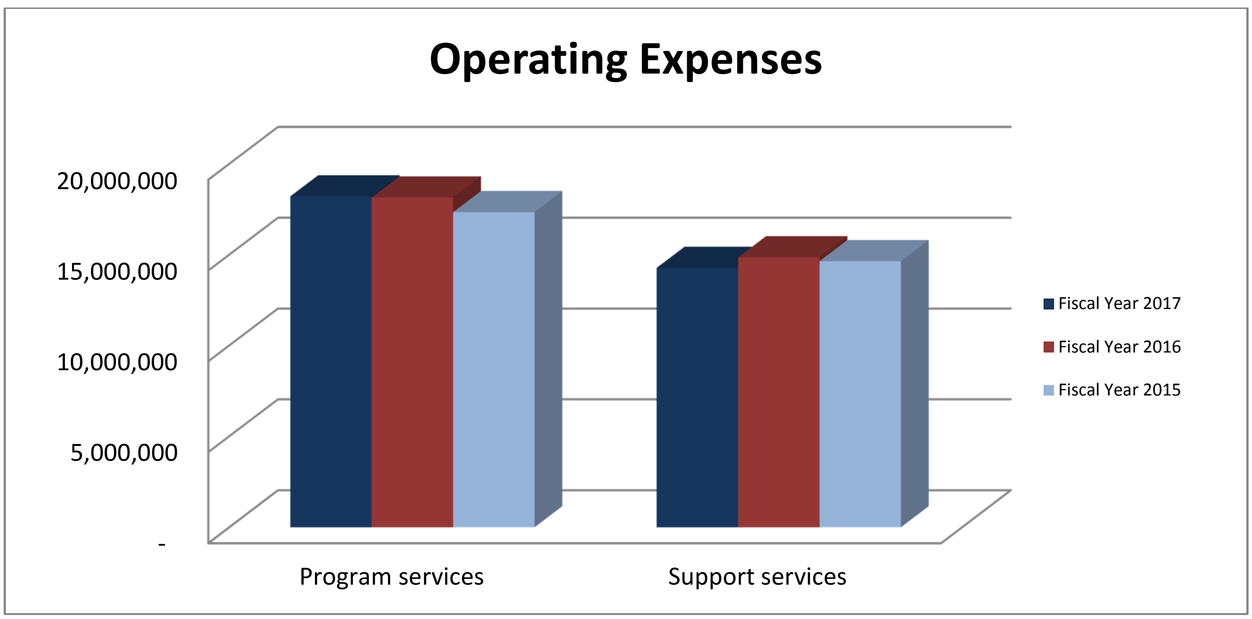


Operating Expenses

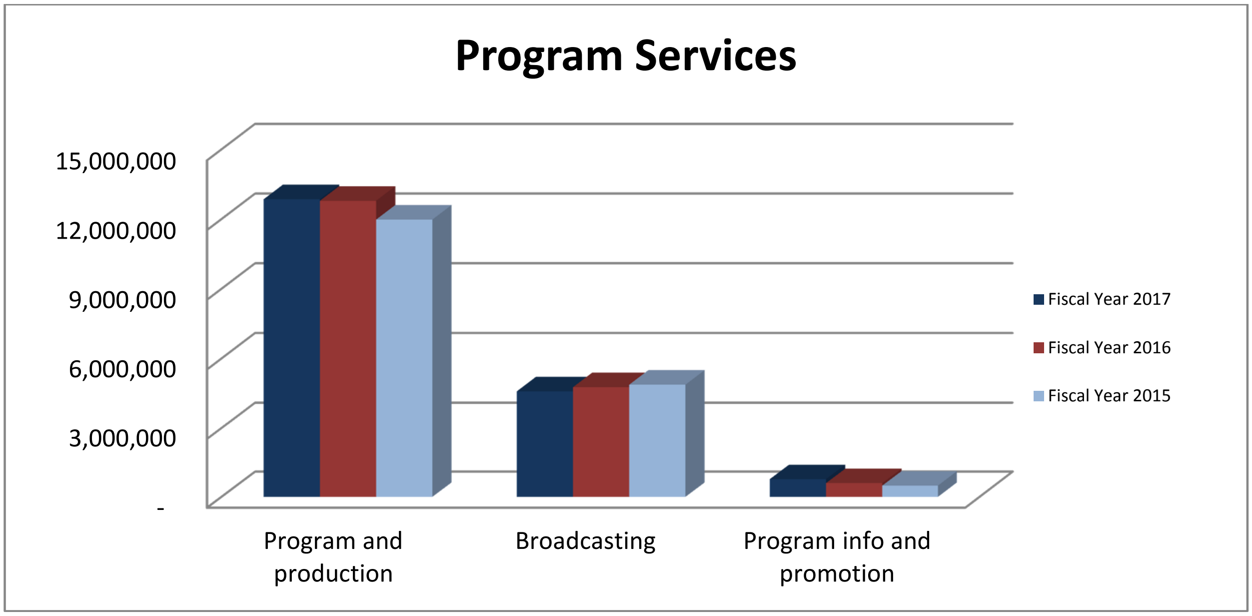
Program services expenses increased $808,000 in FY16 and $59,000 in FY17 due to new programs and initiatives.

