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

Financial Statements

June 30, 2015

(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, 2015, 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.

Opinion

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, 2015, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 2(m) to the financial statements, effective July 1, 2014, the Station adopted *Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedule of proportionate share of net pension liability and employer contributions – pension on pages 3–6, and 23-24 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

February 2, 2016

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, 2015. 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 position include the assets, liabilities, and net position of the Station as of the end of the 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 statement of revenues, expenses, and changes in net position present the results of operations of the Station for the fiscal year ended June 30, 2015. 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 statement of cash flows provides 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	
		2015	2014
Consolidated financial information:			
Current assets	$	7,836,589	7,665,821
Restricted assets		771,633	792,522
Capital assets, net		1,135,311	1,815,023
Other noncurrent assets		513,336	539,443
Total assets		10,256,869	10,812,809
Deferred outflows of resources		429,403	—
Current liabilities		4,486,304	4,653,020
Noncurrent liabilities		5,040,126	166,668
Total liabilities		9,955,833	4,819,688
Deferred inflow of resources		530,489	—
Net position:			
Net investment in capital assets		1,135,311	1,815,023
Restricted		771,633	816,884
Unrestricted		(1,277,591)	3,361,214
Total net position		629,353	5,993,121
Statement of revenues, expenses, and changes in net position:			
Total operating revenues		8,807,195	8,105,357
Total operating expenses		10,312,020	9,576,300
Total nonoperating revenues		1,212,383	1,359,208
Total other revenues		13,182	184,554
Change in net position	$	(279,260)	72,819

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, investments, and prepaid broadcast rights are the most significant current assets of the Station totaling $7,484,326 and $7,311,816, as of June 30, 2015 and 2014, respectively. Total current assets of $7,836,589 at June 30, 2015 increased from the prior year current assets of $7,665,821 largely due to an increase in investments. In fiscal year ended June 30, 2015, excess short-term funds were moved to an interest bearing account.

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 revenue. Unearned revenue was $2,843,450 and $3,382,565 at June 30, 2015 and 2014, respectively. In fiscal year 2015, unearned revenue decreased by $539,115 due to less unexpended grant revenue received.

(Continued)

At June 30, 2015 and 2014, the Station's current assets of $7,836,589 and $7,665,821, were sufficient to cover current liabilities of $4,486,304 (current ratio of 1.75) and $4,653,020 (current ratio of 1.65), respectively.

Restricted Assets

For the fiscal years ended June 30, 2015 and 2014, restricted asset balances were $771,633 and 792,522, respectively. The decrease from June 30, 2014 to June 30, 2015 resulted from expenditures made from the earnings generated.

Noncurrent Assets

Capital assets are the largest component of noncurrent assets. Capital assets, net of accumulated depreciation, decreased from $1,815,023 at June 30, 2014 to $1,135,311 at June 30, 2015, mainly due to depreciation expense of $712,053 offset by additions of $32,360 (note 4). Additionally, equipment with a net book value of $19 was disposed of in the fiscal year ended June 30, 2015.

As a result of scheduled amortization, the noncurrent portion of a prepaid lease has decreased $39,850 each year, from $253,519 to $213,669 as of June 30, 2014 and 2015, respectively (note 3).

Deferred Outflows of Resources

Deferred outflows of resources increased by $429,403 as of the fiscal year ended June 30, 2015 due to the Station's adoption of GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Noncurrent Liabilities

Noncurrent liabilities increased significantly as of the year ended June 30, 2015 due to the recording of a $5,014,028 net pension liability for its proportionate share of the total net pension liability of the New Mexico Educational Retirement Board (ERB) defined benefit pension plan, as required by the adoption of GASB Statement 68.

Noncurrent liabilities as of June 30, 2014 of $166,668 comprises entirely unearned revenue from the Sprint lease.

Deferred Inflows of Resources

Also as a result of the adoption of GASB 68, deferred inflows of resources related to pensions increased by $530,489. Additional detailed information may be found in note 7 and Required Supplemental Information—Pension.

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, which include true endowments, and the related restricted expendable spending distributions totaled $771,633 and $816,884 at June 30, 2015 and June 30, 2014, respectively.

(Continued)

Unrestricted net position may be used to meet all operating needs of the Station. The overall net position of the Station decreased from $5,993,121 at June 30, 2014 to $629,353 as of June 30, 2015 primarily due to the adoption of GASB Statement 68. As a result, the station restated its unrestricted net position as of July 1, 2014 by a decrease of $5,084,508.

Results of Operations

Operating revenues of $8,807,195 in the current fiscal year increased by approximately 8.7% from the prior fiscal year operating revenues of $8,105,357 as a result of an increase in membership income, an increase in support from the University of New Mexico, an increase in grants from the Corporation for Public Broadcasting and other funders, and an increase in production services. These increases were partially offset by decreases in support from business and industry.

