

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity
Licensed to Texas Tech University)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements:	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Changes in Fund Net Position.....	7
Statements of Cash Flows	8
Notes to Financial Statements.....	9
Supplemental Information:	
Combining Statements of Net Position.....	16
Combining Statements of Revenues, Expenses and Changes in Fund Net Position.....	17
Combining Statements of Cash Flows	18

INDEPENDENT AUDITOR'S REPORT

Texas Tech University System Board of Regents
Lubbock, Texas:

We have audited the accompanying financial statements of Texas Tech Public Broadcasting (A Public Telecommunications Entity Licensed to Texas Tech University) as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Texas Tech Public Broadcasting'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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Tech Public Broadcasting as of August 31, 2013 and 2012, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Texas Tech Public Broadcasting's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Daniel Kinard & Co., PC
Certified Public Accountants

Abilene, Texas
January 28, 2014

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

Introduction and Reporting Entity

The following discussion and analysis is an overview of the financial position and activities of Texas Tech Public Broadcasting for the years ended August 31, 2013 and 2012. Management of Texas Tech Public Broadcasting has prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section.

Texas Tech Public Broadcasting is a licensee of Texas Tech University (the University) and is governed by the University's Board of Regents. Texas Tech Public Broadcasting's primary functions are to establish and promote noncommercial educational telecommunications facilities in the South Plains area of Texas and Eastern New Mexico as well as the Concho Valley area of Texas. Texas Tech Public Broadcasting includes a television station, formerly operated as KTXT-TV, and two radio stations, previously operated as Texas Tech Public Media.

Television

Texas Tech University is the licensee of the only public television station in Lubbock – KTTZ-TV. This station primarily broadcasts PBS programming, including at least 50 hours of children's programming each week. The signal reaches over 396,000 potential viewers in 158,360 television households in the South Plains area of Texas and Eastern New Mexico, and out of that number approximately 35,000 households watch each week. Contributing membership consists of approximately 1,200 households.

Radio

The original radio station – KTTZ-FM – was founded in 1988 and now broadcasts 24 hours daily, serving over 21,000 listeners per week with an approximate 60-mile coverage radius from Lubbock, Texas. In 2007, the station became the first HD Radio station on the South Plains and began streaming two additional music channels. This important upgrade has provided the station the opportunity to multicast by adding more stations to its existing frequency.

In July 2010, Texas Tech University purchased KUTX-FM in San Angelo from The University of Texas. The call letters were changed to KNCH-FM, and the operations were transferred to Texas Tech Public Broadcasting.

Overview of the Financial Statements

The financial statements of Texas Tech Public Broadcasting consist of the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Fund Net Position, and the Statements of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board Statement (GASB) No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.

Statement 35 requires the classification of net position into three categories – investment in capital assets, restricted, and unrestricted.

The Statements of Net Position include assets, liabilities and net position of Texas Tech Public Broadcasting as of August 31, 2013 and 2012. These statements are classified into current and non-current assets and liabilities, with net position classified in the categories as noted above. The Statements of Revenues, Expenses and Changes in Fund Net Position depict the operating revenues and expenses resulting in net operating income, which is then combined with non-operating revenues to provide the total change in net position. The Statements of Cash Flows show the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

Financial Highlights

The financial position of Texas Tech Public Broadcasting remains strong. Net position totaled \$4,131,834 and \$4,423,790 at August 31, 2013 and 2012, respectively. Net position decreased by \$291,956 and \$368,024 for fiscal years 2013 and 2012, respectively. Operating revenues totaled \$2,316,833 for fiscal year 2013 compared to \$2,423,933 for fiscal year 2012, a decrease of \$107,100. Operating expenses totaled \$2,621,659 for fiscal year 2013 compared to \$2,801,799 for fiscal year 2012, a decrease of \$180,140. Non-operating revenue includes interest income.

Texas Tech Public Broadcasting's property and equipment, net of accumulated depreciation, totaled \$1,948,624 and \$2,362,537 at August 31, 2013 and 2012, respectively. Property and equipment additions totaled \$51,165 and \$76,768 in fiscal year 2013 and 2012, respectively.

