

KTEP-FM  
A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY  
THE UNIVERSITY OF TEXAS AT EL PASO

FINANCIAL STATEMENTS

AUGUST 31, 2015 AND 2014

TOGETHER WITH AUDITORS' REPORT

KTEP-FM  
A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY  
THE UNIVERSITY OF TEXAS AT EL PASO  
AUGUST 31, 2015 AND 2014

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## Independent Auditors' Report

To the University of Texas at El Paso  
El Paso, Texas:

We have audited the accompanying financial statements of KTEP-FM, a public telecommunications entity operated by The University of Texas at El Paso, as of and for the years ended August 31, 2015 and 2014, and the related notes to 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 KTEP-FM, a public telecommunications entity operated by the University of Texas at El Paso, as of August 31, 2015 and 2014, 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 KTEP-FM and do not purport to, and do not, present fairly the financial position of The University of Texas at El Paso, as of August 31, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance 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 1 to the financial statements, KTEP-FM restated its beginning net position as of September 1, 2014, to reflect the impact of implementation of Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this change.

## **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 4 through 7, and the Schedules of Proportionate Share of the Net Pension Liability and Contributions on page 27 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 audits were conducted for the purpose of forming an opinion on KTEP-FM, a public telecommunications entity operated by The University of Texas at El Paso, basic financial statements. The schedules of functional expenses on pages 23 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. 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 schedules of functional expenses are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Stephen Scurry, CPA". The signature is written in a cursive style with a large initial 'S' and a distinct 'CPA' at the end.

El Paso, Texas,  
March 16, 2016.

KTEP-FM  
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THE UNIVERSITY OF TEXAS AT EL PASO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED AUGUST 31, 2015 AND 2014

## **Introduction and Reporting Entity**

This discussion and analysis of KTEP-FM ("KTEP"), a public telecommunications entity operated by the University of Texas at El Paso ("UTEP"), provides an overview of KTEP's financial activities during the years ended August 31, 2015 and 2014.

KTEP is the strongest public radio station in the El Paso market, serving El Paso and the surrounding areas up to 100 miles in radius. In addition to many local programs targeted specifically towards the El Paso community, KTEP also broadcasts news, cultural, and educational programs from National Public Radio and Public Radio International, as well as other independent radio networks. In addition to serving the El Paso community, KTEP also serves as a laboratory for broadcast students.

KTEP is supported in part by the University of Texas at El Paso, which provides space for the station on campus, and pays the salaries of most of the full-time employees. The remaining funds come from the KTEP listening community through memberships and underwriting support and grants from the Corporation for Public Broadcasting ("CPB").

KTEP is not a separate legal entity from UTEP and is therefore exempt from income taxes.

## **Overview of the Financial Statements**

KTEP's financial statements present the financial activities of KTEP only, which are a group of accounts within UTEP's accounting system. All amounts contained in these financial statements are included in the financial statements of the University of Texas System, a component unit of the State of Texas.

The financial statements of KTEP are prepared in conformity with Governmental Accounting Standards Board principles. Following this section are the basic financial statements and footnotes which should be read in conjunction with this discussion and analysis. The Statement of Net Position provides information on the types of assets and liabilities of KTEP, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether KTEP's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position provides information on income and expenses for the year, with additional detail of the expenses provided in the supplementary Schedules of Functional Expenses. The Statement of Cash Flows shows the sources and uses of cash, and the net changes in cash during the year. The Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
YEARS ENDED AUGUST 31, 2015 AND 2014