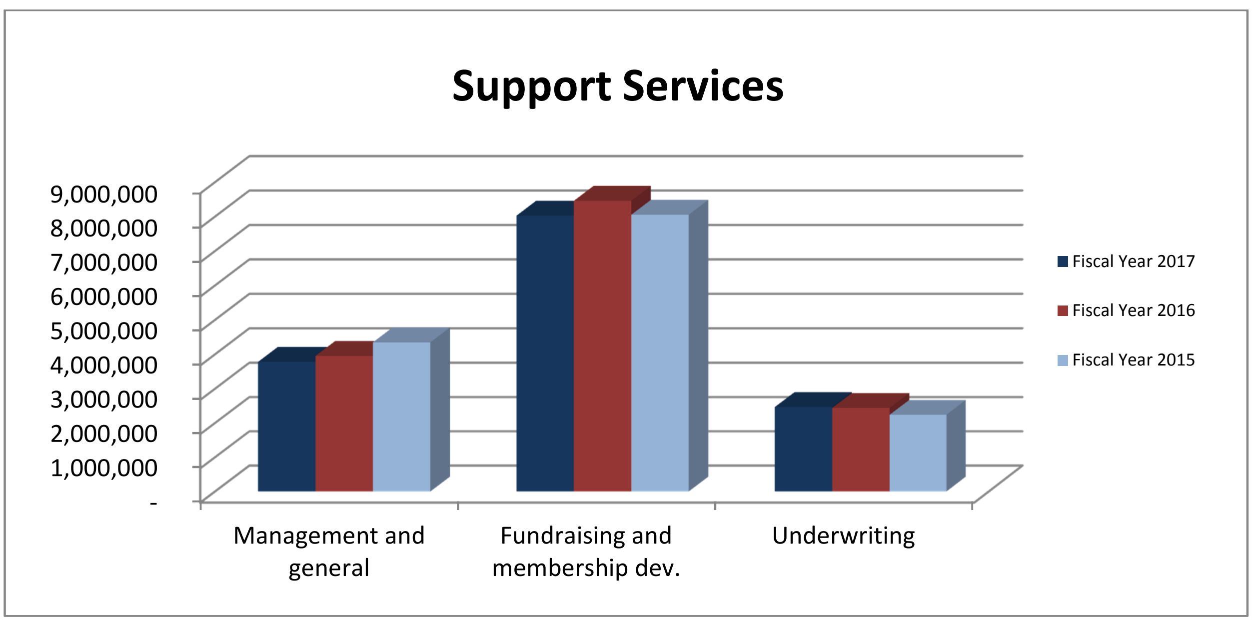
Support services expenses increased $211,000 in FY16 primarily due to increases in donated services and membership premiums. Support services expenses decreased $580,000 in FY17 primarily due to a reduction in San Diego State University indirect financial support resulting from a change in the calculation as further described on page 16 below.

The following chart presents the distribution of resources in support of the Stations for fiscal years 2017, 2016 and 2015:



A further breakdown of the program services and support services is provided as follows:





Non-operating Revenues and Expenses

Non-operating 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, interest expense and other nonoperating revenues and expenses. Non-operating expenses exceeded revenues in FY16 by $88,000, which was a decrease of $168,000 as compared to FY15, due primarily to the impact of unfavorable market conditions on the fair value of investments $486,000, partially offset by investment income and tower rental revenue of $352,000 and net interest income of 46,000.

Non-operating revenues exceeded expenses in FY17 by $2,174,000, which was an increase of $2,262,000 as compared to FY16, due primarily to the gain on sale of donated property $1,234,000, the impact of favorable market conditions on the fair value of investments $637,000, other investment income and tower rental revenue of $244,000 and net interest income of $59,000.

San Diego State University Transfers

Support from the University increased by $142,000 in FY16 and decreased and $929,000 in FY17. These services were provided without cost and have been allocated to the Stations as shown in the Supplementary Schedule of Total Revenues and Transfers (page 43 of report). 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 increased $41,000 and $138,000 in FY16 and FY17, respectively. Direct support consists primarily of salaries, space rental and utilities. The increase in direct support in 2016 resulted primarily from an increase in personnel costs. The increase in direct support in 2017 resulted from an increase in both utility and personnel costs.

Indirect support received from the University increased $101,000 in FY16 and decreased $1,066,000 in FY17. Indirect support relates to a calculated allocation of campus and Chancellor's office overhead and physical plant costs that benefit the programs of the Stations. During FY17, the Stations were audited by the Inspector General ("IG") of the CPB under a limited scope examination with respect to the indirect support calculation and methodology. While the IG found the Stations to be in substantial compliance with reporting requirements, certain changes to the approach were made consistent with IG recommendations resulting in the FY17 decrease of indirect financial support.

KPBS FM/TV

(A Department of San Diego State University)

STATEMENTS OF NET POSITION

For the Years Ended June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash held by San Diego State University	$ 60,747	$ 25,200
Due from San Diego State University Research Foundation	3,360,679	1,733,972
Accounts receivable (note 4)	3,061,208	4,540,932
Grants receivable	219,772	155,812
Prepaid expenses	309,673	86,076
Total current assets	7,012,079	6,541,992
Noncurrent assets:		
Accounts receivable (note 4)	489,659	366,933
Long-term investments (note 3)	4,928,304	4,714,269
Restricted investments (note 3)	2,775,217	2,364,694
Capital assets, net (notes 5 and 8)	9,734,866	10,202,886
Other assets (note 6)	-	78,895
Total noncurrent assets	17,928,046	17,727,677
Total assets	24,940,125	24,269,669
Deferred outflows of resources	$ -	$ -
Liabilities		
Current liabilities:		
Accounts payable	$ 776,591	$ 715,492
Accrued expenses	1,215,005	1,182,849
Unearned revenue	628,525	860,307
Notes payable, current portion (note 7)	326,152	315,011
Capital lease obligations, current portion (note 8)	462,335	419,264
Total current liabilities	3,408,608	3,492,923
Noncurrent liabilities:		
Unearned revenue, net of current portion	-	97,100
Notes payable, net of current portion (note 7)	495,884	822,036
Capital lease obligations, net of current portion (note 8)	2,022,373	2,149,419
Amount held for others	559,022	558,881
Other liabilities	70,220	108,000
Total noncurrent liabilities	3,147,499	3,735,436
Total liabilities	6,556,107	7,228,359
Commitments and contingencies (notes 5, 8, 9, 10 and 11)		
Deferred inflows of resources	$ -	$ 600,000
Net position		
Net position:		
Net investment in capital assets	6,428,123	6,497,154
Restricted for:		
Nonexpendable - endowments	1,436,299	1,429,076
Expendable:		
Capital campaign	2,013,861	526,451
Annuity trust agreements	268,203	30,820
Program production and airing	234,299	171,163
Scholarship activities	282,745	216,334
Unrestricted	7,720,488	7,570,312
Total net position	$ 18,384,018	$ 16,441,310

The accompanying notes are an integral part of these financial statements.

