



KNME-TV
(A Department of the University of New Mexico)
Financial Statements
June 30, 2012 and 2011
(With Independent Auditors' Report Thereon)

KNME-TV
(A Department of the University of New Mexico)

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KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

The Board of Directors
KNME-TV:

We have audited the accompanying statements of net assets of KNME-TV (the Station), a department of the University of New Mexico (UNM), as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in notes 1 and 2, the financial statements of the Station, a department of UNM, are intended to present the financial position, and changes in its financial position and cash flows, of only that portion of the business-type activities of UNM that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of UNM as of June 30, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended, in conformity with U.S generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

KPMG LLP

December 21, 2012

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Management's Discussion and Analysis
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The following discussion and analysis provides an overview of the financial position and activities of KNME-TV (the Station) for the fiscal years ended June 30, 2012, 2011, and 2010. This discussion should be read in conjunction with the accompanying financial statements and notes. Additional information can be found in the Station's annual report to the Corporation for Public Broadcasting (CPB).

Overview of the Operations

The Station is an unincorporated entity operating under a co-license issued by the Federal Communications Commission (FCC) to The University of New Mexico (UNM) and Albuquerque Public Schools (APS). The Station was created through a joint powers agreement between UNM and APS. Annually, the Station receives significant grants from the CPB, a private, nonprofit corporation created by Congress in 1967. Its mission is to facilitate the development of, and ensure universal access to, noncommercial high-quality programming and educational telecommunications services.

Overview of the Financial Statements

The statements of net assets include the assets, liabilities, and net assets of the Station as of the end of each fiscal year. It is a point-in-time statement and provides both long-term and short-term fiscal information about the Station's investments in resources (assets), obligations (liabilities), and net assets (assets minus liabilities). It also provides the basis for evaluating the capital structure of the Station and assessing its liquidity and financial flexibility.

The statements of revenues, expenses, and changes in net assets present the results of operations of the Station for the fiscal years ended June 30, 2012 and 2011. It includes both the operating and nonoperating revenues and expenses. This statement measures the activity of the Station's telecommunications, education, and outreach services and can be used to determine whether the Station has recovered all its costs through member donations, business underwriting support, grants, production services, and other revenue-generating activities.

The statements of cash flows provide information about the sources and uses of cash by the Station. The statement reports cash receipts, cash payments, and net changes in cash resulting from operational, fundraising, and business activities, and the change in cash during the reporting period. It is summarized in categories consisting of operating, capital financing, and investing activities.

The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the financial statements. The notes present information about the Station's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

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Condensed Financial Information

	Year ended June 30		
	2012	2011	2010
Statement of net assets:			
Current assets	\$ 6,029,116	4,127,841	3,554,818
Restricted assets	1,164,189	1,154,770	1,072,707
Capital assets, net	2,935,044	2,717,577	2,477,993
Other noncurrent assets	591,491	641,983	599,810
Total assets	<u>\$ 10,719,840</u>	<u>8,642,171</u>	<u>7,705,328</u>
Current liabilities	\$ 3,575,573	3,108,677	2,733,313
Noncurrent liabilities	1,166,668	666,668	1,166,668
Total liabilities	<u>4,742,241</u>	<u>3,775,345</u>	<u>3,899,981</u>
Net assets:			
Invested in capital assets, net of related debt	2,935,044	2,717,577	2,477,993
Restricted	1,061,992	1,043,606	988,921
Unrestricted (deficit)	1,980,563	1,105,643	338,433
Total net assets	<u>5,977,599</u>	<u>4,866,826</u>	<u>3,805,347</u>
Total liabilities and net assets	<u>\$ 10,719,840</u>	<u>8,642,171</u>	<u>7,705,328</u>
Statement of revenues, expenses and changes in net assets:			
Total operating revenues	\$ 8,334,018	8,172,542	8,096,592
Total operating expenses	9,353,593	8,919,880	9,010,481
Total nonoperating revenues	1,006,948	1,308,985	1,297,478
Total other revenues	1,123,400	499,832	78,024
Change in net assets	<u>\$ 1,110,773</u>	<u>1,061,479</u>	<u>461,613</u>

Current Assets and Liabilities

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year. Cash and prepaid broadcast rights are the most significant current assets of the Station totaling \$5,757,023, \$3,816,962, and \$3,190,549 as of June 30, 2012, 2011, and 2010, respectively. Total current assets of \$6,029,116 at June 30, 2012 increased from the prior year current assets of \$4,127,841 largely due to an increase in cash and cash equivalents. Current assets increased from \$3,554,818 as of June 30, 2010 also due to an increase in cash and cash equivalents.