**Financial Highlights**

A summarized comparison of KTEP's assets, deferred outflows, liabilities, deferred inflows, and net position at August 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Current assets	\$197,428	\$204,348
Capital assets, net	41,018	50,242
Deferred outflows of resources	<u>11,529</u>	<u>-</u>
Total assets and deferred outflows	<u>\$249,975</u>	<u>\$254,590</u>
Current liabilities	41,098	8,168
Noncurrent liabilities	<u>60,508</u>	-
Total liabilities	<u>101,606</u>	<u>8,168</u>
Deferred inflows of resources	<u>18,509</u>	<u>-</u>
Net position		
Invested in capital assets	41,018	50,242
Unrestricted	<u>88,842</u>	<u>196,180</u>
Total net position	<u>129,860</u>	<u>246,422</u>
Total liabilities, deferred inflows, and net position	<u>\$249,975</u>	<u>\$254,590</u>

Current assets decreased by \$6,920 at August 31, 2015 compared to 2014, as a result of an increase in cash of \$4,400 and increase in receivables of \$3,824, offset by a decrease in prepaids of \$15,144. Capital assets decreased by \$9,224 as a result of studio equipment additions of \$6,244 offset by depreciation of \$15,468. Current liabilities increased by \$32,930 at August 31, 2015 compared to 2014 due to increased accounts payable.

Deferred outflows of resources, noncurrent liabilities, and deferred inflows of resources increased in the current year by \$11,529, \$60,508, and \$18,509, respectively, due to the implementation of GASB 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. As a result of this implementation, KTEP restated its unrestricted net position as of September 1, 2014 by a decrease of \$68,555.

KTEP's total net position decreased by \$116,562 at August 31, 2015 compared to 2014. The decrease in invested in capital assets corresponds with the decrease in capital assets discussed above. The decrease in unrestricted net position of \$107,338 was the result of the restatement discussed above and operating activities, with the exclusion of depreciation expense.

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MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
YEARS ENDED AUGUST 31, 2015 AND 2014

A summarized comparison of KTEP's revenues, expenses and changes in net position for the years ended August 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Operating revenues		
UTEP direct and indirect support	\$403,328	\$386,330
Grants	155,685	151,231
Membership, gifts and other	<u>315,534</u>	<u>346,111</u>
	<u>874,547</u>	<u>883,672</u>
Operating expenses		
Program services	630,521	619,273
Supporting services	<u>292,033</u>	<u>273,673</u>
	<u>922,554</u>	<u>892,946</u>
Operating income (loss)	(48,007)	(9,274)
Non-operating revenues (expenses)	-	-
Change in net position	<u>\$ (48,007)</u>	<u>\$ (9,274)</u>

Operating revenues for 2015 decreased by \$9,125, or 1%, compared to the previous year. Grants increased by \$4,454 compared to the previous year. Membership, gifts and other revenues decreased by \$30,577 in 2015. UTEP's direct and indirect support increased by \$16,998 compared to the previous year.

Operating expenses for 2015 increased by \$29,608, or 3.3%, compared to 2014. Program services increased \$11,248, primarily due to increases in 2015 in national programming costs. Supporting services increased \$8,360, primarily due to filling a staff vacancy.

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MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
YEARS ENDED AUGUST 31, 2015 AND 2014

In the last fiscal year, most of KTEP's sources of revenue either remained constant or saw slight increases. The exception to this was program underwriting which saw a decrease of approximately \$31,000 from the prior fiscal year. This decrease can be attributed to one major underwriter that did not renew their contract. We are still pursuing options to renew the lost contract. KTEP's Development Director has been with the station for two years now and in that time has started to aggressively pursue other program sponsorships and forms of funding to broaden our support base.

KTEP's sustaining member program continues to grow. This program allows donors to make a monthly donation that automatically renews without the expense of the radio station sending renewal notices. Approximately 16% of our members are now sustaining members and their gifts make up about 25% of our membership revenue. Our sustaining members are allowing KTEP to shorten our on-air membership campaigns and still meet our fundraising goals. We still see the potential for growth in this program and plan to actively promote it with current and new members to the radio station.

We also continue to see healthy growth in KTEP's vehicle donation program. We have plans to expand this program outside of KTEP in the upcoming year to help increase vehicle donations from individuals who may not know about the program.