KPBS FM/TV

(A Department of San Diego State University)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Contributions	$ 21,491,038	$ 20,849,333
Corporation for Public Broadcasting grants (note 2)	3,285,201	3,176,778
Stations-generated support	369,097	546,308
Total operating revenues	25,145,336	24,572,419
Operating expenses (notes 5, 6, 8, 9 and 11):		
Program services:		
Programming and production	12,852,915	12,787,569
Broadcasting	4,584,022	4,764,181
Program information and promotion	772,947	599,566
Total program services	18,209,884	18,151,316
Support services:		
Management and general	3,780,765	3,953,109
Fundraising and membership development	8,025,589	8,458,327
Underwriting	2,466,447	2,441,533
Total support services	14,272,801	14,852,969
Total operating expenses	32,482,685	33,004,285
Operating loss	(7,337,349)	(8,431,866)
Nonoperating revenues (expenses):		
Interest expense (notes 7 and 8)	(96,309)	(118,180)
Interest income, net	154,849	164,274
Net increase (decrease) in fair value of investments	637,430	(486,470)
Gain on sale of donated property	1,234,339	
Other nonoperating revenues	243,795	352,246
Total nonoperating revenues (expenses), net	2,174,104	(88,130)
Loss before transfers	(5,163,245)	(8,519,996)
San Diego State University transfers (note 2):		
Direct financial support	2,348,439	2,210,779
Indirect financial support	4,757,514	5,823,856
Total San Diego State University transfers	7,105,953	8,034,635
Change in net position	1,942,708	(485,361)
Net position, beginning of year	16,441,310	16,926,671
Net position, end of year	$ 18,384,018	$ 16,441,310

The accompanying notes are an integral part of these financial statements.

KPBS FM/TV

(A Department of San Diego State University)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Contributions	$ 21,855,335	$ 20,543,987
Stations-generated support	369,097	546,308
Payments to suppliers	(13,817,640)	(13,346,356)
Payments to employees	(11,700,027)	(11,690,951)
Administrative fees paid to San Diego State University Research Foundation	(788,980)	(766,000)
Corporation for Public Broadcasting grants	3,285,201	3,176,778
Net cash used in operating activities	(797,014)	(1,536,234)
Cash flows from noncapital and related financing activities:		
Transfers from San Diego State University	2,348,440	2,210,779
Decrease (increase) in amounts due from San Diego State University Research Foundation	(1,382,913)	843,656
Net cash provided by noncapital and related financing activities	965,527	3,054,435
Cash flows from capital and related financing activities:		
Payments on long-term debt and capital leases	(734,275)	(731,589)
Additions to long-term debt and capital leases	-	
Interest paid	(138,613)	(168,029)
Purchase of capital assets	(735,408)	(935,413)
Proceeds from sale of donated property	1,307,610	-
Net cash used in capital and related financing activities	(300,686)	(1,835,031)
Cash flows from investing activities:		
Interest income, net	154,849	164,274
Sale of investments	62,920	317,756
Purchase of investments	(50,049)	(140,000)
Net cash provided by investing activities	167,720	342,030
Net increase in cash	35,547	25,200
Cash and cash equivalents held by San Diego State University, beginning of year	25,200	-
Cash and cash equivalents held by San Diego State University, end of year	$ 60,747	$ 25,200

The accompanying notes are an integral part of these financial statements.

KPBS FM/TV

(A Department of San Diego State University)

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (7,337,349)	$ (8,431,866)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Allocated San Diego State University expenses	4,757,514	5,823,856
Depreciation and amortization	1,572,330	1,633,829
(Increase) decrease in assets:		
Accounts receivable	1,356,998	(351,429)
Grants receivable	(63,960)	(17,740)
Prepaid expenses	(223,598)	(47,226)
Other assets	19,616	591
Increase (decrease) in liabilities:		
Due to San Diego State University	-	(294,148)
Accounts payable	61,100	58,680
Accrued expenses	26,856	35,933
Amounts held for others	191	(60,209)
Unearned revenue	(928,932)	124,032
Other liabilities	(37,780)	(10,537)
Net cash used in operating activities	$ (797,014)	$ (1,536,234)
Supplemental disclosure of noncash investing and capital activity:		
Increase (decrease) in fair value of investments	$ 637,430	$ (486,470)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – NATURE OF OPERATIONS

Nature of Organization

KPBS FM/TV ("KPBS" or the "Stations") is engaged in the production, broadcast and distribution of content via public television, radio and the internet. KPBS TV and FM are licensed to the Board of Trustees of the California State University (the "CSU") for San Diego State University ("SDSU" or the "University"). KQVO 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, is an auxiliary organization of the CSU, which under a service agreement provides financial accounting and administrative support to the Stations and includes all of the Stations' accounts, except for certain capital assets, University cash, notes payable and related interest and expenses related to certain State employees in its financial statements. KPBS is a department of the University. Administrative fees paid to SDSU Research Foundation were $788,980 and $766,000, respectively, for the fiscal years ended June 30, 2017 and 2016. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Stated of America (U.S. GAAP), as prescribed by the Governmental Accounting Standards Board ("GASB"). Revenues are recorded when earned, and expenses are recorded when 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.

