HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Auditor's Report and Basic Financial Statements

August 31, 2014 and 2013

BKD LLP
CPAs & Advisors

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Table of Contents

BKD LLP
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Independent Auditor's Report

Board of Regents
University of Houston System
Houston, Texas

We have audited the accompanying basic financial statements of Houston Public Media (the Stations), a division of the University of Houston System (the System) and of the Stations' discretely presented component unit, which are comprised of statements of net position as of August 31, 2014 and 2013, and the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stations and its discretely presented component unit as of August 31, 2014 and 2013, and the changes in financial position and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the financial statements of the Stations, and do not purport to, and do not, present fairly the financial position of the System as of August 31, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 20 to the financial statements, the 2013 financial statements have been restated to correct a misstatement in classification of net position. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stations' basic financial statements. The supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial

statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Houston, Texas
January 28, 2015

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2014 and 2013

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of Houston Public Media (the Stations), a Division of the University of Houston (UH) System (the System), as of and for the years ended August 31, 2014 and 2013. This MD&A offers a summary of significant current year activities of the Stations, resulting changes in net position, and currently known economic conditions and facts. This analysis should be read in conjunction with the Stations' financial statements and the notes to the financial statements. Responsibility of the financial statements, related footnote disclosures and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus, and are a division of UH. Houston Public Media Foundation (HPMF) is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Overview of the Financial Statements

The Stations herewith present its financial statements for fiscal years ended August 31, 2014 and 2013. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The information contained in the financial statements of the Stations is incorporated within the System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

The *Statement of Net Position* reflects the Stations' assets and liabilities using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. Unrestricted net position is available to the Stations for any lawful purpose. Unrestricted net position often has constraints imposed by management, which can be removed or modified. Net investment in capital assets represents the original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions.

The *Statement of Revenues, Expenses and Changes in Net Position* identifies operating revenues received by the Stations. Additionally, the operating expenses incurred by the Stations during the fiscal year are displayed. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents and shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Position, described above. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the Statement of Revenues, Expenses and Changes in Net Position described above.

This MD&A uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the Stations' financial health may have improved or deteriorated.

Condensed Financial Information

Summary of Net Position

		2014	2013	2012
Assets:				
Current assets	$	1,009,386	722,260	1,118,034
Capital assets, net		16,380,768	17,148,902	17,876,042
Other noncurrent assets		1,696,590	1,420,644	1,210,935
Total assets	$	19,086,744	19,291,806	20,205,011
Liabilities:				
Current liabilities	$	7,368,535	5,516,965	5,078,796
Noncurrent liabilities		9,278,712	9,608,761	9,920,142
Total liabilities		16,647,247	15,125,726	14,998,938
Net position:				
Net investment in capital assets		6,836,808	7,284,893	7,880,652
Restricted for endowment funds		1,569,302	1,278,236	970,571
Unrestricted		(5,966,613)	(4,397,049)	(3,645,150)
Total net position	$	2,439,497	4,166,080	5,206,073

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

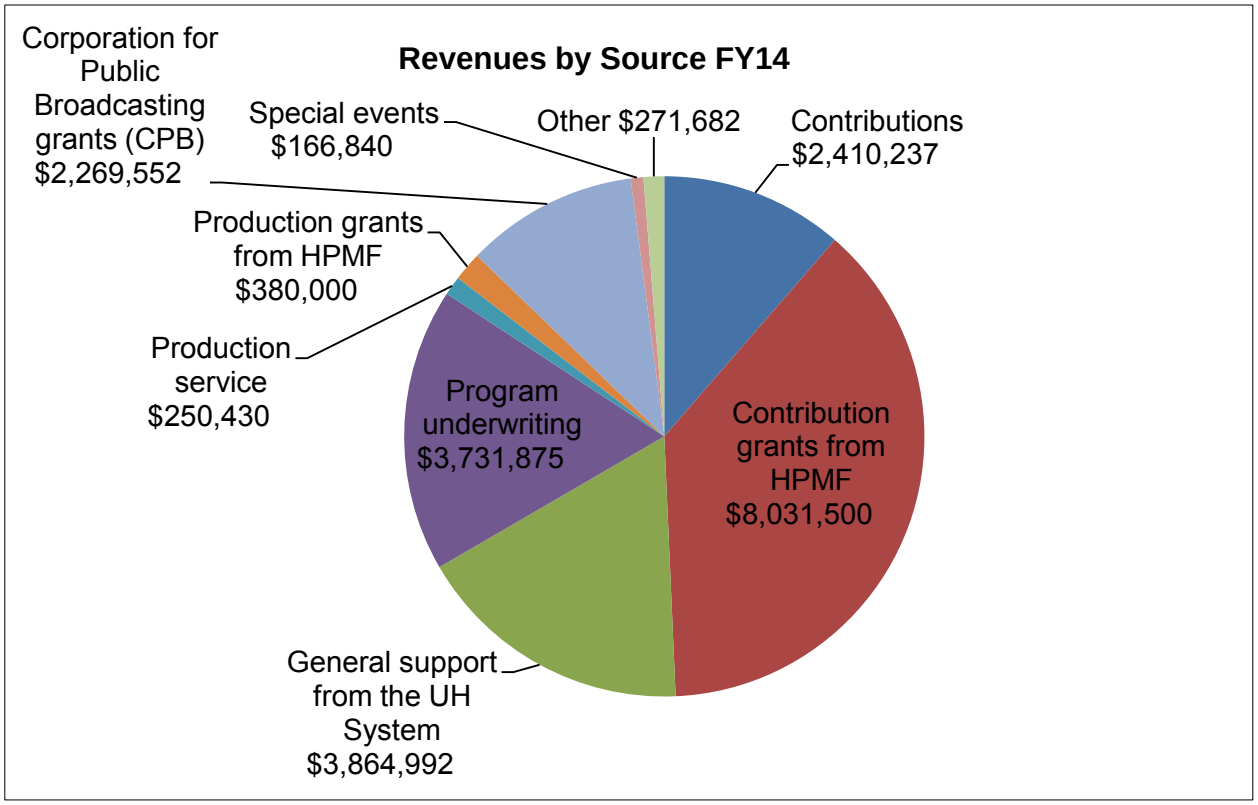
August 31, 2014 and 2013

Summary of Revenues, Expenses and Changes in Net Position

		2014	2013	2012
Operating revenues	$	21,377,108	20,608,709	21,043,043
Operating expenses		23,394,757	21,956,368	21,699,852
Operating loss		(2,017,649)	(1,347,659)	(656,809)
Nonoperating income:				
Additions to endowment		111,667	248,229	545,000
Gain from endowment		179,399	59,437	17,100
Change in net position		(1,726,583)	(1,039,993)	(94,709)
Net position, beginning of year		4,166,080	5,206,073	5,300,782
Net position, end of year	$	2,439,497	4,166,080	5,206,073

Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2014, 2013 and 2012.