UTEP has instituted an On Campus Student Employment grant program. The purpose of these grants is to enhance the student's educational experience outside of the classroom, to allow them to learn about their future career while still in school. Departments can apply for these grants, and KTEP has been awarded two of these grants for the past couple years. The grants fund 75% of two of our student's salaries for the year, while KTEP only has to pay 25% from other operating revenues. We have successfully integrated these students into the Operations Department of the radio station where they are gaining practical knowledge about the broadcast business while working behind the scenes to produce professional programming that airs on KTEP.

In the fall of 2015, KTEP refurbished one of our recording studios to bring it up to current technology and to improve its functionality. We were fortunate to receive a generous gift facilitated by a long-time supporter that covered most of the construction expense of the remodel and cost of purchasing new recording equipment. This upgrade greatly enhances KTEP's ability to produce local programming for the El Paso region.

KTEP has received word from National Public Radio that we will see an increase of approximately 3.5% in programming and affiliation fees in the 2016-17 fiscal year. Our plan is to have fundraising in place to overcome this increase, without having to decrease our programming service that is valued by our listeners. We are confident that a continued increase in sustaining members and vehicle donations, coupled with new program sponsors will allow KTEP to absorb these program expenses without having an effect on other aspects of our budget.

KTEP-FM  
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STATEMENT OF NET POSITION  
AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets		
Cash	\$182,755	\$178,355
Membership and gift receivables	3,824	-
Prepaid and other	<u>10,849</u>	<u>25,993</u>
Total current assets	<u>197,428</u>	<u>204,348</u>
Capital assets, net	<u>41,018</u>	<u>50,242</u>
Total assets	<u>238,446</u>	<u>254,590</u>
Deferred outflows of resources		
Related to pensions	<u>11,529</u>	<u>-</u>
Total assets and deferred outflows	<u>\$249,975</u>	<u>\$254,590</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		
Current liabilities		
Accounts payable	\$ 41,098	\$ 8,168
Noncurrent liabilities		
Net pension liability	<u>60,508</u>	<u>-</u>
Total liabilities	<u>101,606</u>	<u>8,168</u>
Deferred inflows of resources		
Related to pensions	<u>18,509</u>	<u>-</u>
Net position		
Invested in capital assets, net of related debt	41,018	50,242
Unrestricted	<u>88,842</u>	<u>196,180</u>
Total net position	<u>129,860</u>	<u>246,422</u>
Total liabilities, deferred inflows and net position	<u>\$249,975</u>	<u>\$254,590</u>

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

KTEP-FM  
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
University of Texas at El Paso direct support	\$287,067	\$274,413
Indirect administrative and occupancy support from University of Texas at El Paso	116,261	111,917
Membership and gifts	242,400	240,725
Grants	155,685	151,231
Program underwriting	30,832	62,010
Other donated support	<u>42,302</u>	<u>43,376</u>
Total operating revenues	<u>874,547</u>	<u>883,672</u>
Operating expenses		
Programming and production	401,863	390,049
Broadcasting	165,939	162,898
Public information and promotion	62,719	66,326
Management and general	244,088	241,562
Fundraising and membership development	<u>47,945</u>	<u>32,111</u>
Total operating expenses	<u>922,554</u>	<u>892,946</u>
Operating income (loss)	(48,007)	(9,274)
Non-operating revenues (expenses)	<u>-</u>	<u>-</u>
Change in net position	(48,007)	(9,274)
Net position - Beginning of year	246,422	255,696
Restatement	<u>(68,555)</u>	<u>-</u>
Net position - End of year	<u>\$129,860</u>	<u>\$246,422</u>