Condensed Statements of Net Position

	2013	2012
Current assets	\$ 2,294,696	\$ 2,202,557
Property and equipment, net	<u>1,948,623</u>	<u>2,362,537</u>
 Total assets	 <u>\$ 4,243,319</u>	 <u>\$ 4,565,094</u>
 Current liabilities	 <u>\$ 111,486</u>	 <u>\$ 141,304</u>
 Investment in property and equipment	 1,948,623	 2,362,537
Restricted	112,883	73,473
Unrestricted	<u>2,070,327</u>	<u>1,987,780</u>
Total net position	<u>4,131,833</u>	<u>4,423,790</u>
 Total liabilities and net position	 <u>\$ 4,243,319</u>	 <u>\$ 4,565,094</u>

Current assets consist primarily of cash and accounts receivable. Property and equipment are presented net of accumulated depreciation of \$5,152,903 and \$4,726,064 at August 31, 2013 and 2012, respectively. Current liabilities consist of accounts payable and deferred revenue.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

	2013	2012
Operating revenues	\$ 2,316,833	\$ 2,423,933
Operating expenses	<u>2,621,660</u>	<u>2,801,799</u>
Operating income (loss)	(304,827)	(377,866)
Non-operating revenue (expense)	<u>12,870</u>	<u>9,842</u>
Change in net position	(291,957)	(368,024)
Net position, beginning of year	<u>4,423,790</u>	<u>4,791,814</u>
Net position, end of year	<u><u>\$ 4,131,833</u></u>	<u><u>\$ 4,423,790</u></u>

Operating revenues consist primarily of contributions, grants from the Corporation for Public Broadcasting, and donated support from Texas Tech University. Operating expenses consist primarily of programming and production and broadcasting expenses.

Condensed Statements of Cash Flows

	2013	2012
Net cash flows from operating activities	\$ 128,244	\$ 484,748
Net cash flows from investing activities	12,870	9,842
Net cash flows from capital and related financing activities	<u>(51,165)</u>	<u>(76,768)</u>
Change in cash and cash equivalents	89,949	417,822
Cash and cash equivalents, beginning of year	<u>2,083,993</u>	<u>1,666,171</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,173,942</u></u>	<u><u>\$ 2,083,993</u></u>

Request for Information

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of Texas Tech Public Broadcasting's finances and to account for the funding it receives. Additional details can be requested by mail at the following address:

General Manager
Texas Tech Public Broadcasting
P.O. Box 42161
Lubbock, TX 79409

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
STATEMENTS OF NET POSITION
AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,173,942	\$ 2,083,993
Accounts receivable	64,113	46,838
Prepaid expenses	<u>56,641</u>	<u>71,726</u>
Total current assets	<u>2,294,696</u>	<u>2,202,557</u>
Property and equipment, at cost		
Building	623,700	623,700
Transmitter, antenna and tower	2,453,159	2,475,939
Broadcasting and production equipment	3,943,506	3,903,529
Furniture and fixtures	<u>81,161</u>	<u>85,433</u>
	7,101,526	7,088,601
Less: Accumulated depreciation	<u>(5,152,903)</u>	<u>(4,726,064)</u>
Property and equipment, net	<u>1,948,623</u>	<u>2,362,537</u>
TOTAL ASSETS	\$ <u>4,243,319</u>	\$ <u>4,565,094</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued liabilities	\$ 76,763	\$ 100,621
Deferred revenue	<u>34,723</u>	<u>40,683</u>
Total current liabilities	<u>111,486</u>	<u>141,304</u>
Net position		
Investment in property and equipment	1,948,623	2,362,537
Restricted	112,883	73,473
Unrestricted	<u>2,070,327</u>	<u>1,987,780</u>
Total net position	<u>4,131,833</u>	<u>4,423,790</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>4,243,319</u>	\$ <u>4,565,094</u>