Revenues by Source		FY14		FY13		FY12		2014-2013 Increase/Decrease		2013-2012 Increase/Decrease	
Operating revenues:		(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
Contributions	$	2,410,237	11%	2,700,513	13%	3,242,241	16%	(290,276)	-38%	(541,728)	125%
Contribution grants from HPMF		8,031,500	38%	7,993,812	39%	6,530,000	32%	37,688	5%	1,463,812	-337%
General support from the UH System		3,864,992	18%	3,170,958	15%	4,019,660	20%	694,034	90%	(848,702)	195%
Program underwriting		3,731,875	17%	3,815,348	19%	3,929,326	19%	(83,473)	-11%	(113,978)	26%
Production service		250,430	1%	369,097	2%	611,558	3%	(118,667)	-15%	(242,461)	56%
Production grants from HPMF		380,000	2%	89,786	0%	186,079	1%	290,214	38%	(96,293)	22%
Corporation for Public Broadcasting grants (CPB)		2,269,552	11%	2,123,324	10%	2,264,120	11%	146,228	19%	(140,796)	32%
Special events		166,840	1%	298,091	1%	185,678	1%	(131,251)	-17%	112,413	-26%
Other		271,682	1%	47,780	0%	74,381	0%	223,902	29%	(26,601)	6%
Total operating revenues	$	21,377,108	100%	20,608,709	100%	21,043,043	100%	768,399	4%	(434,334)	-2%



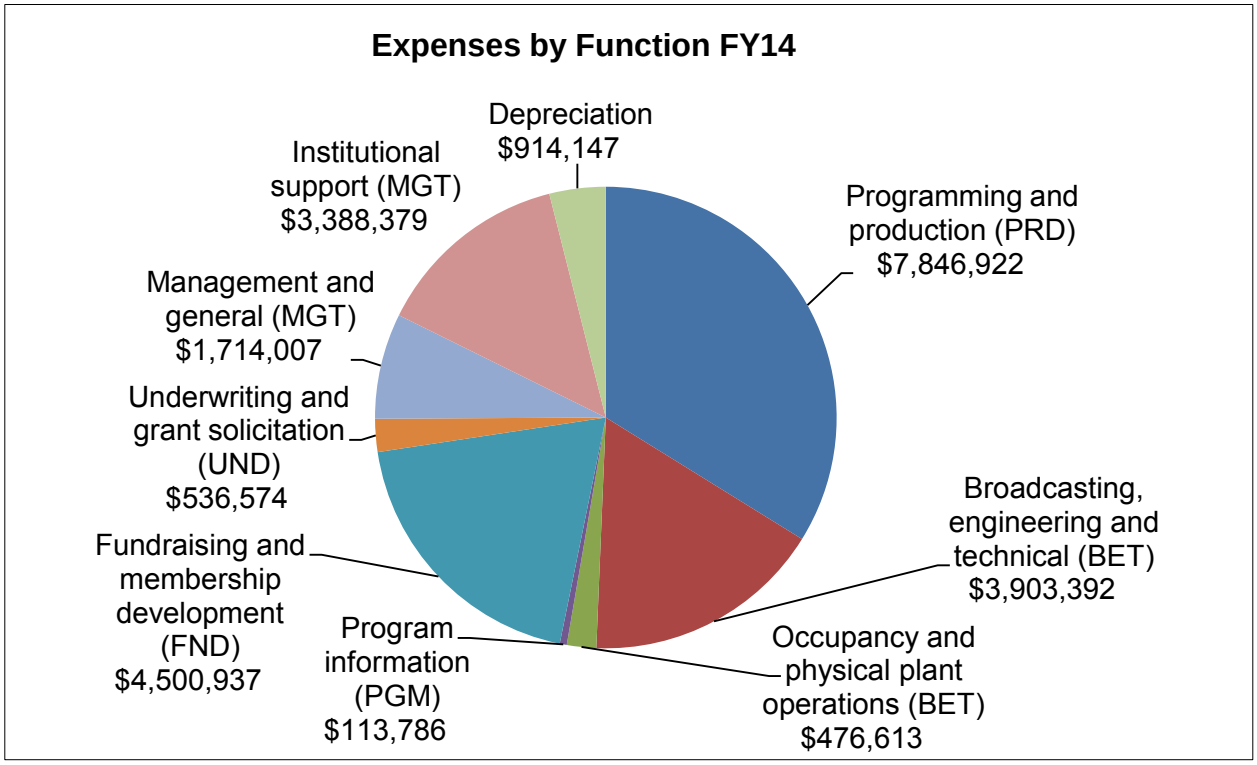
Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Schedules of Functional Expenses. The schedule on the following page presents a summary and comparison of expense for the fiscal years ended August 31, 2014, 2013 and 2012.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2014 and 2013

Expenses by Function		FY14		FY13		FY12		2014-2013 Increase/Decrease		2013-2012 Increase/Decrease	
Operating expenses:		(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
Programming and production (PRD)	$	7,846,922	34%	6,226,987	28%	7,861,415	36%	1,619,935	113%	(1,634,428)	-637%
Broadcasting, engineering and technical (BET)		3,903,392	17%	4,633,076	21%	2,341,093	11%	(729,684)	-51%	2,291,983	894%
Occupancy and physical plant operations (BET)		476,613	2%	482,991	2%	556,088	3%	(6,378)	0%	(73,097)	-28%
Program information (PGM)		113,786	1%	867,343	4%	1,046,035	5%	(753,557)	-52%	(178,692)	-70%
Fundraising and membership development (FND)		4,500,937	19%	3,625,931	17%	2,854,804	13%	875,006	61%	771,127	301%
Underwriting and grant solicitation (UND)		536,574	2%	426,374	2%	503,407	2%	110,200	8%	(77,033)	-30%
Management and general (MGT)		1,714,007	7%	2,150,736	10%	2,046,596	9%	(436,729)	-30%	104,140	41%
Institutional support (MGT)		3,388,379	14%	2,687,967	12%	3,463,572	16%	700,412	49%	(775,605)	-302%
Depreciation		914,147	4%	854,963	4%	1,026,842	5%	59,184	4%	(171,879)	-67%
Total operating expenses	$	23,394,757	100%	21,956,368	100%	21,699,852	100%	1,438,389	7%	256,516	1%