Current liabilities include amounts and obligations due by the Station within one year, and are primarily made up of accounts payable, payroll accruals, and deferred revenues. Deferred revenues were \$3,255,997, \$2,906,250, and \$2,481,621 at June 30, 2012, 2011, and 2010, respectively. The deferred revenues increased by approximately \$349,747 due to the receipt of funds in 2012 that have not been recognized as revenue. Similarly,

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deferred revenues increased by \$424,629 in the fiscal year ended June 30, 2011 due to funds received in 2011 that have not been recognized as revenue.

At June 30, 2012, 2011, and 2010, the Station's current assets of \$6,029,116, \$4,127,841, and \$3,554,818 were sufficient to cover current liabilities of \$3,575,573 (current ratio of 1.69), \$3,108,677 (current ratio of 1.33), and \$2,733,313 (current ratio of 1.30), respectively.

Restricted Assets

For the fiscal years ended June 30, 2012, 2011, and 2010, restricted asset balances were \$1,164,189, \$1,154,770, and \$1,072,707, respectively. The increases from June 30, 2011 to June 30, 2012 and from June 30, 2010 to June 30, 2011 reflect gains and contributions related to the endowment investments.

Noncurrent Assets

Capital assets are the largest component of noncurrent assets. Capital assets, net of accumulated depreciation, increased from \$2,717,577 at June 30, 2011 to \$2,935,044 at June 30, 2012, mainly due to depreciation expense of \$703,535 offset by additions of \$925,109 (note 4). Additionally, equipment with a net book value of \$4,107 was disposed of in the fiscal year ended June 30, 2012. The increase in net capital assets from \$2,477,993 at June 30, 2010 to \$2,717,577 at June 30, 2011 was mainly due to depreciation expense of \$730,127 offset by additions of \$920,590 for the fiscal year 2011.

As a result of scheduled amortization, the noncurrent portion of a prepaid lease has decreased \$39,850 each year, from \$412,919 to \$373,069 to \$333,219 as of June 30, 2010, 2011, and 2012, respectively (note 3).

Noncurrent Liabilities

The Sprint Lease accounts for \$1,666,668 of the total deferred revenues as of June 30, 2012, \$1,166,668 as of June 30, 2011, and \$1,666,668 as of June 30, 2010. Of each of these totals, \$500,000 is included in the current portion of deferred revenue because this amount will be earned within the next 12 months; the remaining balances are categorized as noncurrent deferred revenue because recognition as revenue will occur after 12 months.

Net Assets

Total net assets are classified as restricted or unrestricted based on uses stipulated in contract or grant agreements as well as donor instructions. Restricted nonexpendable assets include true endowments. Unrestricted net assets may be used to meet all operating needs of the Station. The net assets of the Station have increased from \$3,805,347 to \$4,866,826 to \$5,977,599 as of June 30, 2010, 2011, and 2012, respectively. The increase in net assets from fiscal year 2010 to fiscal year 2011 is due to increased donations from the public, increase in bequests, gains in the investment portfolio, and a reduction in operating expenditures. The increase in net assets from fiscal year 2011 to fiscal year 2012 is due to an increased support from APS, an increase in capital grants, and increased bequests from planned gifts.