Total operating expenses for the fiscal year ended June 30, 2015 of $10,312,020 increased from the prior year operating expenses of $9,576,300, due to increased expenses in both program services and support services, offset by decreased depreciation expense.

The Station's management and general support services expenses, which include wages, retirement, and insurance, as well as support from UNM, were 30.2% and 30.0% of total operating expenses for fiscal years ended June 30, 2015 and 2014, respectively. Support from UNM includes noncash administrative support as well as utility and infrastructure costs paid. The administrative support from UNM increased from $1,984,068 in 2014 to $2,133,937 in 2015 due to a calculated increase in noncash administrative support.

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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Statement of Net Position

June 30, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	5,398,997
Investments		1,566,211
Accounts receivable, less allowance for doubtful accounts of $31,600 in 2015		195,508
Grants receivable		80,354
Prepaid broadcast rights		519,118
Prepaid lease (note 3)		39,850
Prepaid, other		4,111
Other assets		32,440
Total current assets		7,836,589
Restricted assets:		
Investments		771,633
Noncurrent assets:		
Capital assets (note 4):		
Buildings		890,513
Equipment		10,629,880
		11,520,393
Accumulated depreciation		(10,385,082)
Capital assets, net		1,135,311
Prepaid broadcast rights		299,667
Prepaid lease (note 3)		213,669
Total noncurrent assets		1,648,647
Deferred Outflows of Resources		
Related to pensions		429,403
Total assets and deferred outflows of resources	$	10,686,272
Liabilities		
Current liabilities:		
Accounts payable	$	1,429,166
Accrued payroll and related liabilities		213,688
Unearned revenue		2,843,450
Total current liabilities		4,486,304
Noncurrent liabilities:		
Unearned revenue		26,098
Net pension liability		5,014,028
Deferred Inflow of Resources		
Related to pensions		530,489
Total liabilities and deferred inflows of resources		10,056,919
Commitments and contingencies (notes 5, 7, and 8)		
Net Position		
Net investment in capital assets		1,135,311
Restricted:		
Expendable		175,385
Nonexpendable		596,248
Unrestricted		(1,277,591)
Total net position		629,353
Total liabilities, deferred inflows of resources, and net position	$	10,686,272

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

Operating revenues:	
Membership income	$ 2,881,407
Business and industry contributions	459,220
Albuquerque public schools funding	20,000
Corporation for Public Broadcasting grants	1,729,085
University of New Mexico administrative support (note 6)	2,133,937
Other grants	173,356
Production services	622,483
Spectrum royalties and translator leases	722,857
Bequests	44,505
Video/DVD sales	10,995
Other	9,350
Total operating revenues	8,807,195
Operating expenses:	
Program services:	
Programming and production	3,197,108
Broadcasting and engineering	1,284,667
Promotions and public information	561,592
Total program services	5,043,367
Support services:	
Management and general	3,118,626
Fundraising and membership	1,223,000
Underwriting and grant solicitation	214,974
Total support services	4,556,600
Depreciation	712,053
Total operating expenses	10,312,020
Operating loss	(1,504,825)
Nonoperating revenues:	
State of New Mexico appropriation	1,177,300
Gain on investments	35,083
Net nonoperating revenues	1,212,383
Loss before capital transactions	(292,442)
Capital contributions from APS	13,182
Total capital transactions	13,182
Change in net position	(279,260)
Net position, beginning of year	5,993,121
Impact of change in accounting pronouncement (note 7)	(5,084,508)
Net position, end of year	$ 629,353

See accompanying notes to financial statements.

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Statements of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Subscriptions	$	2,881,407
Other operating revenues		2,585,184
Business and industry contributions		342,749
Payments to employees for services		(3,582,977)
Payments to suppliers for goods and services		(2,268,414)
Net cash from operating activities		(42,051)
Cash flows from noncapital financing activities:		
Cash received from State of New Mexico Appropriation		1,177,300
Payments for prepaid broadcast rights		(986,280)
Net cash from noncapital financing activities		191,020
Cash flows from capital financing activities:		
Purchase of capital assets		(32,361)
Capital contributions from APS		13,182
Net cash from capital financing activities		(19,179)
Cash flows from investing activities:		
Purchase of investments		(1,106,959)
Proceeds from sale of investments		217,724
Investment income, net		35,083
Net cash from investing activities		(854,152)
Net decrease in cash and cash equivalents		(724,362)
Cash and cash equivalents, beginning of year		6,123,359
Cash and cash equivalents, end of year	$	5,398,997
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(1,504,825)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense		712,053
Amortization of broadcast rights		985,789
Provision for bad debt		5,000
Loss on disposal of equipment		19
Changes in assets and liabilities:		
Accounts receivable		(8,824)
Grants receivable		(63,987)
Unearned revenue		(679,685)
Other assets		26,089
Prepaid lease		39,850
Prepaid other		43,465
Accounts payable		389,736
Accrued expenses		13,269
Net cash used in operating activities	$	(42,051)

See accompanying notes to financial statements.