Financial Highlights and Analysis

Assets and Liabilities – Fiscal Year 2014 Compared to Fiscal Year 2013

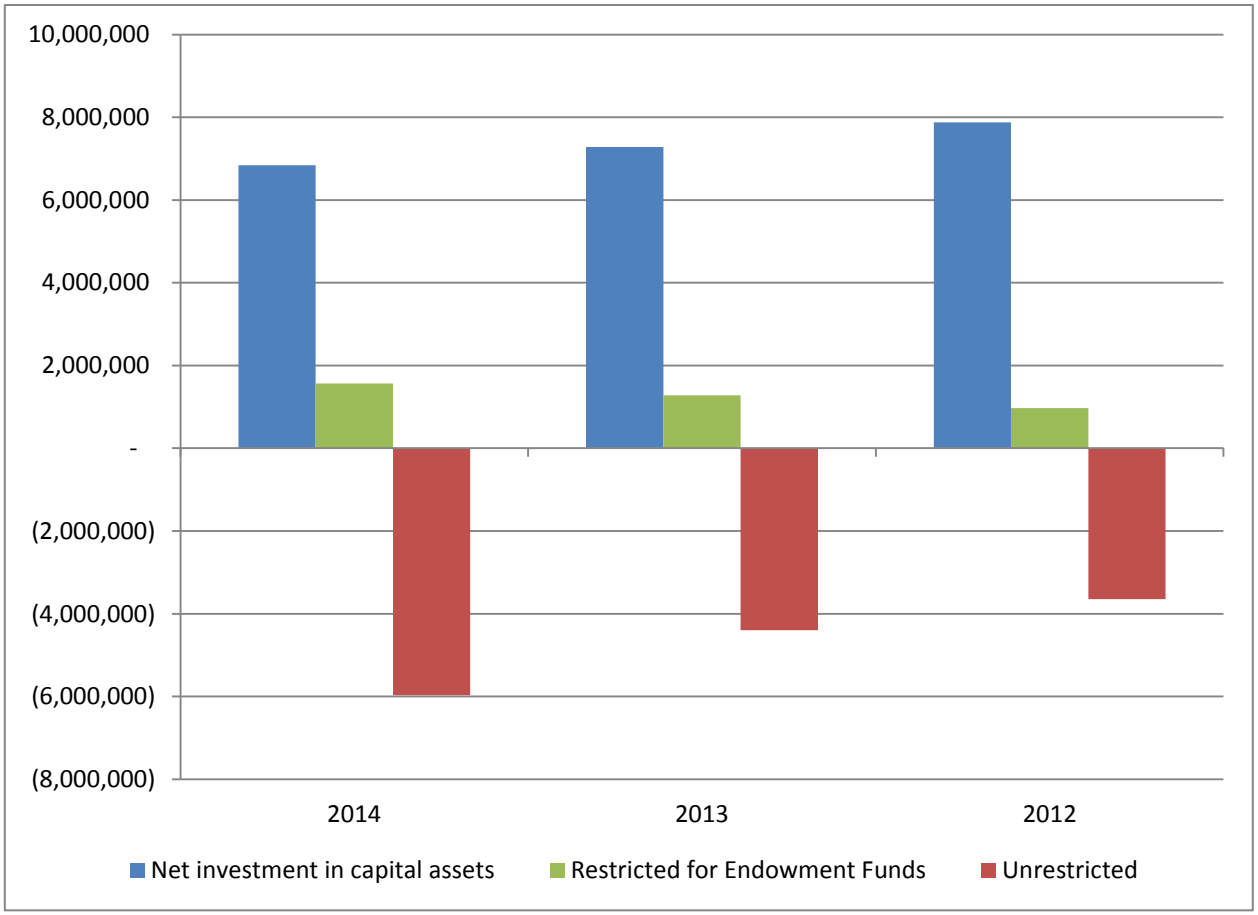
- Current assets increased by $287,126 mainly due to several FY15 expenses that were prepaid in FY14. There were no prepaid expenses in prior years.
- Capital assets decreased by $768,134 in FY14 due to the transfer of several capital assets from the Stations to the central UH Property Management books.
- Other noncurrent assets increased by $275,946 due to the current year's endowment fund additions and gains.
- Current liabilities increased due to the increases in the amount "Due to UH System" and in accounts payable. In FY14, the Stations' performed a more thorough review of liabilities at year-end, which resulted in higher accounts payable balances at August 31, 2014.
- Noncurrent liabilities decreased mainly due to the $180,000 payment on the KUHA note that had not been due in prior years.

Assets and Liabilities – Fiscal Year 2013 Compared to Fiscal Year 2012

Current assets decreased by $395,774. The decrease was due to the following:

- There were no amounts due from HPMF at year-end FY13 versus the $687,000 amount from FY12.
- Accounts receivable increased over $221,000 mainly due to the high turnover in the accounts receivable area in FY13.
- The current portion of the pledge receivable from HPMF decreased $25,000. This amount was determined to be part of the noncurrent portion.
- Film rights decreased $16,000 due to amortization of the related expenses.

The graph on the following page illustrates net position in the different categories for fiscal years 2014, 2013 and 2012.



Operating Revenues – Fiscal Year 2014 Compared to Fiscal Year 2013

Operating revenues increased over $750,000 in FY14 mainly due to the increase in the amount of indirect support provided by the System under the account titled "General Support from the UH System."

Operating Revenues – Fiscal Year 2013 Compared to Fiscal Year 2012

General support from the System decreased due to a change in the formula components used to calculate this figure.

Operating Expenses – Fiscal Year 2014 Compared to Fiscal Year 2013

The Stations' expenses increased over $1.4 million due to the following factors:

- PBS, NPR & other programming fees increased 4% or $150,000.
- Indirect support from the System increased $700,000 from FY13.

- Depreciation expense increased nearly $60,000.
- One-time personnel-related costs totaled nearly $200,000.
- One-time expenses of nearly $420,000 related to our rebranding efforts, launching of our new website and reconfiguration of our donor database.

Operating Expenses – Fiscal Year 2013 Compared to Fiscal Year 2012

The Stations' expenses remained flat in FY13 compared to FY12.

Capital Asset and Debt Administration

As of the end of the 2014 fiscal year, the Stations had $16,380,768 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements; furniture, equipment and vehicles; land; and indefinite lived intangible assets.

Title to these assets resides with the System, which allocates custody of the assets to the Stations for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Stations capitalize assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of capital assets are provided from the Stations' operating revenues.

The Stations do not separately issue long-term debt. The Stations are currently engaged in long-term financing transactions due to the purchase of KUHA. The operating budgets for the Stations are currently structured such that annual financial obligations are satisfied through operating revenues and nonoperating revenues that are received during each fiscal year.

Budgetary Revenues

The table on the following page summarizes the Stations' original budget, final budget, actual results, and variance for revenues.

		Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:				
Contributions	$	3,329,500	2,410,237	(919,263)
Contribution grants from HPMF		8,000,000	8,031,500	31,500
General support from the UH System		3,000,000	3,864,992	864,992
Program underwriting		4,950,000	3,731,875	(1,218,125)
Production service		145,111	250,430	105,319
Production grants from HPMF		-	380,000	380,000
Corporation for Public Broadcasting grants (CPB)		2,269,552	2,269,552	-
Other grants		26,825	26,825	-
Royalties		20,000	132,619	112,619
Rental income		8,400	8,400	-
Special events		350,000	166,840	(183,160)
Other		30,000	103,838	73,838
Total operating revenues	$	22,129,388	21,377,108	(752,280)

The actual versus budgeted revenue variances were due to the following:

- Contributions revenue targets were not reached mainly due to the Stations' consolidation/rebranding efforts.
- Program underwriting revenue projection used in the budget was not set at a realistic level.
- Special events revenue targets were not reached in FY14 due to the cancellation of two large events.
- General support from the UH System increased beyond the projected amount.

Expenditures

The table on the following page summarizes the Stations' original budget, final budget, actual results, and variance for expenditures.

		Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating expenses:				
Programming and production (PRD)	$	8,457,492	7,846,922	610,570
Broadcasting, engineering and technical (BET)		4,501,045	3,903,392	597,653
Occupancy and physical plant operations (BET)		500,000	476,613	23,387
Program information (PGM)		160,969	113,786	47,183
Fundraising and membership development (FND)		3,432,873	4,500,937	(1,068,064)
Underwriting and grant solicitation (UND)		591,688	536,574	55,114
Management and general (MGT)		1,985,321	1,714,007	271,314
Institutional support (MGT)		2,500,000	3,388,379	(888,379)
Depreciation		915,000	914,147	853
Total operating expenses	$	23,044,388	23,394,757	(350,369)

The actual versus budgeted expenditure variances were due to the following:

- Fundraising costs relating to the Stations' consolidation/rebranding were higher than expected.
- Institutional support and general support from the UH System increased beyond the projected amount.

Requests for Information

Questions regarding the information provided in this Annual Financial Report or request for additional financial information should be addressed to the Director of Finance, Houston Public Media at: KUHF-FM, KUHA-FM & KUHT-TV, 4343 Elgin, Houston, TX 77204-0008.