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

KTEP-FM  
A PUBLIC TELECOMMUNICATIONS ENTITY  
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STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Direct support from the University of Texas at El Paso	\$ 287,067	\$ 274,413
Membership, gifts and underwriting collected	269,408	302,735
Grants collected	155,685	151,231
Cash paid for employee salaries, wages and benefits	(318,459)	(295,575)
Cash paid to suppliers	<u>(383,057)</u>	<u>(404,131)</u>
Net cash provided by operating activities	<u>10,644</u>	<u>28,673</u>
Cash flows from capital and related financing activities		
Purchase of studio equipment	<u>(6,244)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(6,244)</u>	<u>-</u>
Net increase in cash	4,400	28,673
Cash - Beginning of year	<u>178,355</u>	<u>149,682</u>
Cash - End of year	<u>\$ 182,755</u>	<u>\$ 178,355</u>
Reconciliation of net operating revenues (expenses) to net cash provided by operating activities		
Operating income (loss)	\$ (48,007)	\$ (9,274)
Depreciation	15,468	16,072
Changes in assets and liabilities		
Membership and gift receivables	(3,824)	-
Prepaid and other	15,144	17,701
Accounts payable	32,930	4,174
Pension related obligations	<u>(1,067)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 10,644</u>	<u>\$ 28,673</u>

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

KTEP-FM  
A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY  
THE UNIVERSITY OF TEXAS AT EL PASO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

KTEP-FM ("KTEP") is operated by The University of Texas at El Paso ("UTEP") in the Communications Department within the College of Liberal Arts. KTEP operates at the frequency 88.5 on the FM dial, providing news, music, and other programs. KTEP's financial activity is accounted for as a group of accounts within the UTEP accounting system. All amounts contained in these financial statements are included in the financial statements of the University of Texas System, a component unit of the State of Texas. KTEP is not a separate legal entity from UTEP and is therefore exempt from income taxes.

Financial Statement Presentation

KTEP prepares its basic financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), and it complies with the Corporation for Public Broadcasting's (CPB) *Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are directly related to programming, production, development, and delivery of telecommunication services. Revenues associated with, or restricted by donors to use for, capital improvements are recorded as non-operating revenues.

Changes in Accounting Policies and Statements

Effective September 1, 2014, KTEP adopted GASB 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Restatement of prior periods was not practical, and the cumulative effect of GASB 68 was reported as a restatement of beginning unrestricted net position for 2015, causing a decrease of \$68,555. The implementation of GASB 68 also resulted in the recognition in 2015 of \$60,508 in net pension liability, \$11,529 in deferred outflows of resources, and \$18,509 in deferred inflow of resources, all of which had not been recognized prior to 2015. The net pension liability represents KTEP's proportionate share of the total net pension liability of the Teacher Retirement System of Texas defined-benefit plan based on an annual actuarial valuation performed on that plan.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES,  
CONTINUED

Cash and Cash Equivalents

Cash balances are commingled with other UTEP funds, which are entirely insured or collateralized by depository financial institutions. Interest earned on available cash balances is not allocated to KTEP. For purposes of reporting cash flows, all cash balances are considered cash equivalents.

Capital Assets

Purchased capital assets are recorded at cost. Donated property is recorded at its estimated fair value at date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the asset. KTEP uses an estimated useful life of 30 years for buildings and 7 years for transmission and broadcasting equipment. Expenditures for repairs and maintenance are charged to operating expense as incurred. Items which cost less than \$5,000 are not capitalized unless specified by grant requirements.

Net Position

Invested in capital assets, net of related debt represents KTEP's net investment in capital assets, net of outstanding debt obligations related to those capital assets. There were no outstanding debt obligations in 2015 and 2014.

Unrestricted net position represent resources that are available for the support of KTEP's operations.

Revenues

Grants, memberships, gifts, and underwriting support, including promises to give such support, are recognized as revenue when all eligibility requirements imposed by the provider have been met. Non-cash donated support is recognized as revenue when the goods or services have been provided.