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Results of Operations

Operating revenues of \$8,334,018 in the current fiscal year increased by approximately 2% from the prior fiscal year operating revenues of \$8,172,542 as a result of increases in noncash administrative support revenues from UNM and from bequests of planned gifts. These increases were partially offset by decreases in membership income, Corporation for Public Broadcasting and other grants, production services, and translator leases. The Station's operating revenues for the fiscal year ended June 30, 2010 of \$8,096,592 increased by approximately 1% to \$8,172,542 for the fiscal year ended June 30, 2011, primarily due to the increases in membership income, production services, noncash administrative support revenues from UNM, CPB grants, and bequests from planned gifts. These increases were offset slightly by decreases in other grants and by reduced contributions from business and industry.

Total operating expenses for the fiscal year ended June 30, 2012 of \$9,353,593 increased from the prior year operating expenses of \$8,919,880, primarily due to increased expenses for programming and production, broadcasting and engineering infrastructure, promotions and public information, management and general, and underwriting and grant solicitation. Total operating expenses for the fiscal year ended June 30, 2011 of \$8,919,880 decreased from the prior year primarily due to a decline in salaries and wages amid a reduction in personnel, and a drop in programming and production expenses.

The Station's management and general support services expenses, which include wages, retirement and insurance, as well as support from UNM, were 30%, 29%, and 29% of total operating expenses for fiscal years ended June 30, 2012, 2011, and 2010, respectively. Support from UNM includes noncash administrative support as well as utility and infrastructure costs paid. The administrative support from UNM increased from \$1,787,752 in 2011 to \$1,957,839 in 2012 due a calculated increase in noncash administrative support, infrastructure upgrades, and increased utility costs. The increase in administrative support from UNM \$1,707,130 in 2010 to \$1,787,752 in 2011 was due to increased utility costs.

Factors Affecting Future Periods

KNME's operating budget is heavily dependent on support from its members. During the fiscal year ended June 30, 2012, a new development software system was implemented which will result in better service to members, more efficient fundraising, and savings in operating costs. Coupled with the past two year trends of increased membership support, the trend for fundraising continues to look favorable.

Contacting the Company's Financial Management

If you have questions about this report or need additional financial information, you may contact the Director of Finance and Administration at KNME, 1130 University Blvd. NE, Albuquerque, New Mexico 87102 or (505) 277-2121.