BASIC FINANCIAL STATEMENTS

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Net Position

August 31, 2014 and 2013

	2014		2013	
Assets	**Primary institution**	**Component unit (HPMF)**	**Primary institution**	**Component unit (HPMF)**
Current assets:				
Cash and equivalents	$ -	282,130	-	250,929
Accounts receivable, net	659,861	11,734	612,966	3,360
Due from HPMF	-	-	-	-
Pledge receivable from HPMF	15,000	-	15,000	-
Pledge receivable	-	15,000	-	15,000
Restricted cash and equivalents	-	150,284	-	314,167
Film rights, net	92,714	-	94,294	-
Prepaid expenses	241,811	3,466	-	-
Other current assets	-	20,662	-	20,539
Total current assets	1,009,386	483,276	722,260	603,995
Noncurrent assets:				
Pledge receivable	-	127,288	-	142,408
Pledge receivable from HPMF	127,288	-	142,408	-
Capital assets, net	16,380,768	42,765	17,148,902	93,470
Investments restricted for endowment	1,569,302	1,212,468	1,278,236	1,041,281
Total noncurrent assets	18,077,358	1,382,521	18,569,546	1,277,159
Total assets	$ 19,086,744	1,865,797	19,291,806	1,881,154
Liabilities and Net Position				
Current liabilities:				
Due to UH System	$ 5,174,446	-	3,892,028	-
Pledge payable to primary institution	-	15,000	-	15,000
Accounts payable	679,420	104,792	182,830	52,147
Note payable (KUHT server)	75,248	-	75,248	-
Due to UH System (KUHA note)	190,000	-	180,000	-
Accrued payroll	617,525	-	580,321	-
Unearned revenue	178,976	26,219	32,997	24,886
Employees' compensable leave	452,920	-	573,541	-
Total current liabilities	7,368,535	146,011	5,516,965	92,033
Noncurrent liabilities:				
Pledge payable to primary institution	-	127,288	-	142,408
Note payable (KUHT server)	87,790	-	163,037	-
Due to UH System (KUHA note)	9,190,922	-	9,445,724	-
Total noncurrent liabilities	9,278,712	127,288	9,608,761	142,408
Total liabilities	16,647,247	273,299	15,125,726	234,441
Net position:				
Net investment in capital assets	6,836,808	42,765	7,284,893	93,470
Restricted:				
Expendable for production and outreach programs	-	150,284	-	314,167
Nonexpendable (HPMF 2013 restated - Note 20)	1,221,922	1,122,490	1,063,197	1,122,490
Expendable	347,380	89,978	215,039	-
Unrestricted (HPMF 2013 restated - Note 20)	(5,966,613)	186,981	(4,397,049)	116,586
Total net position	$ 2,439,497	1,592,498	4,166,080	1,646,713

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended August 31, 2014 and 2013

	2014		2013	
	Primary institution	Component unit (HPMF)	Primary institution	Component unit (HPMF)
Operating revenues:				
Contributions	$ 2,410,237	10,030,802	2,700,513	9,973,438
Contribution grants from HPMF	8,031,500	-	7,993,812	-
General support from the UH System	3,864,992	-	3,170,958	-
Program underwriting	3,731,875	19,467	3,815,348	36,334
Production service	250,430	84,268	369,097	128,273
Production grants from HPMF	380,000	-	89,786	-
Corporation for Public Broadcasting grants (CPB)	2,269,552	-	2,123,324	-
Other grants	26,825	490,800	-	190,500
Royalties	132,619	-	32,900	-
Rental Income	8,400	-	8,700	-
Special events	166,840	238,356	298,091	298,845
Other	103,838	9,034	6,180	1,372
Total operating revenues	21,377,108	10,872,727	20,608,709	10,628,762
Operating expenses:				
Grants to primary institution	-	8,411,500	-	7,950,592
Programming and production (PRD)	7,846,922	140,028	6,226,987	204,947
Broadcasting, engineering and technical (BET)	3,903,392	27,264	4,633,076	104,181
Occupancy and physical plant operations (BET)	476,613	-	482,991	-
Program information (PGM)	113,786	25,708	867,343	20,423
Fundraising and membership development (FND)	4,500,937	2,151,543	3,625,931	1,812,519
Underwriting and grant solicitation (UND)	536,574	39,034	426,374	-
Management and general (MGT)	1,714,007	252,347	2,150,736	132,954
Institutional support (MGT)	3,388,379	-	2,687,967	-
Depreciation	914,147	50,705	854,963	50,705
Total operating expenses	23,394,757	11,098,129	21,956,368	10,276,321
Operating income (loss)	(2,017,649)	(225,402)	(1,347,659)	352,441
Nonoperating income:				
Endowment additions	111,667	64,357	248,229	-
Gains from endowment	179,399	106,830	59,437	82,394
Total nonoperating income	291,066	171,187	307,666	82,394
Change in net position	(1,726,583)	(54,215)	(1,039,993)	434,835
Net position, beginning of year	4,166,080	1,646,713	5,206,073	1,211,878
Net position, end of year	$ 2,439,497	1,592,498	4,166,080	1,646,713

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Cash Flows

Years Ended August 31, 2014 and 2013

	2014 Primary institution	2013 Primary institution
Cash flows from operating activities:		
Proceeds from contributions	$ 10,456,857	11,382,509
Proceeds from CPB grant	2,269,552	2,123,324
Proceeds from other grants	26,825	-
Proceeds from program underwriting	3,830,959	3,626,413
Proceeds from other revenues	1,042,127	804,754
Payments to suppliers for goods and services	(5,023,035)	(5,139,099)
Payments to employees	(7,882,463)	(7,496,814)
Payments for broadcasting fees	(4,083,237)	(3,700,820)
Payments for other expenses	(1,337,118)	(1,231,829)
Net cash provided by (used in) operating activities	(699,533)	368,438
Cash flows from noncapital financing activities:		
Advances from UH System	1,282,418	7,165
Gift for endowment purposes	111,667	248,229
Net cash provided by noncapital financing activities	1,394,085	255,394
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(146,013)	(127,823)
Payments for additions of film rights	(116,823)	(116,399)
Payments on due to UH System (KUHA note)	(244,802)	(56,134)
Payments on note payable (KUHT server)	(75,247)	(75,247)
Net cash used in capital and related financing activities	(582,885)	(375,603)
Cash flows from investing activities:		
Purchases of investments	(111,667)	(248,229)
Net cash used in investing activities	(111,667)	(248,229)
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	$ -	-
Reconciliation of loss from operations to net cash used in operating activities:		
Operating loss	$ (2,017,649)	(1,347,659)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation expense	914,147	854,963
Amortization of film rights	118,403	133,063
Increase in accounts receivable	(46,895)	(221,931)
Decrease in amounts due from HPMF	-	687,000
Decrease in pledge receivable	15,120	1,184
Decrease in other assets	-	10,814
Increase in prepaid expenses	(241,811)	-
Increase in accounts payable	496,590	114,842
Increase in accrued payroll	37,204	61,847
Increase in unearned revenue	145,979	32,997
Increase (decrease) in employees' compensable leave	(120,621)	41,318
Total adjustments	1,318,116	1,716,097
Net cash provided by (used in) operating activities	$ (699,533)	368,438

See accompanying notes to basic financial statements.

(1) Entity

The Houston Public Media (the Stations) of the University of Houston (UH) System (the System), which consists of noncommercial, listener-supported radio stations (KUHF and KUHA) and viewer-supported television station (KUHT), serves as Houston's National Public Radio (NPR) affiliate and classical music source and Houston's Public Broadcasting Services (PBS) affiliate. KUHF signed on the air in 1950 as a public radio station. KUHT signed on the air on May 25, 1953, as the nation's first noncommercial educational television station. KUHF provides news and cultural programming at both local and national levels. On May 6, 2011, KUHF purchased KTRU's license for frequency 91.7 from Rice University. KUHA 91.7 Classical went on the air May 16, 2012, providing a 24-hour classical music service to the greater Houston area. At the same time, KUHF 88.7 changed their programming format to a 24-hour news and information station. KUHT provides the building blocks for the Stations' schedule with locally produced and acquired programs selected primarily for their appeal to a national audience; programs are chosen on the basis of quality and audience interests and presented uninterrupted by commercial announcements. The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus with the exception of KUHA-FM, and are a division of the System. As a division of the System, the Stations are exempt from federal income taxes. The Stations currently operate 24 hours a day. The Stations are located in the fourth largest metropolitan area of the United States. These financial statements present financial information that is attributable to the Stations and do not purport to, and do not present fairly, the financial position of the System.