(1) Nature of Business

KNME-TV (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) and is administered under a 1968 (and amended in 1978) Joint Powers agreement between UNM and APS. The Station is a department of UNM and receives significant grants from the Corporation for Public Broadcasting (CPB) on an annual basis, which was used during the year ended June 30, 2015, 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, 2015, the Station's portion of the CIF was $2,337,844. 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, 2015 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, 2015.

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, protection of donor 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 is 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 that 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 revenue of $116,471 during the fiscal year ended June 30, 2015, which are included within the Business and industry contributions line item.

(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 Internal Revenue Code (IRC) Section 511(a)(2)(B).

(m) Changes in Accounting Policies and Statements

Effective July 1, 2014, the Station adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pensions. As a result of the implementation of GASB Statement 68, the Station restated net position as of July 1, 2014. This restatement was a decrease of $5,084,508 to unrestricted net position as of July 1, 2014. The implementation of GASB Statement 68 also resulted in the recognition in fiscal year 2015 of $5,014,028 in net pension liability, $429,403 in deferred outflows of resources, and $530,489 in deferred inflow of resources, all of which had not been recognized prior to fiscal year 2015. The net pension liability represents the Station's proportionate share of the total net pension liability of the New Mexico Educational Retirement Board (ERB) defined benefit plan based on an annual actuarial valuation perform on that plan.

(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 the year ended June 30, 2015 was $39,850. At June 30, 2015, the remaining current and noncurrent portion of the prepaid lease was as follows:

	Current	Noncurrent
2015	$ 39,850	213,669

(4) Capital Assets

Capital asset transactions consisted of the following during the year ended June 30, 2015:

	Beginning of year	Additions	Transfers	Deletions	End of year
Building	$ 890,513		—	—	890,513
Equipment	10,673,269	32,360	—	(75,749)	10,629,880
	11,563,782	32,360	—	(75,749)	11,520,393
Accumulated depreciation	(9,748,759)	(712,053)	—	75,730	(10,385,082)
	$ 1,815,023	(679,693)	—	(19)	1,135,311

(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 cost was $48,000 for the year ended June 30, 2015.

(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 with additional $1,000,000 payment on the 5th anniversary and a $500,000 payment on the 9th anniversary. All payments are being amortized on a straight-line basis by the Station over the life of the initial lease. "Monthly Royalty Fees" totaling $126,000 were received during fiscal year 2015 pursuant to the agreement.

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

2016	$	626,000
2017		52,500
Total	$	678,500

(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

During the year ended June 30, 2015, APS contributed funding of $20,000 toward the Station's operating budget as well as an additional $13,182 for capital expenditures made to complete the HD studio build out project.

(7) Retirement Plans and Other Postemployment Benefits

(a) General Information about the Pension Plan

Plan Description: 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. The Plan is a pension trust fund of the State of New Mexico. The New Mexico Legislature has the authority to set or amend contribution rates. ERB issues a separate, publicly available financial report and comprehensive annual financial report that may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's Web site at www.nmerb.org.

Benefits Provided: A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater. A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions: The contribution requirements of plan members and the Station are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014, employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning $20,000 or less contributed 7.90% and employees earning more than $20,000 contributed 10.10% of their gross annual salary. For the fiscal year ended June 30, 2015, employers contributed 13.90%, and employees earning $20,000 or less continued to contribute 7.90% and employees earning more than $20,000 contributed an increased amount of 10.70% of their gross annual salary. The Station's contributions to ERB for the fiscal year ended June 30, 2015, 2014, and 2013 were $345,614, $316,858, and $256,357, respectively, which equals the amount of the required contributions for the fiscal year.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The following note disclosures related to pensions pertain to fiscal year 2015 as a result of the implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ended June 30, 2014, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of

June 30, 2014. At June 30, 2015, the Station reported a liability of $5,014,028 for its proportionate share of the net pension liability. The proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, the Station's proportion was 0.08788 percent.