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Statements of Net Assets
June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 5,299,661	3,418,075
Accounts receivable, less allowance for doubtful accounts of \$23,000 in 2012 and \$13,000 in 2011, respectively	93,912	119,483
Grants receivable	40,754	32,063
Prepaid broadcast rights	457,362	398,887
Prepaid lease (note 3)	39,850	39,850
Prepaid, other	44,921	43,393
Other assets	52,656	76,090
Total current assets	<u>6,029,116</u>	<u>4,127,841</u>
Restricted assets:		
Investments	<u>1,164,189</u>	<u>1,154,770</u>
Noncurrent assets:		
Capital assets (note 4):		
Buildings	890,513	890,513
Equipment	10,485,039	11,427,015
	<u>11,375,552</u>	<u>12,317,528</u>
Accumulated depreciation	<u>(8,440,508)</u>	<u>(9,599,951)</u>
Capital assets, net	2,935,044	2,717,577
Prepaid broadcast rights	258,272	268,914
Prepaid lease (note 3)	333,219	373,069
Total noncurrent assets	<u>3,526,535</u>	<u>3,359,560</u>
Total assets	<u>\$ 10,719,840</u>	<u>8,642,171</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 94,608	16,137
Accrued payroll and related liabilities	224,968	186,290
Deferred revenue	3,255,997	2,906,250
Total current liabilities	<u>3,575,573</u>	<u>3,108,677</u>
Noncurrent liabilities:		
Deferred revenue	<u>1,166,668</u>	<u>666,668</u>
Total liabilities	<u>4,742,241</u>	<u>3,775,345</u>
Commitments and contingencies (notes 5, 7, and 8)		
Net assets:		
Invested in capital assets, net of related debt	2,935,044	2,717,577
Restricted:		
Expendable	990,096	988,919
Nonexpendable	71,896	54,688
Unrestricted	1,980,563	1,105,642
Total net assets	<u>5,977,599</u>	<u>4,866,826</u>
Total liabilities and net assets	<u>\$ 10,719,840</u>	<u>8,642,171</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Membership income	\$ 2,515,410	2,558,122
Business and industry contributions	538,154	512,029
Albuquerque public schools funding	20,000	20,000
Corporation for Public Broadcasting grants	1,232,124	1,286,484
University of New Mexico administrative support (note 6)	1,957,839	1,787,752
Other grants	314,580	389,135
Production services	314,089	320,574
Spectrum royalties and translator leases	753,018	760,321
Bequests	648,682	519,840
Video/DVD sales	13,954	13,180
Other	26,168	5,105
Total operating revenues	<u>8,334,018</u>	<u>8,172,542</u>
Operating expenses:		
Program services:		
Programming and production	2,384,165	2,256,635
Broadcasting and engineering	1,410,115	1,358,352
Promotions and Public information	627,240	461,324
Total program services	<u>4,421,520</u>	<u>4,076,311</u>
Support services:		
Management and general	2,838,970	2,638,265
Fundraising and membership	1,166,301	1,268,897
Underwriting and grant solicitation	223,267	206,280
Total support services	<u>4,228,538</u>	<u>4,113,442</u>
Depreciation	<u>703,535</u>	<u>730,127</u>
Total operating expenses	<u>9,353,593</u>	<u>8,919,880</u>
Operating loss	<u>(1,019,575)</u>	<u>(747,338)</u>
Nonoperating revenues:		
State of New Mexico appropriation	995,100	1,088,400
Interest income	11,503	18,373
Gain on investments	345	202,212
Net nonoperating revenues	<u>1,006,948</u>	<u>1,308,985</u>
(Loss) income before capital transactions	<u>(12,627)</u>	<u>561,647</u>
Capital contributions from UNM	—	180,350
Capital contributions from APS	666,764	—
Capital grants	456,636	319,482
Total capital transactions	<u>1,123,400</u>	<u>499,832</u>
Change in net assets	<u>1,110,773</u>	<u>1,061,479</u>
Net assets, beginning of year	<u>4,866,826</u>	<u>3,805,347</u>
Net assets, end of year	<u>\$ 5,977,599</u>	<u>4,866,826</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Subscriptions	\$ 2,515,410	2,558,122
Other operating revenues	4,199,449	3,253,517
Business and industry contributions	423,286	411,146
Payments to employees for services	(3,185,607)	(3,120,029)
Payments to suppliers for goods and services	(2,393,750)	(2,343,905)
Net cash provided by operating activities	1,558,788	758,851
Cash flows from non capital financing activities:		
Cash received from State of New Mexico Appropriation	995,100	1,088,400
Payments for prepaid broadcast rights	(873,022)	(813,470)
Net cash provided by non capital financing activities	122,078	274,930
Cash flows from capital financing activities:		
Purchase of capital assets	(925,109)	(789,361)
Capital contributions from APS	666,764	—
Capital grants received	456,636	319,482
Net cash provided (used in) by capital financing activities	198,291	(469,879)
Cash flows from investing activities:		
Purchase of investments	(70,811)	(199,603)
Proceeds from sale of investments	61,392	117,540
Investment income, net	11,848	220,585
Net cash provided by investing activities	2,429	138,522
Net increase in cash and cash equivalents	1,881,586	702,424
Cash and cash equivalents, beginning of year	3,418,075	2,715,651
Cash and cash equivalents, end of year	\$ 5,299,661	3,418,075
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,019,575)	(747,338)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	703,535	730,127
Amortization of broadcast rights	825,189	807,458
Provision for bad debt	10,000	11,000
Loss on disposal of equipment	4,107	—
Changes in assets and liabilities:		
Accounts receivable	15,571	(26,589)
Grants receivable	(8,691)	29,838
Deferred revenue	849,747	(75,371)
Other assets	23,434	33,108
Prepaid lease	39,850	39,850
Prepaid other	(1,528)	6,033
Accounts payable	78,471	(51,851)
Accrued expenses	38,678	2,586
Net cash provided by operating activities	\$ 1,558,788	758,851
Supplemental disclosure of noncash activities:		
Noncash contributions of capital assets	\$ —	180,350