The Stations are dedicated to education and outreach through a wide variety of activities like community advancement, and expanding and strengthening partnerships and collaborations with key arts organizations in Houston. In pursuing all the dissimilar goals, the Stations have consistently used cutting-edge technology to extend the value of its services.

KUHT is a full-service television station licensed to the University of Houston. The studio facilities are on the University of Houston campus in the LeRoy and Lucile Melcher Center for Public Broadcasting. The transmitter facilities are located in Missouri City, Texas. KUHT began broadcasting May of 1953 and was the first station in the country to operate on a specially reserved noncommercial television channel. The digital video services offered today include one high-definition program service and two standard definition services. KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. It was the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the greater Houston area, including access to the Houston Taping for the Blind radio service. The broadcast signal reaches thirty-three counties in southeast Texas and is carried on numerous cable television systems as well as both the Dish Network and DirecTV satellite services.

KUHF's and KUHA's new media technologies are rapidly developing with the changing landscape of on-demand media around the world. Current services include all news and all music internet streams, podcasts, on-demand shows, user interactive event calendar, RSS feeds, iPhone applications, Blackberry applications and iPad applications. The radio stations' new media group is now 4 full-time staff members with opportunities for intern training. Such internships are also available in News, Production, Public Relations, Development, Music and Business.

Houston Public Media Foundation (HPMF), formerly known as the Association for Community Broadcasting (ACB) and as the Association for Community Television (ACT), was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to KUHT, Channel 8, in Houston, Texas.

On January 25, 2005, the Board of Regents of the System and ACT agreed that the same services provided to KUHT would also be provided to KUHF and thus adopted the ACB name. On January 30, 2014, ACB changed its name to HPMF to be more aligned with the Stations' new branding under the newly formed Houston Public Media division of UH.

The System and HPMF, as part of an ongoing agreement, have stipulated that all grants for the Stations' programming and other activities will be deposited with the System's Office of Sponsored Programs or, at the discretion of the general manager of the Stations, deposited in accounts maintained by HPMF and immediately and exclusively available to the Stations.

HPMF is directed by a Board of Directors, who are elected by other HPMF Directors, and is managed on a daily basis by a combination of Board Officers and the Stations' employees. There are no separately issued financial statements of HPMF.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The financial accounting records of the Stations and HPMF are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

The financial statements for both the Stations and HPMF are presented using the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been incurred.

b. Reporting Guidelines

The Stations are reported as a single purpose business-type activity entity. In addition, the Stations' financial statements have been prepared in accordance with the Corporation for Public Broadcasting's (CPB) *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

c. Net Position

Net investment in capital assets – represents the Stations' original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net position invested in capital assets, net of related debt.

Nonexpendable restricted net position – represents endowment principal which cannot be used for operational purposes and which is restricted in perpetuity.

Expendable restricted net position – represents income received from an endowment, which is available for purposes restricted by the donor, and can include gifts restricted by the donor for a specific purpose.

Unrestricted net position – represents resources that are available for the support of the Stations' operations.

When the Stations incur an expense for which both restricted and unrestricted resources may be used, it is the Stations' policy to use restricted resources first then unrestricted resources.

d. Revenues

Operating revenues include sources that are primarily used to provide services to the Stations' audience. Substantially all of the Stations' revenues are considered operating with the exception of net change in fair value of endowments, insurance recoveries and other investment income.

Unrestricted contributions and gifts do not have binding agreements and are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received and when eligibility requirements have been met. Restricted support and revenues are recognized upon incurring the appropriate expenses or meeting the eligibility requirements.

e. Accounts Receivable

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

f. Pledges Receivable

Unconditional promises to give (pledges) that are measurable are recorded after being discounted to the anticipated net present value of the future cash flows. The Stations provide an allowance for estimated uncollectible pledges, which is based upon a review of outstanding pledges receivable, historical collections and existing economic conditions.

g. Cash and Cash Equivalents

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

Cash and cash equivalents represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the System acting as the Stations' fiscal agent to optimize the rate of return. All of the funds included in cash and cash equivalents are insured or registered or are securities held by the System or its agent in the System's name.

Immediately upon formal written notification of an approved appropriation or grant, the System permits the Stations to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the System has received the related funds.

For current unrestricted and restricted accounts, the System allocated a percentage of the interest income earned to the Stations at a fixed rate based on its monthly average cash balance.

h. Capital Assets

Capital assets represent buildings and equipment acquired primarily for the operation of the Stations. Title of the buildings and equipment rests with the State of Texas (the State) in the name of the System, and therefore, such assets can be transferred to or from the Stations at the discretion of the System. The threshold for capitalization of assets is $5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight-line basis over the following estimated useful lives of the assets:

Buildings and building improvements	22 – 30 years
Furniture and equipment	5 – 10 years
Other assets	5 years
Land	Not depreciable
Indefinite lived intangible assets	Not depreciable

Useful lives are established by a uniform classification system maintained by the State and are measured from the date of acquisition.

i. Film Rights

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

j. In-kind Contributions

In-kind contributions included in revenues and expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position consist of general support from the System, which is further described in Note 10.

The fair value of merchandise contributed by third parties in connection with the Stations' fundraising activities is not included in the accompanying financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise and donated personal services, are also not included in the accompanying financial statements.

k. Unearned Revenues

Grant and program underwriting revenues received relating to the period after fiscal year-end are reported as unearned revenues.

l. Advertising

Advertising costs are charged to operations when incurred.

m. Use of Estimates

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

n. Employees' Compensable Leave

Stations' employees are classified as state employees and as such are entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal or separation from state employment provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees.

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

o. Fair Value Measurements

HPMF has investments in external investment pools. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, the fair value is determined by the fair value per share of the external investment pools' underlying portfolio. None of the external investment pools are publicly registered, and the fair value of the position of the pool is the same as the value of the pool shares.

p. Presentation of Discrete Component Unit

HPMF is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The financial statements of the Primary Institution and its component unit, HPMF, are presented using the same categories in order to provide consistency. HPMF is not a governmental entity, and as such, current year data has been made to conform to reporting under GASB.

(3) Endowment Funds

a. Primary Institution

Gifts to the UH System are placed in the System's endowment fund, which is a pooled investment of individual endowments benefiting the entire System.

The System's Endowment Fund allocated income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowment's fair value in the previous three fiscal years. That percentage was 4% in fiscal years 2014 and 2013. If an endowment were in existence less than three years, the average was based on the number of years in existence.

The deposits and investments of the Stations and HPMF are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The deposits and investments with the UH System Endowment Fund are exposed to risks that have the potential to result in losses. Those risks 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

During fiscal years 2014 and 2013, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation and manager structure within the endowment portfolio. The UH System Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return. Further information regarding the investment balances and risks with the UH System Endowment Fund, which does not have a credit rating, may be obtained from the UH System Office of the Treasurer.

The following summarizes activity for the years ended August 31, 2014 and 2013:

Balance, August 31, 2012	$	970,571
FY13 endowment additions		248,229
FY13 realized/unrealized gain		59,436
Balance, August 31, 2013		1,278,236
FY14 endowment additions		111,667
FY14 realized/unrealized gain		179,399
Balance, August 31, 2014	$	1,569,302

The assets of the Stations' endowments totaled $1,569,302 and $1,278,236 at August 31, 2014 and 2013, respectively, and are not legally restricted. Unrealized gains and losses for each year are recorded in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

b. Component Unit (HPMF)

The gifts received by HPMF to create endowed accounts are invested in the HPMF Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the HPMF Endowment Fund (the Endowment) and Gift Committee. The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The objectives of the Investment Pool are to protect the real value of the HPMF Endowment Fund, while maximizing the amount distributed annually for endowed spending as further described in the HPMF Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the HPMF Endowment Fund will be reinvested to protect the capital against erosion by inflation.