Expenses

Expenses are reported in functional categories. Expenses that relate to more than one function are allocated based upon management's estimates of staff and resources utilized by function. Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES,  
CONTINUED

University of Texas at El Paso Support

KTEP receives substantial support from UTEP in the form of direct appropriations and grants for operating and indirect administrative and occupancy support. These direct and indirect amounts are included as both revenues and expenses in the statement of revenues, expenses and changes in net position.

Indirect support from UTEP consists of allocated administrative and occupancy costs incurred by UTEP for which KTEP receives benefits. The fair value of this support is recognized in the statements of revenues, expenses, and changes in net position as indirect administrative support and also as expenses in the management and general functional expense category. Indirect support is calculated using UTEP's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The approved rate was modified to exclude certain cost components that do not benefit KTEP.

KTEP occasionally receives appropriations from UTEP for capital improvements. This support is reported as non-operating revenues and capitalized in net asset additions.

Donated Support

Public information services and promotional materials used in the operations are donated to KTEP by individuals and businesses. These in-kind contributions are included in the financial statement at estimated fair value. The value of these services and materials was \$42,302 and \$43,376 for the years ended August 31, 2015 and 2014, respectively. These amounts are included as both support and expenses in the statement of revenues, expenses and changes in net assets.

Fundraising and membership development

KTEP does not provide premiums (thank you gifts) or incur any direct, third-party expenses for special fundraising activities.

Advertising

Advertising costs are expensed when incurred.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES,  
CONTINUED

Subsequent Events

KTEP has evaluated subsequent events through March 16, 2016 the date on which the financial statements were available to be issued.

Estimates

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

2. CAPITAL ASSETS

A summary of capital assets activity for the years ended August 31, 2015 and 2014 is as follows:

	Year Ended August 31, 2015			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings	\$ 75,861	\$ -	\$ -	\$ 75,861
Transmission, broadcasting and studio equipment	<u>310,280</u>	<u>6,244</u>	-	<u>316,524</u>
	386,141	6,244	-	392,385
Less accumulated depreciation	<u>335,899</u>	<u>15,468</u>	-	<u>351,367</u>
Capital assets, net	<u>\$ 50,242</u>	<u>\$(9,224)</u>	<u>\$ -</u>	<u>\$ 41,018</u>

KTEP-FM  
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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

2. CAPITAL ASSETS, CONTINUED

	Year Ended August 31, 2014			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings	\$ 75,861	\$ -	\$ -	\$ 75,861
Transmission, broadcasting and studio equipment	<u>310,280</u>	<u>-</u>	<u>-</u>	<u>310,280</u>
	386,141	-	-	386,141
Less accumulated depreciation	<u>319,827</u>	<u>16,072</u>	<u>-</u>	<u>335,899</u>
Capital assets, net	<u>\$ 66,314</u>	<u>\$(16,072)</u>	<u>\$ -</u>	<u>\$ 50,242</u>

3. RETIREMENT BENEFITS

All eligible KTEP employees are covered by either the Teacher Retirement System of Texas or the Optional Retirement Program.

Teacher Retirement System of Texas ("TRS")

TRS is a cost-sharing multiple-employer defined benefit plan. TRS was established and is governed by the respective sections of the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. TRS is administered by a Board of Trustees appointed by the Texas Governor.

TRS provides retirement benefits, disability benefits, death and survivor benefits. Entry into TRS is upon employment and benefits are provided based on a formula of years of service and annual salary. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments.

Covered employees were required to contribute 6.7% of their annual salaries in 2015 and 6.4% of their annual salaries in 2014 and 2013. KTEP's required contribution was 6.8% for 2015 and 2014, and 6.4% for 2013, of eligible employees annual salaries. KTEP's actual contributions to TRS were \$6,660, \$5,744, and \$4,197 for 2015, 2014 and 2013, respectively. The contribution rates are not actuarially determined but are established by the Texas Legislature and may fluctuate periodically.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

3. RETIREMENT BENEFITS, CONTINUED

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2014 measurement date.

