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

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
KNME-TV:

Report on the Financial Statements

We have audited the accompanying financial statements of KNME-TV (the Station) a department of the University of New Mexico (UNM), as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KNME-TV, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–6 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 19, 2014

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, 2014, 2013, and 2012. 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 colicense 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 position include the assets, liabilities, and net position 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 position (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 position present the results of operations of the Station for the fiscal years ended June 30, 2014 and 2013. 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, fund-raising, 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.

Condensed Financial Information

		Year ended June 30		
		2014	**2013**	**2012**
Consolidated financial information:				
Current assets	$	7,009,734	6,320,342	6,450,362
Restricted assets		1,448,609	1,272,339	1,164,189
Capital assets, net		1,815,023	2,548,872	2,935,044
Other noncurrent assets		539,443	573,137	591,491
Total assets	$	10,812,809	10,714,690	11,141,086
Current liabilities	$	4,653,020	4,127,720	3,996,819
Noncurrent liabilities		166,668	666,668	1,166,668
Total liabilities		4,819,688	4,794,388	5,163,487
Net position:				
Net investment in capital assets		1,815,023	2,548,872	2,935,044
Restricted		1,320,666	1,162,010	1,061,992
Unrestricted		2,857,432	2,209,420	1,980,563
Total net position		5,993,121	5,920,302	5,977,599
Total liabilities and net position	$	10,812,809	10,714,690	11,141,086
Statement of revenues, expenses, and changes in net position:				
Total operating revenues	$	8,105,357	8,231,462	8,334,018
Total operating expenses		9,576,300	10,085,829	9,353,593
Total nonoperating revenues		1,359,208	1,140,278	1,006,948
Total other revenues		184,554	656,792	1,123,400
Change in net position	$	72,819	(57,297)	1,110,773

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 $6,655,729, $6,009,309, and $6,178,269 as of June 30, 2014, 2013, and 2012, respectively. Total current assets of $7,009,734 at June 30, 2014 increased from the prior year current assets of $6,320,342 largely due to an increase in cash and cash equivalents. Current assets decreased from $6,450,362 as of June 30, 2012 to $6,320,242 as of June 30, 2013 due to a decrease 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 unearned revenues. Unearned revenues were $3,382,565, $3,105,496, and $3,255,997 at June 30, 2014, 2013, and 2012, respectively. In fiscal year 2014, unearned revenues increased by $277,069 due to additional grant revenues received but unexpended. Conversely, unearned revenues decreased in fiscal year 2013 by $150,501 due to the recognition as revenues.

At June 30, 2014, 2013, and 2012, the Station's current assets of $7,009,734, $6,320,342, and $6,450,362 were sufficient to cover current liabilities of $4,653,020 (current ratio of 1.51), $4,127,720 (current ratio of 1.53), and $3,996,819 (current ratio of 1.62), respectively.

Restricted Assets

For the fiscal years ended June 30, 2014, 2013, and 2012, restricted asset balances were $1,448,609, $1,272,339, and $1,164,189, respectively. The increases from June 30, 2013 to June 30, 2014 and from June 30, 2012 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, decreased from $2,548,872 at June 30, 2013 to $1,815,023 at June 30, 2014, mainly due to depreciation expense of $749,570 offset by additions of $15,721 (note 4). Capital assets, net of accumulated depreciation, decreased from $2,935,044 at June 30, 2012 to $2,548,872 at June 30, 2013, mainly due to depreciation expense of $752,913 offset by additions of $380,205 (note 4). Additionally, equipment with a net book value of $13,464 was disposed of in the fiscal year ended June 30, 2013.

As a result of scheduled amortization, the noncurrent portion of a prepaid lease has decreased $39,850 each year, from $333,219 to $293,369 to $253,519 as of June 30, 2012, 2013, and 2014, respectively (note 3).

Noncurrent Liabilities

The Sprint Lease accounts for $166,668 of the total unearned revenues as of June 30, 2014, $666,668 as of June 30, 2013, and $1,666,668 as of June 30, 2012. Of each of these totals, $500,000 is included in the current portion of unearned revenue because this amount will be earned within the next 12 months; the remaining balances are categorized as noncurrent unearned revenue because recognition as revenue will occur after 12 months.