The Endowment's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have as a goal that its total distributions and expenses not exceed the Endowment's total inflation-adjusted return on investments. Consistent with the Endowment's long-term investment objectives, the Board of Directors established the spending policy, which generally permits total distributions and expenses (including but not limited to investment management fees) not in excess of an amount equal to 4% of the average net asset value of the Endowment over the prior 3 years (or the life of the Endowment if shorter than 3 years). The Board of Directors may authorize distributions in excess of the 4% when the Stations have the need to fund one-time capital expenditures.

The HPMF Endowment Fund has a related operating account to which annual income distributed from the endowment funds is deposited and to which expenditures, in accordance with the donor's wishes, may be charged. In the event that there is a balance in the HPMF Endowment Fund operating account at fiscal year-end, it will automatically be transferred back to the endowment funds on a prorated basis (according to the income distributed). This procedure is called "Endowment Capitalization." It is in the HPMF Endowment

Fund's best interests that surplus funds are capitalized, since they will yield new units and thus generate additional income in future years.

The Investment Pool is invested with an external investment manager in commingled funds who invest, for example, in marketable securities, fixed income, alternative investments, real estate and cash equivalents. The Investment Pool reported a fair value of $1,212,468 as of August 31, 2014, and $1,041,281 as of August 31, 2013, is not publicly traded, and has been estimated by fund managers in the absence of readily available market values. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk and investment manager risk.

These investments are held with the Greater Houston Community Foundation, which does not have a credit rating, and further information regarding the investment balances and risks with the Greater Houston Community Foundation may be obtained from HPMF business offices by calling 713-748-8888.

The following summarizes activity for the years ended August 31, 2014 and 2013:

Balance, August 31, 2012	$	1,138,887
FY13 distributions from the endowment		(180,000)
FY13 gain from endowment		85,863
FY13 administrative charges		(3,469)
Balance, August 31, 2013		1,041,281
FY14 contributions		64,357
FY14 gain from endowment		109,877
FY14 administrative charges		(3,047)
Balance, August 31, 2014	$	1,212,468

(4) Accounts Receivable

Accounts receivable as of August 31, 2014, comprised the following:

		Primary institution	Component unit (HPMF)
Accounts receivable	$	684,825	11,734
Allowance for doubtful accounts		(24,964)	-
Total	$	659,861	11,734

Accounts receivable as of August 31, 2013, comprised the following:

		Primary institution	Component unit (HPMF)
Accounts receivable	$	649,116	3,360
Allowance for doubtful accounts		(36,150)	-
Total	$	612,966	3,360

Accounts receivable for the Stations and HPMF consist primarily of production grants and underwriting support.

(5) Pledge Receivable

As of August 31, 2014 and 2013, HPMF had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

		2014	2013
Receivable within one year	$	15,000	15,000
Receivable in two to five years		130,000	145,000
Less discount		(2,712)	(2,592)
Pledge receivable in two to five years, present value	$	142,288	157,408

As of August 31, 2014 and 2013, there was no allowance for estimated uncollectible pledges. The pledge receivable from HPMF due to the primary institution consisted of the same amounts presented above.

(6) Capital Assets

Capital asset activities for the year ended August 31, 2014, were as follows for the Stations:

		2013	Additions	Dispositions	2014
Capital assets:					
Buildings and building improvements	$	12,637,863	-	-	12,637,863
Furniture and equipment		9,925,764	146,013	1,023,987	9,047,790
Vehicles		34,466	-	-	34,466
Land		402,044	-	-	402,044
Intangible and other assets		9,221,225	-	-	9,221,225
Total capital assets		32,221,362	146,013	1,023,987	31,343,388
Less accumulated depreciation		15,072,460	914,147	1,023,987	14,962,620
Net capital assets	$	17,148,902	(768,134)	-	16,380,768

Capital asset activities for the year ended August 31, 2014, were as follows for HPMF:

		2013	Additions	Dispositions	2014
Capital assets:					
Land	$	14,100	-	-	14,100
Program costs		652,089	-	-	652,089
Furniture and equipment		424,249	-	-	424,249
Other assets		4,050	-	-	4,050
Accounting software - FM		55,105	-	-	55,105
Accounting software - TV		55,105	-	-	55,105
Total capital assets		1,204,698	-	-	1,204,698
Less accumulated depreciation		1,111,228	50,705	-	1,161,933
Net capital assets	$	93,470	(50,705)	-	42,765

Capital asset activities for the year ended August 31, 2013, were as follows for the Stations:

		2012	Additions	Dispositions/ Reclassifi-cations	2013
Capital assets:					
Construction in progress	$	5,459	-	5,459	-
Buildings and building improvements		12,637,863	-	-	12,637,863
Furniture and equipment		9,797,941	148,486	20,663	9,925,764
Vehicles		34,466	-	-	34,466
Land		402,044	-	-	402,044
Intangible and other assets		9,215,766	-	(5,459)	9,221,225
Total capital assets		32,093,539	148,486	20,663	32,221,362
Less accumulated depreciation		14,217,497	875,626	20,663	15,072,460
Net capital assets	$	17,876,042	(727,140)	-	17,148,902

Capital asset activities for the year ended August 31, 2013, were as shown on the following page.

		2012	Additions	Dispositions	2013
Capital assets:					
Land	$	14,100	-	-	14,100
Program costs		652,089	-	-	652,089
Furniture and equipment		424,249	-	-	424,249
Other assets		4,050	-	-	4,050
Accounting software - FM		55,105	-	-	55,105
Accounting software - TV		55,105	-	-	55,105
Total capital assets		1,204,698	-	-	1,204,698
Less accumulated depreciation		1,060,523	50,705	-	1,111,228
Net capital assets	$	144,175	(50,705)	-	93,470

(7) Film Rights

KUHT pays for the right to use certain films in its broadcasting activities. The costs of those rights are amortized over the purchased periods. Changes in the costs of film rights for the years ended August 31, 2014 and 2013, were as follows:

Balance, August 31, 2012	$	110,958
FY13 additions		116,399
FY13 amortization		(133,063)
Balance, August 31, 2013		94,294
FY14 additions		116,823
FY14 amortization		(118,403)
Balance, August 31, 2014	$	92,714

(8) Due to the System

Since the Stations maintain all of their cash balances with the System's treasury department, the System permits the Stations to overdraw their claims on cash account from time to time. The amount disclosed in the "Due to the UH System" account represents the amount by which the Stations have overdrawn its claim on cash account with the System as of August 31, 2014 and 2013.

The "Due to UH System (KUHA note)" account represents long-term debt issued by the System to the Stations for the asset purchase of KUHA-FM. The balance as of August 31, 2014 and 2013, was $9,380,922 and $9,625,724, respectively.

(9) Unrestricted Net Deficit

The Stations have been experiencing a net excess of expenses over revenues, resulting in an increasing net deficit of unrestricted net position. The net deficit of unrestricted net position at August 31, 2014 and 2013, was $5,966,613 and $4,397,049, respectively. The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues.

(10) General Support from the System

General support from the System includes building and related occupancy costs donated by the System and are recorded in revenues and expenses. The occupancy costs are determined based on the net book value of the building and tower, as well as the square footage of the building and tower utilized by the stations. Occupancy cost was $325,429 in each of the fiscal years 2014 and 2013. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting, painting, etc.) which was $151,184 in fiscal year 2014 and $157,562 in fiscal year 2013. The System also provides indirect administrative support and maintenance support to the Stations, which are recorded in revenues and expenses based on the System's allocation methods. Indirect administrative support amounted to $3,388,379 in fiscal year 2014 and $2,687,967 in fiscal year 2013.