For the year ended June 30, 2015, the Station recognized pension expense of $364,283. At June 30, 2015, the Station reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ —	74,692
Net difference between projected and actual earnings on pension plan investments	—	455,797
Change in proportion and differences between Station contributions and proportionate share of contributions	83,789	—
Station contributions subsequent to the measurement date	345,614	—
Total	$ 429,403	530,489

The $345,614 reported as deferred outflows of resources related to pensions resulting from Station contributions subsequent to the measurement date of June 30, 2014 will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2016	$ 110,791
2017	110,791
2018	111,169
2019	113,950
Total	$ 446,701

(Continued)

Actuarial assumptions: As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ended June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 incorporate the following assumptions:

1. All members with an annual salary of more than $20,000 will contribute 10.10% during the fiscal year ended June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ended June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial cost method	Entry age normal
Amortization method	level percentage of payroll
Remaining period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset valuation method	5 Year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary increases	Composition; 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment rate of return	7.75%
Retirement age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2014 and 2013 for 30-year return assumptions are summarized in the following table:

	Long-term expected real rate of return	
Asset class	**2014**	**2013**
Cash	1.50%	0.75%
Treasuries	2.00	1.00
IG Corp Credit	3.50	3.00
MBS	2.25	2.50
Core Bonds	2.53	2.04
TIPS	2.50	1.50
High Yield Bonds	4.50	5.00
Bank Loans	5.00	5.00
Global Bonds (Unhedged)	1.25	0.75
Global Bonds (Hedged)	1.38	0.93
EMD External	5.00	4.00
EMD Local Currency	5.75	5.00
Large Cap Equities	6.25	6.75
Small/Mid Cap	6.25	7.00
International Equities (Unhedged)	7.25	7.75
International Equities (Hedged)	7.50	8.00
Emerging International Equities	9.50	9.75
Private Equity	8.75	9.00
Private Debt	8.00	8.50
Private Real Assets	7.75	8.00
Real Estate	6.25	6.00
Commodities	5.00	5.00
Hedge Funds Low Vol	5.50	4.75
Hedge Funds Mod Vol	5.50	6.50

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2014 and June 30, 2013. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels.

Sensitivity of the Station's proportionate shares of the net pension liability to changes in the discount rate: The following table shows the sensitivity of the net pension liability to changes in the discount rate as of fiscal year end 2014. In particular, the table presents the Station's net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

		1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
Station's proportionate share of the net pension liability	$	6,822,161	5,014,028	3,503,744

Pension plan fiduciary net position: Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2014 and 2013, which are publicly available at www.nmerb.org.

(c) Other Postemployment Benefits

As a department of the University of New Mexico, Station employees and eligible dependents are offered health, dental, and life insurance coverage. Additionally, 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. However, employees hired after June 30, 2015 will not be eligible for other postemployment benefits other than basic life insurance. The authority to establish and amend the benefit provisions and contribution requirements rests with the University of New Mexico's Board of Regents. 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.

KNME-TV

(A Department of the University of New Mexico)

Schedule of Proportionate Share of Net Pension Liability and Employer Contributions (Unaudited)

June 30, 2015

Schedule of Proportionate Share of Net Pension Liability and Employer Contributions

The schedule of proportionate share of net pension liability and the schedule of employer contributions present multiyear trend information for the last ten fiscal years. Fiscal Year 2015 was the first year of implementation, therefore, only one year is shown. Until a full 10-year trend is compiled, information for those years for which information is available will be presented.

Schedule of Proportionate Share of Net Pension Liability

		2015
Station's proportion of the net pension liability (asset)		0.08788%
Station's proportionate share of the net pension liability (asset)	$	5,014,028
Station's covered – employee payroll		2,409,854
Station's proportionate share of the net pension liability (asset) as a percentage of its covered – employee payroll		208.09%
Plan fiduciary net position as a percentage of the total pension liability		66.54%

Schedule of Employer Contributions – ERB Plan

		2015
Statutorily required employer contribution	$	345,614
Contributions in relation to the statutorily required contribution		345,614
Contribution deficiency (excess)	$	—
Station's covered – employee payroll	$	2,486,430
Contributions as a percentage of covered – employee payroll		13.90%

Notes to Schedules

Changes of Benefit Terms

The COLA and retirement eligibility benefits changes in recent years are described in the ***Benefits Provided*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.

(Continued)

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(A Department of the University of New Mexico)

Schedule of Proportionate Share of Net Pension Liability and Employer Contributions (Unaudited)

June 30, 2015

Changes of Assumptions

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on April 26, 2013, ERB implemented the following changes in assumptions for fiscal years 2014 and 2013.

1. Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
   a. Lower wage inflation from 4.75% to 4.25%
   b. Lower payroll growth from 3.75% to 3.50%
   c. Minor changes to demographic assumptions
   d. Population growth per year from 0.75% to 0.50%
2. Assumptions that were not changed:
   a. Investment return will remain at 7.75%
   b. Inflation will remain at 3.00%

See also the ***Actuarial Assumptions*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.