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

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Contributions	\$ 218,401	\$ 223,329
Grants from the Corporation for Public Broadcasting	803,594	827,081
Donated support from Texas Tech University		
Direct administrative support	480,318	807,366
Indirect administrative support	205,571	232,275
Donated materials and services	28,546	4,250
Other grants	223,000	88,520
Business contributions and underwriting	317,742	203,097
Miscellaneous income	39,661	38,015
Total operating revenues	<u>2,316,833</u>	<u>2,423,933</u>
OPERATING EXPENSES		
Program services		
Programming and production	1,149,090	1,098,452
Broadcasting	747,417	866,336
Program information	24,936	55,377
	<u>1,921,443</u>	<u>2,020,165</u>
Supporting services		
Management and general	430,002	565,625
Fund raising and membership development	270,215	216,009
	<u>700,217</u>	<u>781,634</u>
Total operating expenses	<u>2,621,660</u>	<u>2,801,799</u>
OPERATING LOSS	(304,827)	(377,866)
NON-OPERATING REVENUE (EXPENSES)		
Interest income	<u>12,870</u>	<u>9,842</u>
CHANGE IN NET POSITION	(291,957)	(368,024)
NET POSITION, BEGINNING OF YEAR	<u>4,423,790</u>	<u>4,791,814</u>
NET POSITION, END OF YEAR	<u>\$ 4,131,833</u>	<u>\$ 4,423,790</u>

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

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from contributors, grants, and underwriters	\$ 2,286,537	\$ 2,399,891
Other receipts	7,061	4,403
Payments to employees	(734,491)	(731,450)
Payments to suppliers	(1,274,436)	(960,613)
Payments for employee benefits	(156,427)	(227,483)
Net cash provided by operating activities	<u>128,244</u>	<u>484,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on cash and cash equivalents	<u>12,870</u>	<u>9,842</u>
Net cash provided by investing activities	<u>12,870</u>	<u>9,842</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	<u>(51,165)</u>	<u>(76,768)</u>
Net cash used by capital and related financing activities	<u>(51,165)</u>	<u>(76,768)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	89,949	417,822
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,083,993</u>	<u>1,666,171</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,173,942</u></u>	<u><u>\$ 2,083,993</u></u>
Reconciliation of operating loss to net cash flows from operating activities		
Operating loss	\$ <u>(304,827)</u>	\$ <u>(377,866)</u>
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation	462,168	493,843
Loss on disposal of property and equipment	2,911	667
Net change in:		
Accounts receivable	(17,275)	(31,429)
Prepaid expenses	15,085	309,057
Accounts payable and accrued liabilities	(23,858)	79,644
Deferred revenue	(5,960)	10,832
Total adjustments	<u>433,071</u>	<u>862,614</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 128,244</u></u>	<u><u>\$ 484,748</u></u>

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

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 1: *NATURE OF ORGANIZATION*

Organization

Texas Tech Public Broadcasting is a public telecommunications entity licensed through the Federal Communications Commission to Texas Tech University in Lubbock, Texas and provides public television and radio to the South Plains area of Texas and Eastern New Mexico as well as the Concho Valley area of Texas. Accordingly, Texas Tech Public Broadcasting's financial activity is incorporated into the financial statements of the University, which is included in the Comprehensive Annual Financial Report of the State of Texas. The University is a state-supported school, created by the Legislature of the State of Texas. As such, it is a subdivision of the State of Texas and is tax-exempt under Section 115 of the Internal Revenue Code.

NOTE 2: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Basis of Accounting

Texas Tech Public Broadcasting's financial records are maintained in a manner consistent with guidelines set by the Corporation for Public Broadcasting (CPB). These guidelines are in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

The University adopted GASB Statement (GASBS) No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASBS 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures. Accordingly, Texas Tech Public Broadcasting has been required to comply with certain provisions of these statements that establish standards for external reporting for state and local governments and require that resources be classified for accounting and reporting purposes in the following four net position categories:

- Investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net position subject to externally imposed stipulations that Texas Tech Public Broadcasting maintains permanently. Texas Tech Public Broadcasting does not have any restricted nonexpendable net position.

Expendable – Net position whose use by Texas Tech Public Broadcasting is subject to externally imposed stipulations that can be fulfilled by actions of Texas Tech Public Broadcasting pursuant to those stipulations or that expire by the passage of time. Restricted net position were \$112,882 and \$73,473 as of August 31, 2013 and 2012, respectively. The net position is restricted for purchases of property and equipment.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 2: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued*

- Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of Texas Tech Public Broadcasting's management or may otherwise be limited by contractual agreements with outside parties.

In accordance with GASBS 35, as amended, entities that have heretofore reported using the AICPA not-for-profit model, as defined in GASBS 29, may use enterprise fund accounting and financial reporting as a business type activity. As such an entity, Texas Tech Public Broadcasting's activities are reported similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by Texas Tech Public Broadcasting are described below.