(11) Corporation for Public Broadcasting Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. 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. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

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 recordkeeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission.

(12) Pension Plan

The Stations participate in the State of Texas (the State) joint contributory retirement plans and thereby provide retirement plans for substantially all of its employees designated as "benefit eligible." One of the primary plans in which the Stations participate is administered by the Teacher Retirement System of Texas (the TRS), a cost-sharing, multiple-employer pension plan. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is

subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4% of their salary to the plan and the Stations contribute an amount equal to 6.644% of aggregate annual compensation during each fiscal year.

The TRS does not account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the plan by the Stations amounted to $389,235, $351,242 and $324,421 in 2014, 2013 and 2012, respectively. The total amount of employee contributions was $61,267, $55,746 and $48,881 in 2014, 2013 and 2012, respectively. These contributions represent 100% of the required contribution.

The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, TX 78701-2698 or by calling 800-877-0123.

The State of Texas has also established an Optional Retirement Program (the ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP is an individualized defined contribution plan which provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Stations' and participants' contributions were 6% of the participants' annual compensation. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for FY14 and FY13 are 6.65% for ORP participants. The state contribution rate for ORP is 6% for FY14 and FY13. Contributions to the plan by the Stations amounted to $9,235, $12,535 and $26,157 in 2014, 2013 and 2012, respectively. The total amount of employee contributions was $1,066, $1,864 and $1,801 in 2014, 2013 and 2012, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

(13) Leases

The Stations have entered into operating leases for various business purposes, including a tower antenna; fundraising software; a utility van; fax and copy machine and KUHT server; web host connection in support of their operations; transmitting facility; and other equipment. The Stations have short- and long-term operating leases. During the years ended August 31, 2014 and 2013, lease expense was $283,518 and $324,652, respectively.

Future minimum lease payments under noncancelable operating lease agreements are as follows:

Year Ending August 31:		Amount
2015	$	247,370
2016		104,626
	$	351,996

(14) Transactions Between Primary Institution and Component Unit

Cash expenditures made by HPMF on behalf of the Stations, such as expenditures associated primarily with fundraising for the Stations and production of the Stations' local programs, are recorded as revenues and expenses in the Stations. Such cash expenditures for the fiscal years ended August 31, 2014 and 2013, amounted to $2,634,965 and $2,155,117, respectively, and have been included in the contributions, special events and production service revenues and in operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

(15) Income Taxes

The System, of which the Stations is a division, is a university established as an agency of the State of Texas prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986 (IRC). However, as a state college or university, the System is subject to unrelated business income pursuant to IRC Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2014 and 2013. HPMF, whose purpose is to raise money for the Stations, is exempt from income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). No material unrelated business income tax was incurred by HPMF for the years ended August 31, 2014 and 2013. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(16) Risk Management

The Stations are exposed to various risks of loss related to torts, injuries to employees and natural disasters. The System carries commercial insurance to cover losses to which the Stations may be exposed.

(17) Long-term Liabilities

The changes in long-term liabilities for the Stations for the year ended August 31, 2014, were as follows:

Business-type Activities	Balances, August 31, 2013	Decreases	Balances, August 31, 2014	Amounts Due in One Year
Notes payable:				
KUHT server	$ 238,285	75,247	163,038	75,248
KUHA purchase	9,625,724	244,802	9,380,922	190,000
Total	$ 9,864,009	320,049	9,543,960	265,248

The changes in long-term liabilities for HPMF for the year ended August 31, 2014, were as follows:

Business-type Activities	Balance, August 31, 2013	Decreases	Balance, August 31, 2014	Amount Due in One Year
Pledge payable to primary institution	$ 157,408	15,120	142,288	15,000

The changes in long-term liabilities for the Stations for the year ended August 31, 2013, were as follows:

Business-type Activities	Balances, August 31, 2012	Decreases	Balances, August 31, 2013	Amounts Due in One Year
Notes payable:				
KUHT server	$ 313,533	75,248	238,285	75,248
KUHA purchase	9,681,850	56,126	9,625,724	180,000
Total	$ 9,995,383	131,374	9,864,009	255,248

The changes in long-term liabilities for HPMF for the year ended August 31, 2013, were as follows:

Business-type Activities	Balance, August 31, 2012	Decreases	Balance, August 31, 2013	Amount Due in One Year
Pledge payable to primary institution	$ 158,592	1,184	157,408	15,000

(18) Bond Amortization

The KUHA purchase was paid by the University of Houston, and a twenty five year bond debt was closed on December 29, 2011. The University of Houston received the proceeds from the Consolidated Revenue and Refunding Bonds (Series 2011A & 2011B (Taxable)). KUHA will pay the bond debt according to the schedule on the following page.

Year Ending	Principal	Coupon	Interest	Debt Service	Premium
8/31/2015	$ 190,000	5.00%	420,250	610,250	64,299
8/31/2016	200,000	5.00%	410,500	610,500	64,299
8/31/2017	205,000	5.00%	400,375	605,375	63,605
8/31/2018	220,000	5.00%	389,750	609,750	55,462
8/31/2019	230,000	5.00%	378,500	608,500	48,014
8/31/2020	240,000	5.00%	366,750	606,750	48,014
8/31/2021	255,000	5.00%	354,375	609,375	48,014
8/31/2022	265,000	5.00%	341,375	606,375	37,895
8/31/2023	280,000	5.00%	327,750	607,750	27,777
8/31/2024	295,000	5.00%	313,375	608,375	27,777
8/31/2025	310,000	5.00%	298,250	608,250	27,777
8/31/2026	325,000	5.00%	282,375	607,375	27,777
8/31/2027	340,000	5.00%	265,750	605,750	27,777
8/31/2028	360,000	5.00%	248,250	608,250	27,777
8/31/2029	380,000	5.00%	229,750	609,750	27,777
8/31/2030	395,000	5.00%	210,375	605,375	27,777
8/31/2031	420,000	5.00%	190,000	610,000	27,777
8/31/2032	440,000	5.00%	168,500	608,500	27,597
8/31/2033	460,000	5.00%	146,000	606,000	25,130
8/31/2034	485,000	5.00%	122,375	607,375	22,841
8/31/2035	510,000	5.00%	97,500	607,500	22,841
8/31/2036	535,000	5.00%	71,375	606,375	22,841
8/31/2037	565,000	5.00%	43,875	608,875	13,278
8/31/2038	595,000	5.00%	14,875	609,875	66,799
	$ 8,500,000		6,092,250	14,592,250	880,922

(19) KUHT Server

The KUHT server was purchased by the University of Houston System for the television station. Houston Public Media will be paying following the schedule below.

Year Ending August 31:	KUHT Server Amount
2015	$ 75,248
2016	75,248
2017	12,542
	$ 163,038

(20) Restatement of Net Position

During the year ended August 31, 2014, it was determined that certain permanently restricted endowments related to HPMF had been misclassified as "expendable restricted" as opposed to "nonexpendable restricted." Net position as of August 31, 2013, has been adjusted to reflect the proper classification. There was no effect on the change in net position for the year ended August 31, 2013.

(21) Subsequent Events

Management has evaluated subsequent events from the balance sheet date through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued and determined that there are no other items to disclose.

(22) Future Change in Accounting Principle

GASB recently issued its Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (Statement No. 68). Statement No. 68 requires recognition of the long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. The Stations expect to first apply Statement No. 68 during the year ending August 31, 2015, using a retrospective recognition method. The impact of applying Statement No. 68 has not been determined.