Net Position

Total net position is 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 position may be used to meet all operating needs of the Station. The net position of the Station has decreased from $5,977,599 as of June 30, 2012 to $5,920,302 as of June 30, 2013, and increased to $5,993,121 as of June 30, 2014. The decrease in net position from fiscal year 2012 to fiscal year 2013 is due to decreases in bequests, decreased capital contributions from APS, decreased capital grants, and increased operating expenses. The increase in net position from fiscal year 2013 to fiscal year 2014 is due to an increase in state appropriation, an increase in investment income, an increase in contributions from members, and decreases in total operating expenses.

Results of Operations

Operating revenues of $8,105,357 in the current fiscal year decreased by approximately 1.5% from the prior fiscal year operating revenues of $8,231,462 as a result of a decrease in bequests of planned gifts, and decreases in grants from the Corporation for Public Broadcasting and other funders. These decreases were partially offset by increases in support from members and business, and increased production service revenues. The Station's operating revenues for the fiscal year ended June 30, 2012 of $8,334,018 decreased by approximately 1.2% to $8,231,462 for the fiscal year ended June 30, 2013, primarily due to the decreases in contributions from business and industry, decreases in bequests from planned gifts, and decreases in translator lease revenues. These decreases were offset by increases in membership income, grants from the Corporation for Public Broadcasting, and revenues from production services.

Total operating expenses for the fiscal year ended June 30, 2014 of $9,576,300 decreased from the prior year operating expenses of $10,085,829, due to decreased expenses in both program services and support services, as well as decreased depreciation expense. Total operating expenses for the fiscal year ended June 30, 2013 of $10,085,829 increased from the prior year operating expenses of $9,353,593, primarily due to increased expenses for programming and production, broadcasting and engineering infrastructure, management and general, fundraising and membership, and underwriting and grant solicitation, and were offset by decreased expenses in promotions and public information.

The Station's management and general support services expenses, which include wages, retirement, and insurance, as well as support from UNM, were 30.0%, 29.7%, and 30.3% of total operating expenses for fiscal years ended June 30, 2014, 2013, and 2012, respectively. Support from UNM includes noncash administrative support as well as utility and infrastructure costs paid. The administrative support from UNM decreased from $2,040,248 in 2013 to $1,984,068 in 2014 due to a calculated decrease in noncash administrative support. These costs increased from $1,957,839 in 2012 to $2,040,248 in 2013 due a calculated increase in noncash administrative support, infrastructure upgrades, and utility costs.

Factors Affecting Future Periods

The Station operating budget is heavily dependent on support from its members and from the business community.

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-TV, 1130 University Blvd. NE, Albuquerque, New Mexico 87102 or (505) 277-2121.

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Statements of Net Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	6,123,359	5,503,460
Accounts receivable, less allowance for doubtful accounts of $26,600 in 2014 and $23,000 in 2013		191,684	119,042
Grants receivable		16,366	91,773
Prepaid broadcast rights		532,370	505,849
Prepaid lease (note 3)		39,850	39,850
Prepaid, other		47,576	2,653
Other assets		58,529	57,715
Total current assets		7,009,734	6,320,342
Restricted assets:			
Investments		1,448,609	1,272,339
Noncurrent assets:			
Capital assets (note 4):			
Buildings		890,513	890,513
Equipment		10,673,269	10,687,756
		11,563,782	11,578,269
Accumulated depreciation		(9,748,759)	(9,029,397)
Capital assets, net		1,815,023	2,548,872
Prepaid broadcast rights		285,924	279,768
Prepaid lease (note 3)		253,519	293,369
Total noncurrent assets		2,354,466	3,122,009
Total assets	$	10,812,809	10,714,690
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	1,039,430	731,257
Accrued payroll and related liabilities		231,025	290,967
Unearned revenue		3,382,565	3,105,496
Total current liabilities		4,653,020	4,127,720
Noncurrent liabilities:			
Unearned revenue		166,668	666,668
Total liabilities		4,819,688	4,794,388
Commitments and contingencies (notes 5, 7, and 8)			
Net position:			
Net investment in capital assets		1,815,023	2,548,872
Restricted:			
Expendable		1,188,640	1,066,398
Nonexpendable		132,026	95,612
Unrestricted		2,857,432	2,209,420
Total net position		5,993,121	5,920,302
Total liabilities and net position	$	10,812,809	10,714,690

See accompanying notes to financial statements.