**Summary of Actuarial Methods and Assumptions – TRS Plan**

Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Actuarial Assumptions:	
Discount Rate	8.00%
Investment Rate of Return	8.00%
Inflation	3.00%
Salary Increase	4.25% to 7.25% including inflation
Mortality:	
Active	1994 Group Annuity Mortality Table set back 6 years for males and females
Post-Retirement	Client specific tables multiplied by 80%
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the summer of 2014, the methods and assumptions are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees have decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards practice No. 35.

There have been no changes to the benefit and contribution provisions of the plan since the prior measurement date.

The discount rate of 8.0 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates.

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3. RETIREMENT BENEFITS, CONTINUED

Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.0 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
<b>Global Equity</b>		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
<b>Stable Value</b>		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	-0.2%
<b>Real Return</b>		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
<b>Risk Parity</b>		
Risk Parity	<u>5%</u>	6.7%
<b>Total</b>	<u>100%</u>	

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3. RETIREMENT BENEFITS, CONTINUED

Sensitivity analysis was performed on the impact of changes in the discount rate on KTEP's proportionate share of the net pension liability. The result of the analysis is presented in the table below:

Sensitivity of KTEP's Proportionate Share of the Net Pension Liability  
to Changes in the Discount Rate

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9)
\$108,123	\$60,508	\$24,900

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs.

More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2014 Comprehensive Annual Financial Report. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the TRS' annual financial report, which may be obtained from the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701 or found on the TRS website at [ww.trs.state.tx.us](http://ww.trs.state.tx.us).

At August 31, 2015, KTEP reported a liability of \$60,508 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. KTEP's proportion at August 31, 2014 was .0002265%. KTEP's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2013 through August 31, 2014.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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3. RETIREMENT BENEFITS, CONTINUED

For the year ending August 31, 2015, KTEP recognized pension expense of \$5,593. At August 31, 2015, KTEP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 936	\$ -
Changes of assumptions	3,933	-
Net difference between projected and actual investment return	-	18,493
Change in proportion and contribution difference	-	16
Contributions subsequent to the measurement date	<u>6,660</u>	<u>-</u>
Total	<u>\$ 11,529</u>	<u>\$ 18,509</u>

The \$6,660 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

<u>Fiscal Year</u>	<u>Increase (Reduction) of Pension Expense</u>
2016	\$ (3,805)
2017	(3,805)
2018	(3,805)
2019	(3,805)
2020	819
Thereafter	<u>761</u>
Total	<u>\$ (13,640)</u>

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FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

3. RETIREMENT BENEFITS, CONTINUED

Optional Retirement Program ("ORP")

Certain professionals, administrators and faculty may irrevocably elect to participate in the Optional Retirement Program, rather than TRS. ORP is a defined contribution plan administered by the University of Texas ("UT") System. Entry into ORP must be elected within 90 days after employment and 100% vesting occurs after one year of participation. Covered employees are required to contribute 6.65% of their annual salaries, and KTEP's required contribution is 8.5% (including supplement) of their annual salaries. The contribution rates are established by the Texas Legislature and may fluctuate periodically.

KTEP contributions to ORP were \$10,822, \$10,737 and \$12,817 for 2015, 2014, and 2013, respectively. Employee contributions to ORP were \$8,466, \$8,399 and \$10,027 for 2015, 2014 and 2013, respectively.

4. OTHER EMPLOYEE BENEFITS

Employee Insurance Benefits

The UT System Employee Benefits program provides health and life insurance, disability, long-term care and flexible spending account coverage to all benefits-eligible employees of UTEP. These insurance benefits are provided through both self-funded and fully-insured arrangements. The UT Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the Texas Insurance Code.

KTEP is required to contribute a portion of the insurance premium at rates established by the Texas Legislature. The rates fluctuate periodically. The employee contributes any premium over and above KTEP's contributions.