SUPPLEMENTARY INFORMATION

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Functional Expenses

Year Ended August 31, 2014

Schedule 1

Class		Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	$	2,285,030	1,585,750	9,203	3,879,983	1,218,173	808,246	405,453	2,431,872	6,311,855
Fringe benefits		415,841	477,589	-	893,430	357,500	165,382	102,569	625,451	1,518,881
Financial and legal services		1,586	10,983	85	12,654	249,473	174,096	5,815	429,384	442,038
Fundraising		161,926	37,218	8,348	207,492	1,169,165	1,129	5,373	1,175,667	1,383,159
Membership fees		9,474	8,179	402	18,055	189,653	74,547	-	264,200	282,255
Other expenses		338,193	333,346	72,033	743,572	267,102	284,500	10,250	561,852	1,305,424
Postage		2,942	5,048	3,815	11,805	527,558	5,459	917	533,934	545,739
Printing and reproduction services		2,218	79	1,894	4,191	161,310	2,591	84	163,985	168,176
Professional services		101,386	100,661	1,826	203,873	139,358	103,322	-	242,680	446,553
Program rights		3,943,546	4,043	4,814	3,952,403	6,514	5,817	-	12,331	3,964,734
Rental and leases		14,836	283,451	1,900	300,187	32,123	18,580	-	50,703	350,890
Repair and maintenance		23,348	234,216	1,200	258,764	154,285	11,994	-	166,279	425,043
Supplies and materials		43,592	223,868	4,444	271,904	13,027	45,025	109	58,161	330,065
Telephone		23,492	190,175	1,517	215,184	4,942	44	-	4,986	220,170
Travel		50,012	673	2,305	52,990	10,754	13,240	6,004	29,998	82,988
Utilities		-	408,013	-	408,013	-	35	-	35	408,048
Debt service - KUHA Classical		429,500	-	-	429,500	-	-	-	-	429,500
Broadcasting fees		-	100	-	100	-	-	-	-	100
		7,846,922	3,903,392	113,786	11,864,100	4,500,937	1,714,007	536,574	6,751,518	18,615,618
In-kind		-	476,613	-	476,613	-	3,388,379	-	3,388,379	3,864,992
	$	7,846,922	4,380,005	113,786	12,340,713	4,500,937	5,102,386	536,574	10,139,897	22,480,610
Percentage of total expenses before depreciation		35%	19%	1%	55%	20%	23%	2%	45%	100%

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Component Unit (HPMF) Schedule of Functional Expenses

Year Ended August 31, 2014

Schedule 2

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Grand Total
Financial and legal services	$ -	-	-	54	257,943	101,271	-	359,268
Fundraising	-	2,439	42	7,996	418,676	434	-	429,587
Grants to KUHF-FM	3,788,080	-	-	-	-	-	-	3,788,080
Grants to KUHA-FM	480,595	-	-	-	-	-	-	480,595
Grants to KUHT-TV	4,142,825	-	-	-	-	-	-	4,142,825
Membership fees	-	-	-	150	189,171	32,490	-	221,811
Other expenses	-	57,541	18,270	9,660	241,439	15,810	36,388	379,108
Mail services	-	168	-	2,095	479,276	1,084	-	482,623
Printing and reproduction services	-	1,535	-	1,509	140,001	321	-	143,366
Professional services	-	8,060	-	1,826	154,711	90,974	-	255,571
Rental and leases	-	22,949	1,200	1,000	29,437	1,766	2,595	58,947
Repair and maintenance	-	-	6,950	-	143,910	6,675	-	157,535
Supplies and materials	-	17	-	-	646	1,188	51	1,902
Telemarketing services	-	-	-	-	89,156	-	-	89,156
Telephone	-	22,499	72	-	4,480	-	-	27,051
Travel	-	24,820	730	1,418	2,697	334	-	29,999
	$ 8,411,500	140,028	27,264	25,708	2,151,543	252,347	39,034	11,047,424

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Functional Expenses

Year Ended August 31, 2013

Schedule 3

Class		Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	$	2,999,030	582,287	556,999	4,138,316	768,355	808,071	318,253	1,894,679	6,032,995
Fringe benefits		784,162	162,050	120,089	1,066,301	230,621	198,422	71,640	500,683	1,566,984
Financial and legal services		10,231	26,191	2,084	38,506	206,721	158,783	697	366,201	404,707
Fundraising		12,384	423	26,374	39,181	949,469	4,116	1,708	955,293	994,474
Membership fees		55,695	8,209	6,290	70,194	21,259	97,209	-	118,468	188,662
Other expenses		330,932	305,568	23,533	660,033	319,756	252,958	9,893	582,607	1,242,640
Postage		1,269	2,054	3,983	7,306	535,268	4,937	2,612	542,817	550,123
Printing and reproduction services		4,288	330	3,950	8,568	93,199	4,739	734	98,672	107,240
Professional services		131,988	98,989	28,713	259,690	229,647	56,179	-	285,826	545,516
Program rights		1,660,646	2,123,324	41,313	3,825,283	3,825	-	-	3,825	3,829,108
Rental and leases		74,647	297,017	1,626	373,290	45,207	20,325	18	65,550	438,840
Repair and maintenance		10,983	286,843	2,535	300,361	156,164	20,529	1,511	178,204	478,565
Supplies and materials		47,803	228,800	24,726	301,329	12,422	43,657	1,100	57,179	358,508
Telephone		46,079	115,656	7,870	169,605	21,597	21,351	6,388	49,336	218,941
Travel		45,538	5,090	16,133	66,761	32,421	26,204	11,820	70,445	137,206
Utilities		7,662	390,245	-	397,907	-	-	-	-	397,907
Debt service - KUHA Classical		-	-	-	-	-	433,256	-	433,256	433,256
Broadcasting fees		3,650	-	1,125	4,775	-	-	-	-	4,775
		6,226,987	4,633,076	867,343	11,727,406	3,625,931	2,150,736	426,374	6,203,041	17,930,447
		-	482,991	-	482,991	-	2,687,967	-	2,687,967	3,170,958
	$	6,226,987	5,116,067	867,343	12,210,397	3,625,931	4,838,703	426,374	8,891,008	21,101,405
Percentage of total expenses before depreciation		30%	24%	4%	58%	17%	23%	2%	42%	100%

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Component Unit (HPMF) Schedule of Functional Expenses

Year Ended August 31, 2013

Schedule 4

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Grand Total
Financial and legal services	$ -	208	-	286	178,948	44,475	-	223,917
Fundraising	-	2,248	-	7,542	150,755	485	-	161,030
Grants to KUHF-FM	3,404,000	-	-	-	-	-	-	3,404,000
Grants to KUHA-FM	275,000	-	-	-	-	-	-	275,000
Grants to KUHT-TV	4,271,592	-	-	-	-	-	-	4,271,592
Membership fees	-	-	-	45	16,400	55,074	-	71,519
Other expenses	-	143,782	3,009	2,222	291,086	10,526	-	450,625
Mail services	-	12	-	2,794	540,518	173	-	543,497
Printing and reproduction services	-	2,235	-	824	55,088	1,005	-	59,152
Professional services	-	3,455	33,368	3,616	133,864	6,096	-	180,399
Program rights	-	9,394	-	-	2,870	-	-	12,264
Rental and leases	-	14,488	54,532	-	45,168	-	-	114,188
Repair and maintenance	-	2,457	-	510	156,760	8,316	-	168,043
Supplies and materials	-	375	13,272	775	5,127	3,770	-	23,319
Telemarketing services	-	-	-	-	116,644	-	-	116,644
Telephone	-	13,925	-	-	114,202	-	-	128,127
Travel	-	12,368	-	1,809	5,089	3,034	-	22,300
	$ 7,950,592	204,947	104,181	20,423	1,812,519	132,954	-	10,225,616