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Nature of Business

KNME (the Station) is an unincorporated entity operating under a co-license issued in 1958 by the Federal Communications Commission (FCC) to the University of New Mexico (UNM) and Albuquerque Public Schools (APS). The Station is a Joint Power created through a 1968 agreement between UNM and APS as amended in 1978. The Station is a department of UNM and receives significant grants from the Corporation for Public Broadcasting (CPB) on an annual basis, which were used during the years ended June 30, 2012 and 2011, in part, to pay Public Broadcasting Service (PBS) dues. The CPB is a private, nonprofit corporation created by Congress in 1967. Its mission is to facilitate the development of, and ensure universal access to, noncommercial high-quality programming and educational telecommunications services. The Station also receives funding from the State of New Mexico.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with the accounting disclosure and reporting requirements under Governmental Accounting Standards Board (GASB) pronouncements as the Station meets the criteria of a governmental entity. The significant accounting policies are summarized below.

The Station's financial statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenue is recognized when it is earned and expenses are recognized as soon as the liability is incurred.

Operating revenues and expenses are those incurred that relate directly to the primary operations of the Station, including programming, production, and broadcasting services. All other revenues and expenses are considered nonoperating.

(b) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Net Assets

Net assets are classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in Capital Assets, Net of Related Debt* – This component of net assets consists of capital assets, net of accumulated depreciation. The Station does not have any related debt.
- *Restricted* – This component of net assets consists of funds on which external restrictions have been imposed that limit the purpose for which such funds can be used. Certain net assets that are subject to donor restrictions require that only the income be used by the Station and that

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the principal be held in perpetuity. These net assets are classified as restricted, nonexpendable. Restricted, expendable net assets include the net assets that are donor or third-party restricted for a specific purpose.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets.”

(d) Cash and Cash Equivalents and Investments

The Station’s cash and investment balances are on deposit with its fiscal agent. UNM serves as the fiscal agent for the Station through which the Station participates in a pooled account maintained by UNM. As fiscal agent, UNM requires the financial institution holding these pooled funds to maintain minimum collateral amounts. Interest is allocated monthly to the Station’s account based on its balance in the pooled bank account at the end of the preceding month. Custodial risk classifications are not available at the departmental level. For purposes of the statements of cash flows, the Station considers all restricted and unrestricted cash accounts and all highly liquid securities and investments with an original maturity of three months or less to be cash equivalents. Certain revenue and expense accounts include noncash activity which has been excluded from operating revenues and expenses in the statements of cash flows.

In accordance with UNM and the Foundation’s Memorandum of Agreement, the endowment assets of the Station are commingled for investment purposes whenever possible in the Common Investment Fund (CIF). At June 30, 2012 and 2011, the Station’s portion of the CIF was \$1,164,189 and \$1,154,770. UNM has established a CIF Endowment and Management Investment Policy for authorizing and spending investment income.

The deposits and investments of the Station are exposed to certain inherent risk, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The deposits and investments with the CIF endowment fund are exposed to risk that have the potential to result in losses. Those risk and their definitions are:

- Credit risk – the risk an insurer or counterparty to an investment will not fulfill its obligation
- Custodial risk – the risk that, in the case of default by the counterparty, a government will be unable to recover its deposit/investment or collateralizing securities in the possession of an outside party
- Concentration risk – the risk of loss attributable to the size of a government’s investment in a single issuer
- Interest rate risk – the risk that changes in interest rates will adversely affect the fair value of investments
- Foreign currency risk – the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment

As UNM serves as the fiscal agent for the Station through which the Station participates in a pooled CIF maintained by UNM, the amounts reported represent UNM’s best estimate of fair value of

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investments. UNM has established methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost. Details of the CIF can be found in the audited financial statements of UNM located at www.unm.edu.