Employee Compensable Absences

Employees are entitled to paid vacation of eight to fifteen hours per month, depending upon the years of employment. An expense is recorded and payment is made by KTEP to UTEP as the benefits accrue to employees. The liability for payment of unused vacation is recorded by UTEP.

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FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

4. OTHER EMPLOYEE BENEFITS, CONTINUED

Postemployment Health and Life Insurance Benefits

Health and life insurance benefits are provided for retired employees (OPEB), in accordance with Texas statutes. Employees become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements.

These benefits are provided to the retirees under the UT System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*.

The plan's financial information is included in the University of Texas System Consolidated Annual Financial Report that may be obtained from the University of Texas System website at [www.utsystem.edu](http://www.utsystem.edu).

The liability for accrued post-employment benefits is recorded by the University of Texas System Administration and not at the individual institutions in the University of Texas System, therefore KTEP does not record an OPEB liability.

5. RISK MANAGEMENT

KTEP participates in UTEP's self-insured general liability, property and workers compensation coverage program administered by the University of Texas System. Certain of KTEP's specialized equipment is insured under separate commercial insurance policies. KTEP's cost of these insurance programs is funded through direct and indirect support provided by UTEP.

6. UNIVERSITY OF TEXAS AT EL PASO SUPPORT

KTEP receives substantial support from UTEP in the form of direct appropriations and grants for operating and indirect administrative and occupancy support. These direct and indirect amounts are included as both support and expenses in the statement of revenues, expenses and changes in net position.

Direct support for operating includes the cost of KTEP's employees, utilities and maintenance for broadcasting facilities, and other direct expenses. Direct support from UTEP was \$287,067 and \$274,413 for the years ended August 31, 2015 and 2014, respectively.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

6. UNIVERSITY OF TEXAS AT EL PASO SUPPORT, CONTINUED

Indirect support from UTEP consists of allocated administrative and occupancy costs incurred by UTEP for which KTEP receives benefits. The fair value of this support is recognized in the statements of revenues, expenses, and changes in net position as indirect administrative support and also as expenses in the management and general functional expense category. Indirect support is calculated using the UTEP's Other Sponsored Activities indirect cost rate negotiated with the US Department of Health and Human Services. The current approved rate of 33% is effective from October 1, 2012 to August 31, 2016. The rate was modified to exclude certain cost components that do not benefit KTEP, resulting in an applied rate of 15.51%. The value of indirect support was \$116,261 and \$111,917 for the years ended August 31, 2015 and 2014, respectively.

7. LEASE COMMITMENTS

KTEP leases land for its broadcasting and transmission equipment. The lease provides for monthly rent, adjusted annually for inflation, plus common area costs, through September 2021. The lease may be terminated any time after September 2018, with 24 months notice. The adjusted monthly rent at August 31, 2015 was \$3,347. Rental expense incurred for 2015 and 2014 was \$41,828 and \$40,788 respectively.

KTEP rents office equipment for \$285 per month under a lease through April 2017.

8. OTHER COMMITMENTS AND CONTINGENCIES

KTEP receives an annual radio community service grant from the Corporation for Public Broadcasting ("CPB"). In addition to the established level of grant funding, the CPB adjusts funding with calculations dependent on the level of non-federal financial assistance provided to KTEP in the preceding year. The CPB periodically performs examinations of participating organizations. As a result of these examinations, the CPB may disallow certain non-federal assistance, which may require a station to return a portion of the grant funds to the CPB. Management believes that any disallowance of non-federal financial assistance would not have a material impact on the amount of grant proceeds received by KTEP.

In 2006, KTEP received a grant from CPB to purchase equipment for digital broadcasting. The CPB grant paid for \$81,200 of eligible costs, and provides that KTEP remain qualified to receive a CPB community service grant for ten years, or the grant funds must be returned.

In 2011, KTEP received a grant from the U.S. Department of Commerce to purchase a new transmitter. The grant paid for \$43,840 of eligible cost and KTEP provided a matching amount. The grant provides that the Federal government retains a reversionary interest in the equipment paid with grant funds for ten years after completion of the project.