Revenue Recognition

Contributions and grants that are unrestricted are recorded as support when the cash is received. Unrestricted pledges for future contributions are not recorded. Pledges from local businesses and individuals to finance specific programs are recorded and reported on the statement of net position as deferred revenues until the programs are broadcast. At such time, the amounts are included in revenues. Texas Tech Public Broadcasting distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from activities performed in connection with Texas Tech Public Broadcasting's purpose as stated above. All revenues and expenses not meeting this definition are reported as non-operating.

Grants received from the CPB are recorded as revenue when the funds are received. Contributions and grants restricted for specific uses are reported on the accompanying statement of net position as restricted net position until the funds are expended.

When both restricted and unrestricted resources are available for use, it is Texas Tech Public Broadcasting's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounts Receivable

Accounts receivable consist of uncollected pledged contributions from local businesses and individuals to finance specific programs and restricted grant funds uncollected at year-end. All amounts considered uncollectible have been written off.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 2: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued*

Property and Equipment

Property and equipment is defined as an asset with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Property and equipment are carried at cost, or in the case of donated assets, at estimated fair market value at date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When property and equipment are retired or otherwise disposed of, the carrying value and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations for the period. For property and equipment acquired through federally funded grants, the respective federal agency retains liens on these assets for a period of ten years. At August 31, 2013 and 2012, the net book value of this property was \$509,995 and \$763,227, respectively.

In-kind Contributions

In-kind contributions are recorded as support and expense in the accompanying financial statements. In-kind contributions consist of various materials, property, and professional services donated for the benefit of Texas Tech Public Broadcasting. These donations are recorded at fair market value. The CPB no longer considers the personal services of volunteers in their determination of nonfederal financial support; therefore, these services are excluded from the financial statements.

Donated facilities and administrative support have been computed in accordance with guidelines established by the CPB and consist of the following for the years ended August 31, 2013 and 2012:

	2013	2012
Direct administrative support	\$ 480,318	\$ 807,366
Institutional support	178,973	204,128
Physical plant operations	12,214	13,763
Occupancy	14,384	14,384
	<u>\$ 685,889</u>	<u>\$ 1,039,641</u>

Cash and Cash Equivalents

Texas Tech Public Broadcasting's cash is held by the University in a pooled cash account that is managed by the University. Included in the pooled account are demand deposits in banks, local funds held by the state, state reimbursements in transit, repurchase agreements, Texpool and TexSTAR investments. These are considered cash equivalents. Interest income is allocated to Texas Tech Public Broadcasting on a quarterly basis.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 2: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued*

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 the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: *CORPORATION FOR PUBLIC BROADCASTING COMMUNITY SERVICE GRANTS*

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

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CAPITAL ASSETS

Capital asset activity and useful lives of assets for the years ended August 31, 2013 and 2012 are summarized below:

	Life	Balance August 31, 2012	Additions	Retirements	Balance August 31, 2013
Building	40 yrs	\$ 623,700	\$ -	\$ -	\$ 623,700
Tower, transmitter and antenna equipment	10-20 yrs	2,475,939	-	(22,780)	2,453,159
Broadcasting and production equipment	3-10 yrs	3,903,529	51,165	(11,188)	3,943,506
Furniture and fixtures	3-10 yrs	85,433	-	(4,272)	81,161
Depreciable assets, at cost		<u>7,088,601</u>	<u>51,165</u>	<u>(38,240)</u>	<u>7,101,526</u>
Accumulated depreciation		<u>(4,726,064)</u>	<u>(462,168)</u>	<u>35,329</u>	<u>(5,152,903)</u>
Depreciable assets, net		<u>\$ 2,362,537</u>	<u>\$ (411,003)</u>	<u>\$ (2,911)</u>	<u>\$ 1,948,623</u>