(e) *Accounts Receivable*

The allowance for doubtful accounts is based on historical collection experience and management's evaluation of the collectibility of the accounts receivable. Management reviews accounts receivable and adjusts the allowance based on identified collection issues. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management believes the allowance for doubtful accounts as of June 30, 2012 and 2011 is adequate.

(f) *Grants Receivable and Revenue*

Grants receivable represents the unfunded portion of awards earned by the Station. Management believes these amounts to be fully collectible and, therefore, has provided no allowance for doubtful grant accounts as of June 30, 2012 and 2011.

The CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services.

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

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds record-keeping, audits, financial reporting, mailing list, and licensee status with the FCC.

(g) *Broadcast Rights*

The Station acquires broadcast rights for programs or a series of programs produced for public television. The cost of these rights is amortized using the straight line method based on the number of future broadcasts estimated by management over their remaining contractual lives.

(h) *Capital Assets*

Capital assets are recorded at original cost or, if donated, at estimated fair value on the date of donation. The Station's capitalization policy for moveable equipment includes all projects and/or items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the

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estimated useful lives of the assets, generally 50 years for buildings and 3 to 15 years for equipment. Depreciation not allocated by functional expense in accompanying financial statements.

(i) Deferred Revenue

Deferred revenue represents cash advances received from third parties which have eligibility requirements. Revenue will be recognized once all eligibility requirements have been met.

(j) Contributions

Operating revenues and expenses include activities with characteristics of third-party exchange transactions. Goods and services donated to the Station that the Station would otherwise have to pay cash for are recorded as in-kind contributions. The Station recognized in-kind contribution revenues of \$97,074 and \$100,883 during the fiscal years ended June 30, 2012 and 2011, respectively.

(k) Indirect Support

The Station receives indirect administrative, custodial, and utility expense support from UNM. The amount of support, recorded as both revenue and expense, is determined by a formula accepted by the CPB.

(l) Income Taxes

As an instrumentality of the State of New Mexico, the income generated by UNM in the exercise of its essential governmental functions is excluded from federal income tax under Internal Revenue Code (IRC) Section 115. However, income generated from activities unrelated to the exempt purpose of UNM would be subject to tax under IRC Section 511(a)(2)(B).

(m) Classification

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

(3) Prepaid Lease

During 2002, the Station entered into a 20-year lease for digital tower facilities, which has been accounted for as an operating lease. The terms of the lease provide an option for the Station to continue the tower leases for an additional two consecutive 10-year periods. At inception, the Station prepaid the entire lease in the amount of \$787,500. The amount of prepaid lease expensed during each of the years ended June 30, 2012 and 2011 was \$39,850. At June 30, 2012 and 2011, the remaining current and noncurrent portion of the prepaid lease was as follows:

		Current	Noncurrent
2011	\$	39,850	373,069
2012		39,850	333,219

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(4) Capital Assets

Capital asset transactions consisted of the following during the year ended June 30, 2012:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>End of year</u>
Building	\$ 890,513	—	—	—	890,513
Equipment	11,427,015	925,109	—	(1,867,085)	10,485,039
	12,317,528	925,109	—	(1,867,085)	11,375,552
Accumulated depreciation	(9,599,951)	(703,535)	—	1,862,978	(8,440,508)
	<u>\$ 2,717,577</u>	<u>221,574</u>	<u>—</u>	<u>(4,107)</u>	<u>2,935,044</u>

Capital asset transactions consisted of the following during the year ended June 30, 2011:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>End of year</u>
Building	\$ 853,388	—	37,125	—	890,513
Equipment	10,718,556	789,361	94,104	(175,006)	11,427,015
	11,571,944	789,361	131,229	(175,006)	12,317,528
Accumulated depreciation	(9,093,951)	(730,127)	49,121	175,006	(9,599,951)
	<u>\$ 2,477,993</u>	<u>59,234</u>	<u>180,350</u>	<u>—</u>	<u>2,717,577</u>

(5) Operating Leases and Royalties

(a) Operating Lease

The Station leases a portion of its administrative facilities from UNM on a month-to-month basis; the annual costs were \$48,000 for each of the years ended June 30, 2012 and 2011.