## **SUPPLEMENTARY INFORMATION**

KTEP-FM  
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THE UNIVERSITY OF TEXAS AT EL PASO  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2015

	Program Services			
	Programming And Production	Broadcasting	Public Information and Promotion	Total Program Services
Salaries, wages and employee benefits	\$118,377	\$ 52,068	\$17,945	\$188,390
Programming expenses	283,486	-	-	283,486
Indirect administrative	-	-	-	-
Professional and contract services	-	34,615	680	35,295
Rent expense	-	41,828	-	41,828
Electricity	-	18,200	-	18,200
Equipment expense	-	3,760	-	3,760
Advertising and promotional materials	-	-	42,302	42,302
Printing, postage and promotion expenses	-	-	1,792	1,792
Repair and remodeling expense	-	-	-	-
Depreciation	-	15,468	-	15,468
 Total expenses	 \$401,863	 \$165,939	 \$62,719	 \$630,521

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

Supporting Services

<u>Management And General</u>	<u>Fundraising and Membership</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 90,755	\$38,247	\$129,002	\$317,392
-	-	-	283,486
116,261	-	116,261	116,261
37,072	1,724	38,796	74,091
-	-	-	41,828
-	-	-	18,200
-	3,705	3,705	7,465
-	-	-	42,302
-	4,269	4,269	6,061
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>15,468</u>
<u>\$244,088</u>	<u>\$47,945</u>	<u>\$292,033</u>	<u>\$922,554</u>

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SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2014

	Program Services			
	Programming And Production	Broadcasting	Public Information and Promotion	Total Program Services
Salaries, wages and employee benefits	\$114,492	\$ 50,521	\$18,029	\$183,042
Programming expenses	275,557	-	-	275,557
Indirect administrative	-	-	-	-
Professional and contract services	-	37,567	3,790	41,357
Rent expense	-	40,788	-	40,788
Electricity	-	17,950	-	17,950
Equipment expense	-	-	-	-
Advertising and promotional materials	-	-	43,376	43,376
Printing, postage and promotion expenses	-	-	1,131	1,131
Repair and remodeling expense	-	-	-	-
Depreciation	-	16,072	-	16,072
 Total expenses	 \$390,049	 \$162,898	 \$66,326	 \$619,273

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

Supporting Services

<u>Management and General</u>	<u>Fundraising and Membership</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 90,267	\$22,266	\$112,533	\$295,575
-	-	-	275,557
111,917	-	111,917	111,917
33,163	1,550	34,713	76,070
-	-	-	40,788
-	-	-	17,950
-	3,420	3,420	3,420
-	-	-	43,376
-	4,875	4,875	6,006
6,215	-	6,215	6,215
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,072</u>
<u>\$241,562</u>	<u>\$32,111</u>	<u>\$273,673</u>	<u>\$892,946</u>

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REQUIRED SUPPLEMENTARY INFORMATION-  
TEACHER RETIREMENT SYSTEM PENSION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2015

**Schedule of Proportionate Share of the Net Pension Liability  
as of the August 31, 2014 Measurement Date**

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KTEP's proportion of the net pension liability	.0002265%
KTEP's proportionate share of the net pension liability	\$60,508
KTEP's covered payroll	\$84,482
KTEP'S proportionate share of the net pension liability as a percentage of its covered payroll	71.62%
Plan fiduciary net position as a percentage of the total pension liability	83.25%

**Schedule of Contributions for the year ended August 31, 2015**

Statutorily required contributions	\$6,660
Contributions in relation to the statutorily required contributions	\$6,660
Contributions deficiency (excess)	-
KTEP'S covered payroll	\$97,947
Contributions as a percentage of covered payroll	6.8%

Only one year of information is presented due to GASB Statement 68 being implemented in 2015. Additional years will be displayed as they become available.