	Life	Balance August 31, 2011	Additions	Retirements	Balance August 31, 2012
Building	40 yrs	\$ 623,700	\$ -	\$ -	\$ 623,700
Tower, transmitter and antenna equipment	10-20 yrs	2,475,939	-	-	2,475,939
Broadcasting and production equipment	3-10 yrs	3,837,200	76,768	(10,439)	3,903,529
Furniture and fixtures	3-10 yrs	87,020	-	(1,587)	85,433
Depreciable assets, at cost		<u>7,023,859</u>	<u>76,768</u>	<u>(12,026)</u>	<u>7,088,601</u>
Accumulated depreciation		<u>(4,243,580)</u>	<u>(493,843)</u>	<u>11,359</u>	<u>(4,726,064)</u>
Depreciable assets, net		<u>\$ 2,780,279</u>	<u>\$ (417,075)</u>	<u>\$ (667)</u>	<u>\$ 2,362,537</u>

NOTE 5: RETIREMENT PLANS

The State of Texas has joint contributory retirement plans for its employees of which substantially all of Texas Tech Public Broadcasting's employees are participants. The primary plan is a defined benefit plan administered by the Teacher Retirement System of Texas (System). The System is a cost-sharing, multi-employer public employee retirement system. The System 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. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123. The contributory percentage of participant salaries provided by the University was 6.0% for August 31, 2013 and 2012. Each participant contributed 6.4% of annual compensation for both years.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 5: *RETIREMENT PLANS – continued*

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System of Texas. This optional retirement plan (which is a defined contribution plan) is available for certain full-time faculty, executive management, professional and administrative employees. The contributory percentage of participant salaries provided by the University was 6.0% for August 31, 2013 and 2012. Each participant contributed 6.65% of annual compensation for both years.

During the years ended August 31, 2013 and 2012, the University contributed \$41,080 and \$43,383 to the plans, respectively, on behalf of Texas Tech Public Broadcasting employees.

NOTE 6: *PRIOR PERIOD ADJUSTMENT*

In the current year, it was discovered that fixed assets on the August 31, 2012 financial statements were understated by \$14,387. This was due to an error in recording equipment purchases. As a result, broadcasting equipment for 2012 was increased by \$14,920 and accumulated depreciation was increased by \$533. The net effect is an increase in net position of \$14,387 at August 31, 2012.

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

NOTES TO FINANCIAL STATEMENTS

NOTE 7: RECONCILIATION OF FINANCIAL STATEMENTS TO CPB REPORT

TELEVISION

	2013	2012
Revenue per audited financial statements	\$ 1,528,444	\$ 1,687,551
In-kind contributions	(21,042)	(2,950)
Indirect administrative support from Texas Tech University	(149,981)	(174,144)
Revenue per CPB report, Schedule A, Line 21	<u>\$ 1,357,421</u>	<u>\$ 1,510,457</u>
Expenses per audited financial statements	\$ 1,958,056	\$ 2,122,029
Cost of capital assets	42,670	54,614
Expenditures per CPB report, Schedule E, Line 10	<u>\$ 2,000,726</u>	<u>\$ 2,176,643</u>

RADIO

	2013	2012
Revenue per audited financial statements	\$ 801,259	\$ 746,224
In-kind contributions	(7,504)	(1,300)
Indirect administrative support from Texas Tech University	(55,590)	(58,131)
Revenue per CPB report, Schedule A, Line 21	<u>\$ 738,165</u>	<u>\$ 686,793</u>
Expenses per audited financial statements	\$ 663,604	\$ 679,770
Cost of capital assets	8,495	7,234
Expenditures per CPB report, Schedule E, Line 10	<u>\$ 672,099</u>	<u>\$ 687,004</u>

SUPPLEMENTAL INFORMATION

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
COMBINING STATEMENTS OF NET POSITION
AUGUST 31, 2013 and 2012