KNME-TV

(A Department of the University of New Mexico)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

		2014	2013
Operating revenues:			
Membership income	$	2,751,991	2,635,577
Business and industry contributions		634,108	516,377
Albuquerque public schools funding		20,000	20,000
Corporation for Public Broadcasting grants		1,272,080	1,395,471
University of New Mexico administrative support (note 6)		1,984,068	2,040,248
Other grants		102,457	269,134
Production services		505,531	419,815
Spectrum royalties and translator leases		719,945	713,360
Bequests		25,984	186,691
Video/DVD sales		8,501	6,505
Other		80,692	28,284
Total operating revenues		8,105,357	8,231,462
Operating expenses:			
Program services:			
Programming and production		2,645,329	2,766,242
Broadcasting and engineering		1,346,151	1,595,081
Promotions and public information		474,925	535,100
Total program services		4,466,405	4,896,423
Support services:			
Management and general		2,877,170	2,993,313
Fundraising and membership		1,251,361	1,197,224
Underwriting and grant solicitation		231,794	245,956
Total support services		4,360,325	4,436,493
Depreciation		749,570	752,913
Total operating expenses		9,576,300	10,085,829
Operating loss		(1,470,943)	(1,854,367)
Nonoperating revenues:			
State of New Mexico appropriation		1,168,900	1,030,800
Interest income		18,370	1,584
Gain on investments		171,938	107,894
Net nonoperating revenues		1,359,208	1,140,278
Loss before capital transactions		(111,735)	(714,089)
Capital contributions from PBS		—	24,989
Capital contributions from APS		184,554	611,803
Capital grants		—	20,000
Total capital transactions		184,554	656,792
Change in net position		72,819	(57,297)
Net position, beginning of year		5,920,302	5,977,599
Net position, end of year	$	5,993,121	5,920,302

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Subscriptions	$	2,751,991	2,635,577
Other operating revenues		2,515,024	2,312,612
Business and industry contributions		484,094	470,957
Payments to employees for services		(3,557,099)	(3,324,629)
Payments to suppliers for goods and services		(1,973,573)	(2,201,063)
Net cash provided by (used in) operating activities		220,437	(106,546)
Cash flows from noncapital financing activities:			
Cash received from State of New Mexico Appropriation		1,168,900	1,030,800
Payments for prepaid broadcast rights		(952,309)	(998,369)
Net cash provided by noncapital financing activities		216,591	32,431
Cash flows from capital financing activities:			
Purchase of capital assets		(15,721)	(355,217)
Capital contributions from APS		184,554	611,803
Capital grants received		—	20,000
Net cash provided by capital financing activities		168,833	276,586
Cash flows from investing activities:			
Purchase of investments		(226,785)	(161,873)
Proceeds from sale of investments		50,515	53,724
Investment income, net		190,308	109,478
Net cash provided by investing activities		14,038	1,329
Net increase in cash and cash equivalents		619,899	203,800
Cash and cash equivalents, beginning of year		5,503,460	5,299,660
Cash and cash equivalents, end of year	$	6,123,359	5,503,460
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(1,470,943)	(1,854,367)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		749,570	752,913
Amortization of broadcast rights		919,632	928,386
Provision for bad debt		3,600	—
Loss on disposal of equipment		—	13,465
Changes in assets and liabilities:			
Accounts receivable		(76,242)	(25,130)
Grants receivable		75,407	(51,019)
Unearned revenue		(222,931)	(650,501)
Other assets		(814)	(5,059)
Prepaid lease		39,850	39,850
Prepaid other		(44,923)	42,268
Accounts payable		308,173	636,649
Accrued expenses		(59,942)	65,999
Net cash provided by (used in) operating activities	$	220,437	(106,546)
Supplemental disclosure of noncash activities:			
Noncash contributions of capital assets	$	—	24,988

See accompanying notes to financial statements.