Classification of Current and Non-current 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 position date. Liabilities that can reasonably be expected, as part of normal operations, to be liquidated within 12 months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

Cash includes funds held by the University. The Stations consider all highly liquid investments with original maturity dates of three months or less to be cash equivalents. For years ending June 30, 2017 and June 30, 2016, there was cash on hand held by the University of approximately $61,000 and $25,000, respectively.

Due from SDSU 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 position.

Account 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 of uncollectible amounts.

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 position as non-operating revenues (expenses).

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 of fair value. Intangible assets consist of the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Asset Impairment

The Station annually evaluates capital assets held for investment. The carrying values of such assets that are considered to be impaired are adjusted accordingly. Management has determined there were no such impairments at June 30, 2017 and 2016.

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 absence of approximately $772,000 and $740,000 for the years ended June 30, 2017 and 2016, respectively, are included in accrued expenses. Liabilities for compensated absences at June 30, 2017 and 2016 include $111,000 and $119,000, respectively, relating to certain KPBS employees funded by the University through direct financial support.

Contributions and Revenue Recognition

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 unearned revenue. The Stations received approximately 85% of their operating revenue from contributions in each of the years ended June 30, 2017 and 2016.

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

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

University Support

Direct financial support received from the University for the years ended June 30, 2017 and 2016 was approximately $2,348,000 and $2,211,000, respectively, and consisted primarily of salaries for management, space rental and utilities.

Indirect support received from the University for the years ended June 30, 2017 and 2016 was approximately $4,758,000 and $5,824,000, 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting ("CPB") is a private, non-profit organization responsible for grant funding to more than 1,000 television and radio stations. The CPB distributes annual Community Service Grant ("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. The Stations have typically 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. In addition, the grant may be used to sustain activities that 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, financing 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 \$3,285,000 and \$3,177,000 in grant revenue from the CPB in the years ended June 30, 2017 and 2016, respectively.

Unearned Revenue

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

Fundraising and Membership Development

Fundraising and membership development expenses are from fundraising activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Position

The Stations' net position is classified into the following net position categories:

Net investment in capital assets

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 – non-expendable

Assets subject to externally imposed conditions that require the Stations to retain them in perpetuity.

Restricted – expendable

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 position. In addition, unrestricted 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.

Classification of Revenues and Expenses

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

Functional Expense Allocations

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or support service. Expenses applicable to more than one activity, such as personnel and certain grouped amounts, are allocated among the related program or support service based upon an evaluation from management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Interfund Eliminations

According to KPBS policy, all interfund transactions have been eliminated in the accompanying financial statements.

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 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 that is not in furtherance of their tax-exempt purposes. The Stations are engaged in activities that produce unrelated business income, such as the sales or license of certain products and services and web advertising. The Stations had no tax liability for the years ended June 30, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenue, gains and other support and expenditures and deductions during the reporting period. Actual results could differ from those estimates.

Liabilities for Amounts Held for Others

KPBS serves as trustee and administrators for a trust arrangement whereby the beneficial interest is shared with other parties. The arrangement generally requires payment of annual trust income to the income beneficiary over the term of the trust with the remainder portion of the assets reverting to KPBS. The liability for amounts held for others on the statements of net position represents the present value of the estimated future payments to be distributed to these beneficiaries.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Stations have no amounts that qualify as deferred outflows of resources at June 30, 2017 or June 30, 2016.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statements in order to conform to the presentation as of June 30, 2017. These reclassifications had no effect on results of operations.

Pronouncements Issued

For the year ended June 30, 2017, KPBS implemented the following GASB statements which implementation did not have a significant impact on the financial statements:

- GASB Statement No. 74, Financial Reporting for Postemployment Government Combinations and Disposals of Government Operations (effective for the year ended June 30, 2017)

- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (effective for the year ended June 30, 2017)

- GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (effective for the year ended June 30, 2017)

- GASB Statement No. 81, Irrevocable Split-Interest Agreements (effective for the year ended June 30, 2017)

- GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 (effective for the ended June 30, 2017)

For the year ended June 30, 2016, KPBS implemented the following GASB statements which did not have a significant impact on the financial statements:

- GASB Statement No. 72, Fair Value Measurement and Application (effective for the year ended June 30, 2016)

- GASB Statement No. 77, Tax Abatement (effective for the year ended June 30, 2016)

- GASB Statement No. 79, Certain External Investment Pools and Pool Participants (effective for the year ended June 30, 2016)

GASB Statement No. 72 contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques used for fair value measurements. All required disclosures were added to Note 3.

The GASB has issued the following statements:

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (effective for the year ending June 30, 2018)

- GASB Statement No. 83, Certain Asset Retirement Obligations (effective for the year ending June 30, 2019)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- GASB Statement No. 84, Fiduciary Activities (effective for the year ending June 30, 2020)
- GASB Statement No. 85, Omnibus 2017 (effective for the year ending June 30, 2018)
- GASB Statement No. 86, Certain Debt Extinguishment Issues (effective for the year ending June 30, 2018)
- GASB Statement No. 87, Leases (effective for the year ending June 30, 2021)

Management has not determined what, if any, impact implementation of these standards may have on the financial statements of KPBS.