	Television		Radio		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
ASSETS						
Cash and cash equivalents	\$ 1,605,839	\$ 1,698,089	\$ 568,103	\$ 385,904	\$ 2,173,942	\$ 2,083,993
Accounts receivable	40,003	9,385	24,110	37,453	64,113	46,838
Prepaid expenses	22,645	40,456	33,996	31,270	56,641	71,726
Total current assets	1,668,487	1,747,930	626,209	454,627	2,294,696	2,202,557
Property and equipment, at cost						
Building	623,700	623,700	-	-	623,700	623,700
Transmitter, antenna and tower	1,919,484	1,919,484	533,675	556,455	2,453,159	2,475,939
Broadcasting and production equipment	3,739,551	3,701,592	203,955	201,937	3,943,506	3,903,529
Furniture and fixtures	78,491	82,763	2,670	2,670	81,161	85,433
	6,361,226	6,327,539	740,300	761,062	7,101,526	7,088,601
Less: Accumulated depreciation	(4,708,802)	(4,304,463)	(444,101)	(421,601)	(5,152,903)	(4,726,064)
Property and equipment, net	1,652,424	2,023,076	296,199	339,461	1,948,623	2,362,537
TOTAL ASSETS	\$ 3,320,911	\$ 3,771,006	\$ 922,408	\$ 794,088	\$ 4,243,319	\$ 4,565,094
LIABILITIES AND NET POSITION						
LIABILITIES						
Accounts payable and accrued liabilities	\$ 65,951	\$ 78,930	\$ 10,812	\$ 21,691	\$ 76,763	\$ 100,621
Deferred revenue	16,142	23,646	18,581	17,037	34,723	40,683
Total current liabilities	82,093	102,576	29,393	38,728	111,486	141,304
NET POSITION						
Investment in property and equipment	1,652,424	2,023,076	296,199	339,461	1,948,623	2,362,537
Restricted	95,072	42,851	17,811	30,622	112,883	73,473
Unrestricted	1,491,322	1,602,503	579,005	385,277	2,070,327	1,987,780
Total net position	3,238,818	3,668,430	893,015	755,360	4,131,833	4,423,790
TOTAL LIABILITIES AND NET POSITION	\$ 3,320,911	\$ 3,771,006	\$ 922,408	\$ 794,088	\$ 4,243,319	\$ 4,565,094

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED AUGUST 31, 2013 AND 2012

	Television		Radio		Total	
	2013	2012	2013	2012	2013	2012
OPERATING REVENUES						
Contributions	\$ 108,535	\$ 100,685	\$ 109,866	\$ 122,644	\$ 218,401	\$ 223,329
Grants from the CPB	673,812	684,695	129,782	142,386	803,594	827,081
Donated support from the University						
Direct administrative support	271,192	551,972	209,126	255,394	480,318	807,366
Indirect administrative support	149,981	174,144	55,590	58,131	205,571	232,275
Donated materials & services-in-kind	21,042	2,950	7,504	1,300	28,546	4,250
Other grants	60,000	51,593	163,000	36,927	223,000	88,520
Business contributions and underwriting	200,853	79,330	116,889	123,767	317,742	203,097
Miscellaneous income	32,600	33,612	7,061	4,403	39,661	38,015
Total operating revenues	<u>1,518,015</u>	<u>1,678,981</u>	<u>798,818</u>	<u>744,952</u>	<u>2,316,833</u>	<u>2,423,933</u>
OPERATING EXPENSES						
Program services						
Programming and production	829,444	814,446	319,646	284,006	1,149,090	1,098,452
Broadcasting	659,479	756,518	87,938	109,818	747,417	866,336
Program information	19,810	49,033	5,126	6,344	24,936	55,377
	<u>1,508,733</u>	<u>1,619,997</u>	<u>412,710</u>	<u>400,168</u>	<u>1,921,443</u>	<u>2,020,165</u>
Supporting services						
Management and general	303,040	381,806	126,962	183,819	430,002	565,625
Fund raising & membership development	146,283	120,226	123,932	95,783	270,215	216,009
Underwriting and grant solicitation	-	-	-	-	-	-
	<u>449,323</u>	<u>502,032</u>	<u>250,894</u>	<u>279,602</u>	<u>700,217</u>	<u>781,634</u>
Total operating expenses	<u>1,958,056</u>	<u>2,122,029</u>	<u>663,604</u>	<u>679,770</u>	<u>2,621,660</u>	<u>2,801,799</u>
OPERATING (LOSS) INCOME	(440,041)	(443,048)	135,214	65,182	(304,827)	(377,866)
NON-OPERATING REVENUE						
Interest income	<u>10,429</u>	<u>8,570</u>	<u>2,441</u>	<u>1,272</u>	<u>12,870</u>	<u>9,842</u>
CHANGE IN NET POSITION	(429,612)	(434,478)	137,655	66,454	(291,957)	(368,024)
NET POSITION, BEGINNING OF YEAR	<u>3,668,430</u>	<u>4,102,908</u>	<u>755,360</u>	<u>688,906</u>	<u>4,423,790</u>	<u>4,791,814</u>
NET POSITION, END OF YEAR	<u>\$ 3,238,818</u>	<u>\$ 3,668,430</u>	<u>\$ 893,015</u>	<u>\$ 755,360</u>	<u>\$ 4,131,833</u>	<u>\$ 4,423,790</u>