(1) Nature of Business

KNME-TV (the Station) is an unincorporated entity operating under a colicense 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, 2014 and 2013, in large 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) 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 Consolidated Investment Fund (CIF). At June 30, 2014 and 2013, the Station's portion of the CIF was $1,448,609 and $1,272,339, respectively. 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 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.

(d) 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. Based on the information available, management believes the allowance for doubtful accounts as of June 30, 2014 and 2013 is adequate.

(e) 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, 2014 and 2013.

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.

(f) 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.

(g) 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 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.

(h) Unearned Revenue

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

(i) Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* – This component consists of capital assets, net of accumulated depreciation. The Station does not have any related debt.
- *Restricted* – This component consists of funds on which external restrictions have been imposed that limit the purpose for which such funds can be used. Certain items are subject to donor restrictions require that only the income be used by the Station and that the principal be held in perpetuity. These items are classified as restricted, nonexpendable. Restricted, expendable net position includes items that are donor or third party restricted for a specific purpose.

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

(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 $150,014 and $40,391 during the fiscal years ended June 30, 2014 and 2013, 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 2013 amounts have been reclassified to conform to the 2014 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, 2014 and 2013 was $39,850. At June 30, 2014 and 2013, the remaining current and noncurrent portion of the prepaid lease was as follows:

	Current	Noncurrent
2013	$ 39,850	293,369
2014	39,850	253,519

(4) Capital Assets

Capital asset transactions consisted of the following during the year ended June 30, 2014:

	Beginning of year	Additions	Transfers	Deletions	End of year
Building	$ 890,513	—	—	—	890,513
Equipment	10,687,756	15,721	—	(30,208)	10,673,269
	11,578,269	15,721	—	(30,208)	11,563,782
Accumulated depreciation	(9,029,397)	(749,570)	—	30,208	(9,748,759)
	$ 2,548,872	(733,849)	—	—	1,815,023

Capital asset transactions consisted of the following during the year ended June 30, 2013:

	Beginning of year	Additions	Transfers	Deletions	End of year
Building	$ 890,513	—	—	—	890,513
Equipment	10,485,039	380,205	—	(177,488)	10,687,756
	11,375,552	380,205	—	(177,488)	11,578,269
Accumulated depreciation	(8,440,508)	(752,913)	—	164,024	(9,029,397)
	$ 2,935,044	(372,708)	—	(13,464)	2,548,872

(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, 2014 and 2013.

(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.

The agreement specifies an initial term of 10 years, with annual payments from Sprint totaling $126,000 per year, 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 2014 and 2013, pursuant to the agreement.

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

2015	$	126,000
2016		626,000
2017		52,500
Total	$	804,500

(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, 2014 and 2013 toward the Station's operating budget. An additional $611,803 was awarded and reimbursed as of the year ended June 30, 2013 to match qualifying 2013 capital expenditures. For the year ended June 30, 2014, an additional $184,554 was reimbursed to the Station for capital expenditures made to continue the project.

(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.

(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 each year until effective July 1, 2014, 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, 2014 and 2013 were $312,935 and $256,357, respectively, which equals the amount of the required contributions for each fiscal year.

(c) Other Postemployment Benefits

Retirees of the Station are offered postemployment 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 was renewed for an additional eight years to October 1, 2022. UNM solely holds an FCC license to operate broadcast services on channel 9, which was also renewed to October 1, 2022.

(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.

(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 and issued its report dated July 24, 2012. In accordance with CPB's audit resolution procedures, CPB Management made a final decision on the recommendations in the OIG report on February 27, 2013 and determined that the Station received $30,368 in excess TV CSG payments. This amount was recorded as a liability on the statement of net position as of June 30, 2013 and was refunded to CPB by reductions of the Station's FY 2014 CSG payments.