NOTE 3 – INVESTMENTS

Investment Policy

KPBS's investments are part of a unitized investment pool managed by SDSU Research Foundation. The primary objective of the investment policy of SDSU Research Foundation is to protect the underlying assets so that the funds are available when needed by various projects and programs. A secondary objective is to maximize investment income on available investments. Investment income is considered expendable when earned unless directed otherwise by donor restriction. Various policies have been adopted to meet these objectives at the same time. Specific references are included below under various risk categories. In general, operating funds are limited in maturity ranges and type of debt instrument.

Investments as of June 30 were as follows:

	2017	2016
Long-term investments	$ 4,928,304	$ 4,714,269
Restricted assets, investments	2,775,217	2,364,694
	$ 7,703,521	$ 7,078,963

The Stations categorize its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

NOTE 3 – INVESTMENTS - Continued

- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following tables summarize KPBS' investments within the fair value hierarchy at June 30, 2017 and 2016, respectively.

June 30, 2017	Fair Value	Level 1	Level 2	Level 3
Deferred Gifts	$ 1,235,045	$ 1,235,045	$ -	$ -
TCF Endowment Pool	6,352,062	-	-	6,352,062
Amounts Held by Other	116,414	-	-	116,414
	$ 7,703,521	$ 1,235,045	$ -	$ 6,468,476

June 30, 2016	Fair Value	Level 1	Level 2	Level 3
Deferred Gifts	$ 1,157,655	$ 1,157,655	$ -	$ -
TCF Endowment Pool	5,814,628	-	-	5,814,628
Amounts Held by Other	106,680	-	-	106,680
	$ 7,078,963	$ 1,157,655	$ -	$ 5,921,308

The following is a description of the valuation methodologies used for assets measured at fair value:

- Level 1 Measurements

  Deferred Gifts – based on quoted prices available in an active market. The deferred gift is invested in a portfolio of cash, equity securities, fixed income securities, and real estate funds designed to provide a moderate amount of current income with moderate growth of capital.

- Level 3 Measurements

  TCF Endowment Pool – SDSU Research Foundation invests in the TCF Endowment Pool, a unitized pool managed by TCF, another university auxiliary organization. The fair value is calculated as SDSU Research Foundation's share of the pool as of the measurement date, which is based on the fair value of the underlying assets owned by the fund divided by the number of units outstanding.

  Amounts Held By Others – SDSU Research Foundation is the beneficiary of certain trusts held in an endowment portfolio managed by a community foundation. The fair value is calculated based on the fair value of the underlying assets owned by the fund.

The Campanile Foundation Pools

The TCF Endowment Pool has significant investments in various mutual funds and third-party investment pools. The primary investment categories as of June 30, 2017 and 2016, respectively, were stocks (58% and 57%), fixed income (24% and 24%), and alternative investments, real estate and cash equivalents (18% and 19%); therefore, it is subject to concentrations of credit risk. Investment decisions are made by the Finance and Investment Committee of the TCF Board of Directors in consultation with an external investment consultant/advisor. Additionally, the investments are monitored by the external consultant/advisor.

NOTE 3 – INVESTMENTS – Continued

The TCF Deferred Gifts (gift annuities) are invested primarily in fixed income and low-risk equities with the long-term investment portfolio designed to minimize risk and maintain the ability to meet the payment obligations to the beneficiaries as determined in the gift agreements.

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. In order to reduce interest rate risk exposure, SDSU Research Foundation's investment policy states that individually held working capital and debt reserve fixed income investments are limited to a five-year maturity and should be staggered over various maturity dates.

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. SDSU Research Foundation's investment policy requires that fixed income investments must be rated as "Investment Grade," which is BBB or higher. Credit ratings by nationally recognized institutions are used to assess the creditworthiness of specific investments. Federal agency issues, bond index fund, intermediate term fund, and money market funds do not have a rating provided by a nationally recognized statistical rating organization. The range of ratings of corporate bonds is BBB to AA+.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Securities issued by federally sponsored enterprises are purchased to reduce the possibility of a loss due to a concentration of credit. SDSU Research Foundation investment policy contains no limitations as to how much can be invested with any one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that SDSU Research Foundation will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of SDSU Research Foundation's operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation (FDIC) insured limits; however, the depository bank has agreed to maintain collateral of at least 110% of the balance on deposit. In accordance with SDSU Research Foundation's investment policy, all certificates of deposit are FDIC insured and limited to $250,000 at any one institution.

Custodial credit risk for investments is the risk that if the counterparty to an investment transaction were to fail, SDSU Research Foundation would not be able to recover its investment. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds, government investment pools and the Intermediate Term Fund. U.S. Treasury issues and Federally Sponsored Enterprise Issues are held by Securities Investor Protection Corporation (SIPC) insured brokers and are not registered with the issuer in SDSU Research Foundation's name.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, consisted of the following:

	2017	
	Current	**Noncurrent**
Underwriter receivables	$ 2,489,441	$ 378,428
Other receivable	601,767	111,231
Allowance	(30,000)	-
	$ 3,061,208	$ 489,659

	2016	
	Current	**Noncurrent**
Underwriter receivables	$ 3,152,321	$ 255,702
Other receivable	1,418,611	111,231
Allowance	(30,000)	-
	$ 4,540,932	$ 366,933

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Retirements/ Transfers	Balance June 30, 2017
Nondepreciable capital assets:				
Construction in progress [b]	$ 489,087	$ 378,354	$ -	$ 867,441
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	1,159,087	378,354	-	1,537,441
Depreciable capital assets:				
Building under capital lease [a]	13,567,117	-	-	13,567,117
Studio/broadcast equipment	12,596,777	583,804	(23,969)	13,156,612
Furniture and fixtures	1,596,614	109,207	-	1,705,821
Transmission/antenna/tower	3,868,045	-	(2,361)	3,865,684
Total depreciable capital assets	31,628,553	693,011	(26,330)	32,295,234
Less accumulated depreciation:				
Building under capital lease	8,488,371	659,817	-	9,148,188
Studio/broadcast equipment	10,110,452	657,510	(23,969)	10,743,993
Furniture and fixtures	1,528,296	38,408	-	1,566,704
Transmission/antenna/tower	2,457,635	183,650	(2,361)	2,638,924
Total accumulated depreciation	22,584,754	1,539,385	(26,330)	24,097,809
Total depreciable assets	9,043,799	(846,374)	-	8,197,425
Net capital assets	$ 10,202,886	$ (468,020)	$ -	$ 9,734,866