(b) Royalty Revenue

On October 17, 2006, the Station entered into a long-term de facto agreement with People's Choice TV of Albuquerque, Inc. a wholly owned subsidiary of Sprint Nextel Corporation (Sprint).

The agreement allows Sprint to use the Station's excess capacity of the spectrum, as permitted pursuant to FCC Rules, for use in wireless telecommunications services, and takes advantage of the increased flexibility afforded under rules and policies adopted by the FCC. The objective of the agreement is to promote a substantial reconfiguration of the transmission system to permit a more efficient use of the EBS and BRS spectrums.

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The agreement specifies an initial term of 10 years, with annual payments from Sprint totaling \$126,000 per year (with an additional \$1,000,000 payment in 2012), and options for two additional terms of 10 years each. A “One Time Royalty Fee” of \$3,500,000 was received in fiscal year 2007. Both payments are being amortized by the Station over the life of the initial lease. “Monthly Royalty Fees” totaling \$126,000 were received during each of the fiscal years 2012 and 2011, pursuant to the agreement.

Future minimum royalty payments excluding options to renew are as follows:

	\$	126,000
2013		126,000
2014		126,000
2015		126,000
2016		626,000
2017		52,500
Thereafter		—
Total	\$	1,056,500

(6) Related-Party Transactions

(a) UNM Administrative Support

UNM administrative support is based on allocation of actual indirect costs from UNM; the related expenses are recorded as support services. This method of reporting indirect costs conforms to current CPB guidelines.

(b) APS Funding

APS contributed funding of \$20,000 during each of the years ended June 30, 2012 and 2011 toward the Station’s operating budget. An additional \$666,764 was awarded and reimbursed as of the year ended June 30, 2012 to match qualifying 2011 and 2012 capital expenditures.

(7) Retirement Plans and Other Post-Employment Benefits

(a) Plan Description

Substantially all of the Station’s full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers, and other employees of state public school districts, colleges, and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB’s website at www.nmerb.org.

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(b) Funding Policy

Effective July 1, 2009, plan members were required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The Station was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross covered salary of employees earning more than \$20,000 annually. The employer contribution is increasing by 75% each year until effective July 1, 2011, the employer contribution will be 13.9% of the gross covered salary. The contribution requirements of plan members and the Station are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Station's contributions to ERB for the fiscal years ended June 30, 2012 and 2011 were \$215,274 and \$234,710, respectively, which equals the amount of the required contributions for each fiscal year.

(c) Other Post-Employment Benefits

Retirees of the Station are offered post-employment health benefits under plans administered by UNM. The liability is recorded on UNM's books and not allocated at the department level. Details of the plans can be found in the audited financial statements of UNM located at www.unm.edu.

(8) Commitments and Contingencies

(a) Federal Communications Commission (FCC)

UNM and APS jointly hold an FCC license, which permits the Station to operate broadcast services on channels 5 and 35. This joint license is currently set to expire in 2014. UNM solely holds an FCC license to operate broadcast services on channel 9, which will also expire in 2014. The Station currently plans to pursue the renewal of both FCC licenses prior to expiration in 2014.

(b) Leases

The Station has various leases for sites supporting transmitter equipment. These leases require nominal annual fees and terms do not extend beyond 10 years.

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(c) ***Insurance Coverage***

The Station is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. As a department of UNM, the Station is insured through the State of New Mexico Risk Management Program, which provides general liability, auto liability, physical damage, and workers' compensation insurance. The Station's exposure is limited to \$1,000 per any first-party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

(d) ***Examination of CPB Grants***

The Office of the Inspector general (OIG) completed an examination of the KNME-TV CPB grants for the fiscal years 2008 to 2010. The draft report dated July 24, 2012, indicated findings regarding the overstatement of NFFS and questionable expenditures. KNME management disputed the findings and formally appealed the OIG findings to the CPB. The report presents the conclusions of only the OIG. CPB management will make a final decision on the recommendations in the OIG report in accordance with CPB's audit resolution procedures.