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)
COMBINING STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

	Television		Radio		Total	
	2013	2012	2013	2012	2013	2012
CASH FLOWS - OPERATING ACTIVITIES						
Receipts from contributors, grants, & underwriters	\$ 1,479,893	\$ 1,683,974	\$ 806,644	\$ 715,917	\$ 2,286,537	\$ 2,399,891
Other receipts	-	-	7,061	4,403	7,061	4,403
Payments to employees	(468,557)	(576,312)	(265,934)	(155,138)	(734,491)	(731,450)
Payments to suppliers	(914,918)	(556,984)	(359,518)	(403,629)	(1,274,436)	(960,613)
Payments for employee benefits	(156,427)	(175,664)	-	(51,819)	(156,427)	(227,483)
Net cash used by operating activities	(60,009)	375,014	188,253	109,734	128,244	484,748
CASH FLOWS - INVESTING ACTIVITIES						
Interest received	10,429	8,570	2,441	1,272	12,870	9,842
Net cash provided by investing activities	10,429	8,570	2,441	1,272	12,870	9,842
CASH FLOWS - CAPITAL & RELATED FINANCING ACTIVITIES						
Acquisition of property & equipment	(42,670)	(69,534)	(8,495)	(7,234)	(51,165)	(76,768)
Net cash used by capital and related financing activities	(42,670)	(69,534)	(8,495)	(7,234)	(51,165)	(76,768)
NET CHANGE IN CASH & CASH EQUIVALENTS	(92,250)	314,050	182,199	103,772	89,949	417,822
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,698,089	1,384,039	385,904	282,132	2,083,993	1,666,171
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,605,839	\$ 1,698,089	\$ 568,103	\$ 385,904	\$ 2,173,942	\$ 2,083,993
Reconciliation of operating income (loss) to net cash flows from operating activities:						
Operating income (loss)	\$ (440,041)	\$ (443,048)	\$ 135,214	\$ 65,182	\$ (304,827)	\$ (377,866)
Adjustments to reconcile income from operations to net cash from operating activities						
Depreciation	413,322	444,401	48,846	49,442	462,168	493,843
Loss on disposal of property & equipment	-	279	2,911	388	2,911	667
Net change in:						
Accounts receivable	(30,618)	(2,563)	13,343	(28,866)	(17,275)	(31,429)
Prepaid expenses	17,811	301,047	(2,726)	8,010	15,085	309,057
Accounts payable & accrued liabilities	(12,979)	68,300	(10,879)	11,344	(23,858)	79,644
Deferred revenue	(7,504)	6,598	1,544	4,234	(5,960)	10,832
Total adjustments	380,032	818,062	53,039	44,552	433,071	862,614
NET CASH USED BY OPERATING ACTIVITIES	\$ (60,009)	\$ 375,014	\$ 188,253	\$ 109,734	\$ 128,244	\$ 484,748

January 28, 2014

To the Texas Tech University Board of Regents
Texas Tech Public Broadcasting

We have audited the financial statements of Texas Tech Public Broadcasting for the year ended August 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Texas Tech Public Broadcasting are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by Texas Tech Public Broadcasting during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimates of future useful lives of capital assets are based on knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the estimated useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. See Appendix A for a summary of audit adjustments. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Texas Tech Public Broadcasting's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Texas Tech Board of Regents and management of Texas Tech Public Broadcasting and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Dan Kinnard & Co., PC

Certified Public Accountants
Abilene, Texas

TEXAS TECH PUBLIC BROADCASTING
(A Public Telecommunications Entity Licensed to Texas Tech University)

2013 Required Communications
Appendix A – Summary of Audit Adjustments

Audit adjustments were made to record the following:

- Effects of prior year audit adjustments.
- Correct receivables and deferral for grant revenue.
- Receivables and deferrals for underwriting revenue.
- Fringe benefits paid by the University.
- Value of indirect institutional support from the University.
- Prepaid expenses.
- In-kind contributions.