NOTE 5 – CAPITAL ASSETS – Continued

	Balance June 30, 2015	Additions	Retirements/ Transfers	Balance June 30, 2016
Nondepreciable capital assets:				
Construction in progress [b]	$ 517,131	$ 397,714	$ (425,758)	$ 489,087
KQVO radio station license	670,000	-	-	670,000
Total nondepreciable capital assets	1,187,131	397,714	(425,758)	1,159,087
Depreciable capital assets:				
Building under capital lease [a]	13,567,117	-	-	13,567,117
Studio/broadcast equipment	11,773,814	955,083	(132,120)	12,596,777
Furniture and fixtures	1,588,240	8,374	-	1,596,614
Transmission/antenna/tower	3,868,045	-	-	3,868,045
Total depreciable capital assets	30,797,216	963,457	(132,120)	31,628,553
Less accumulated depreciation:				
Building under capital lease	7,813,012	675,359	-	8,488,371
Studio/broadcast equipment	9,535,839	706,733	(132,120)	10,110,452
Furniture and fixtures	1,481,947	46,349	-	1,528,296
Transmission/antenna/tower	2,254,247	203,388	-	2,457,635
Total accumulated depreciation	21,085,045	1,631,829	(132,120)	22,584,754
Total depreciable assets	9,712,171	(668,372)	-	9,043,799
Net capital assets	$ 10,899,302	$ (270,658)	$ (425,758)	$ 10,202,886

(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, 2017 and 2016 was approximately $2,840,000 and $3,230,000, respectively.

(b) Construction in progress at June 30, 2017 is primarily related to the membership database conversion project (iMIS).

Depreciation expense totaled approximately $1,539,000 and $1,632,000 for the years ended June 30, 2017 and 2016, respectively, and was allocated among expenses in the accompanying statements of revenues, expenses and changes in net assets, as follows:

	2017	2016
Program Services	$ 841,160	$ 910,121
Support Services	698,225	721,708
Total depreciation	$ 1,539,385	$ 1,631,829

NOTE 6 – OTHER ASSETS

Other assets included a leasehold interest valued at $59,000 as of June 30, 2016 which was sold in February 2017 for $1,400,000, resulting in a gain of approximately $1,234,000. The Stations were amortizing the contributed value of the building over the lease period. Amortization expense totaled $0 and $2,000 for the fiscal years ended June 30, 2017 and 2016, respectively.

NOTE 7 – LONG-TERM DEBT OBLIGATIONS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Notes payable	$ 1,137,047	$ -	$ (315,011)	$ 822,036	$ 326,152

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Notes payable	$ 1,441,300	$ -	$ (304,253)	$ 1,137,047	$ 315,011

In July 2010, KPBS entered into a financing agreement with the University that provided internal financing to KPBS to enable the purchase of digital production and editing equipment in the amount of $2,000,000. Annual principal and interest payments were 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
2018	$ 280,743	$ 19,256	$ 299,999
2019	269,438	9,429	278,866
	$ 550,181	$ 28,685	$ 578,865

Interest incurred on the note payable amounted to $26,233 and $35,228 for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 – LONG-TERM DEBT OBLIGATIONS – Continued

In April 2015, KPBS entered into a financing agreement with the University that provided internal financing to KPBS to enable the purchase of audio board equipment in the amount of $357,792. Annual principal and interest payments are required each April and October through 2022. Payments are secured by KPBS operating fund allocations provided by the University. The note payable bears interest at a fixed rate of 3.7%. Aggregate annual payments under this financing agreement are as follows:

Years Ending June 30:	Principal	Interest	Total
2018	$ 45,409	9,717	55,126
2019	47,118	8,008	55,126
2020	48,891	6,235	55,126
2021	50,731	4,395	55,126
2022	52,640	2,486	55,126
2023	27,066	504	27,570
	$ 271,855	$ 31,345	$ 303,200

Interest incurred on the note payable amounted to $10,956 and $12,951 and for the years ended June 30, 2017 and June 30, 2016, respectively.

NOTE 8 – COMMITMENTS

(a) Capital Leases

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 SDSU Research Foundation's 1999 Revenue Refunding Bonds. On April 5, 2010, the California State University system issued system-wide 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 $47,000 for each of the years ended June 30, 2017 and 2016.

NOTE 8 – COMMITMENTS – Continued

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.

Capitalized Licensed Software

During the year ended June 30, 2012, the University purchased a software package under a five-year lease for KPBS broadcasting and radio needs. Payments were due annually through 2017 for the use of the software. As of June 30, 2017, KPBS renewed this lease for an additional five-year period with payments due annually through 2022.

During the year ended June 30, 2015, the University purchased software under a two-year lease with payments due annually through 2017. As of June 30, 2017, KPBS renewed this lease for an additional two-year period with payments due annually through 2019.

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Capital lease obligation	$ 2,235,445	$ 398,346	$ (434,717)	$ 2,199,074	$ 462,335
Unamortized refinancing gain	333,238	-	(47,604)	285,634	-
	$ 2,568,683	$ 398,346	$ (482,321)	$ 2,484,708	$ 462,335

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Capital lease obligation	$ 2,662,782	$ -	$ (427,337)	$ 2,235,445	$ 419,264
Unamortized refinancing gain	380,844	-	(47,606)	333,238	-
	$ 3,043,626	$ -	$ (474,943)	$ 2,568,683	$ 419,264

NOTE 8 – COMMITMENTS – Continued

The following is a schedule of the future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2017:

Years Ending June 30:	Principal	Interest	Total
2018	$ 462,335	$ 83,123	$ 545,458
2019	453,933	77,887	531,820
2020	323,530	56,847	380,377
2021	323,774	40,912	364,686
2022	341,144	24,710	365,854
Thereafter	294,358	7,360	301,718
	$ 2,199,074	$ 290,839	$ 2,489,913
Unamortized refinancing gain	285,634		
	$ 2,484,708		

(b) Operating Leases

KPBS leases certain equipment, land, and building and transmitter space under non-cancellable operating leases, which expire on various dates through January 2099. The current monthly rental payments range from approximately $270 to $14,600 and several of the agreements allow for annual increases in the base rent. KPBS incurred rental expense for the years ended June 30, 2017 and 2016 of $492,000 and $428,000, respectively.

The total minimum rental commitment at June 30, 2017 under the leases mentioned above is due as follows:

Years Ending June 30:	
2018	$ 502,138
2019	505,700
2020	258,727
2021	264,085
2022	269,605
Thereafter	845,399
	$ 2,645,654

NOTE 9 – POSTRETIREMENT BENEFIT PLAN

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.

The Health, Vision, Life Insurance/AD&D and Employee Assistance Program of San Diego State University Foundation (the Plan) was created by SDSU Research Foundation as a fully insured, single-employer benefit plan. The Plan was effective as of August 1, 1982. It also provides for post-retirement medical benefits to certain former regular employees and qualified dependents of the SDSU Research Foundation. On June 24, 1996, SDSU Research Foundation established a voluntary employees' beneficiary association trust (the VEBA) with a registered investment company. The VEBA holds the assets and funds the post-retirement benefit obligation provided under the plan. The plan issues stand-alone, publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by contacting the Human Resources Department at SDSU Research Foundation.

There are three groups of eligible retirees, as follows:

- Group 1 Retirees – Individuals who were employed as eligible employees on June 30, 1991 and at the time of retirement, had 10 years of service as eligible employees, and retired either (a) under "SDSURF

  Defined Contribution Retirement Plan" offered through Teachers Insurance and Annuity Association (TIAA) after attaining age 55 (or after attaining age 50 if the individual was employed by SDSU Research Foundation and covered by California Public Employees' Retirement System (CalPERS) on June 30, 1982), or (b) due to permanent and total disability, as approved by TIAA, under the "Group Total Disability Benefits Plan for Regular Salaried Employees of SDSURF."

- Group 2 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 eligible employees, and retired either (a) under "SDSURF Defined Contribution Retirement Plan" offered through TIAA after attaining age 60, or (b) due to permanent total disability, as approved by TIAA, under the "Group Total Disability Benefits Plan for Regular Salaries Employees of SDSURF."

- Group 3 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 SDSU Research Foundation's Board of Directors on May 14, 1984.

For Group 3 retirees, SDSU Research Foundation pays the same percentage of the premium it pays for active employees. Retirees are required to make the same contribution for spousal or domestic partner coverage, if any, that is paid by active employees to cover one dependent. For Group 1 and 2 retirees, SDSU Research Foundation's premium contribution is based upon the cost of the least expensive plan for which the retiree is eligible. The amount of contribution is determined by the years of service the employee has earned on the date of retirement in accordance with the vesting schedule within the policy. The minimum retiree contribution for individual coverage is the amount an active employee pays for individual coverage. The minimum retiree contribution for spousal or domestic partner coverage is the amount paid by active employees to cover one dependent.

NOTE 9 – POSTRETIREMENT BENEFIT PLAN – Continued

Only certain regular employees of SDSU Research Foundation are eligible. Regular employees are members of either (a) central staff under the programmatic direction of SDSU Research Foundation's Executive Director, (b) KPBS, (c) the College of Extended Studies, (d) University Advancement or (e) the University's Department of Intercollegiate Athletics. A regular employee is appointed to an approved class code, works a regular schedule of 30 hours or more per week, and is not a temporary or leased employee. No contributions to fund the future liability of the plan are required from employees. Amounts charged to KPBS from SDSU Research Foundation for other postretirement benefits totaled $100,493 and $62,843 for the years ended June 30, 2017 and 2016, 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 has voluntarily opted for a funding policy under which it contributes 100% of the actuarially determined annual required contribution (ARC); therefore, there was no net Other Post-retirement Benefits (OPEB) obligation at June 30, 2017, nor 2016. The fair value of assets held by the VEBA trust for the years ended June 30, 2017 and 2016 were $10,862,000 and $9,643,000, respectively. The actuarially determined contribution amounts for the years ended June 30, 2017 and 2016 were $247,957 and $137,689, respectively.

For the Stations' staff employed through the 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 that 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.

SDSU Research Foundation issues a separate financial report for the Health, Vision, Life / AD&D and Employee Assistance Program that includes further information on the postretirement 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.

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 $447,145 and $411,956 for the years ended June 30, 2017 and 2016, 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.

NOTE 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 position as a result of these matters.

NOTE 10 – CONTINGENCIES – Continued

On September 29, 2013 a petition was filed with the United States Government National Labor Relations Board to recognize certain non-management content development staff as a collective bargaining unit under Screen Actors Guild – American Federal of Television and Radio Artists ("SAG-AFTRA"). On November 18, 2013 the bargaining unit vote was held, affirming the collective bargaining unit and recognizing SAG-AFTRA as the representative. A collective bargaining agreement was reached between the parties executed July 16, 2015. The agreement expires December 31, 2017.

NOTE 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 the 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 CSU 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 $1,500,000 and excess workers' compensation coverage for claims in excess of $250,000 per occurrence.

Insurance through the University is included in the 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 $77,200 and $86,000 for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 – SUBSEQUENT EVENTS

During the year ended June 30, 2017, the Stations were audited by the Inspector General ("IG") of the Corporation for Public Broadcasting ("CPB") under a limited scope examination with respect to the indirect financial support calculation and methodology for the year ended June 30, 2016. While the IG found the Stations to be in substantial compliance with reporting requirements, certain changes to the approach were made consistent with IG recommendations. On September 22, 2017 the IG issued their final report which provides, among other things, that the 2018 Community Service Grant be reduced for potential overpayment of approximately $126,000 and that CPB officials make a final determination on the findings and recommendations within 180 days of the issuance of the report. The Stations have presented the indirect financial support calculation for the fiscal year ended June 30, 2017 in accordance with IG calculation and methodology recommendations.

NOTE 12 – SUBSEQUENT EVENTS – Continued

In April 2017, KPBS was notified by the Federal Communications Commission ("FCC") it had been selected for a television channel reassignment. Under the Spectrum Act, the FCC will reimburse costs reasonably incurred by broadcast television licensees reassigned to new channels. FCC guidelines require the channel move completion by April 12, 2019. KPBS costs associated with this reassignment are approximately $1,035,000. Subject to fund availability constraints, the FCC will issue initial allocations equivalent of up to 90% of estimated costs eligible for reimbursement. Prior to the end of the three-year reimbursement period, the FCC will issue a final allocation, if appropriate, based on actual documented costs.

The Stations have evaluated subsequent events through November 22, 2017, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

KPBS FM/TV
(A Department of San Diego State University)

SUPPLEMENTARY SCHEDULE OF DIRECT AND INDIRECT SUPPORT

For the years ended June 30,

	KPBS Excluding Direct and Indirect Transfers	SDSU Transfers Direct	SDSU Transfers Indirect	KPBS Combined
Operating revenues:				
Contributions	$ 21,491,038	$ -	$ -	$ 21,491,038
Corporation for Public Broadcasting grants	3,285,201	-	-	3,285,201
Stations-generated support	369,097	-	-	369,097
Total operating revenues	25,145,336	-	-	25,145,336
Operating expenses:				
Program services:				
Programming and production	10,640,249	-	2,212,666	12,852,915
Broadcasting	3,118,086	989,097	476,839	4,584,022
Program information and promotion	561,041	94,886	117,020	772,947
Total program services	14,319,376	1,083,983	2,806,525	18,209,884
Support services:				
Management and general	2,336,999	1,110,712	333,054	3,780,765
Fundraising and membership development	6,671,619	153,744	1,200,226	8,025,589
Underwriting	2,048,738	-	417,709	2,466,447
Total support services	11,057,356	1,264,456	1,950,989	14,272,801
Total operating expenses	25,376,732	2,348,439	4,757,514	32,482,685
Operating loss	(231,396)	(2,348,439)	(4,757,514)	(7,337,349)
Nonoperating revenues (expenses):				
Interest expense	(96,309)	-	-	(96,309)
Interest income, net	154,849	-	-	154,849
Net increase in fair value of investments	637,430	-	-	637,430
Gain on Sale of Donated Property	1,234,339	-	-	1,234,339
Other nonoperating revenue	243,795	-	-	243,795
Total nonoperating revenues, net	2,174,104	-	-	2,174,104
Income (loss) before transfers	1,942,708	(2,348,439)	(4,757,514)	(5,163,245)
San Diego State University transfers:				
Direct financial support	-	2,348,439	-	2,348,439
Indirect financial support	-	-	4,757,514	4,757,514
Total San Diego State University transfers	-	2,348,439	4,757,514	7,105,953
Change in net assets	$ 1,942,708	$ -	$ -	$ 1,942,708
Net position, beginning of year				16,441,310
Net position, end of year				$ 18,384,018

KPBS FM/TV
(A Department of San Diego State University)

SUPPLEMENTARY SCHEDULE OF TOTAL REVENUES AND TRANSFERS

For the years ended June 30,

	2017	2016	2015	2014	2013
Operating revenues:					
Contributions	$ 21,491,038	$ 20,849,333	$ 20,129,094	$ 17,867,553	$ 18,234,056
Corporation for Public Broadcasting grants	3,285,201	3,176,778	3,250,579	3,011,838	2,523,290
Stations-generated support	369,097	546,308	668,942	643,312	1,021,803
Total operating revenues	25,145,336	24,572,419	24,048,615	21,522,703	21,779,149
Nonoperating revenues and transfers:					
San Diego State University transfers:					
Direct financial support	2,348,439	2,210,779	2,169,574	2,060,662	2,182,689
Indirect financial support	4,757,514	5,823,856	5,722,695	5,030,965	4,717,664
Total San Diego State University transfers	7,105,953	8,034,635	7,892,269	7,091,627	6,900,353
Nonoperating revenues					
Interest income, net	154,849	164,274	148,432	140,364	207,019
Net increase (decrease) in fair value of investments	637,430	(486,470)	67,176	798,097	489,982
Gain on Sale of Donated Property	1,234,339	-	-	-	-
Other nonoperating revenues (expenses)	243,795	352,246	(6,599)	-	(20,136)
Total nonoperating revenues, net	2,270,413	30,050	209,009	938,461	676,865
Total revenues and transfers	**$ 34,521,702**	**$ 32,637,104**	**$ 32,149,893**	**$ 29,552,791**	**$ 29,356,367**