

KTEP-FM
OF
THE UNIVERSITY OF TEXAS AT EL PASO

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

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INDEPENDENT AUDITOR'S REPORT

**To the Management of KTEP-FM
and to The University of Texas at El Paso
El Paso, Texas**

We have audited the accompanying financial statements of the business-type activities of KTEP-FM of the University of Texas at El Paso (KTEP-FM), as of and for the year ended August 31, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 judgement, 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 opinions.

Opinions

In our opinion on, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of KTEP-FM of the University of Texas at El Paso, as of August 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the KTEP-FM of the University of Texas at El Paso and do not purport to, and do not represent fairly the financial position of the University of Texas at El Paso, as of August 31, 2020 and 2019, 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.

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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KTEP-FM of the University of Texas at El Paso's basic financial statements. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of functional expenses 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 statement 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 as a whole.

Prior year audit

The financial statements of the business-type activities of KTEP-FM of the University of El Paso for the year ended August 31, 2019, were audited by another auditor, who expressed an unmodified opinion on those statements on March 2, 2020.

Pena Breones McDaniel & Co

El Paso, Texas
March 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

KTEP-FM
OF
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MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2020 AND 2019

Introduction and Reporting Entity

This discussion and analysis of KTEP-FM ("KTEP"), a public radio station operated by the University of Texas at El Paso ("UTEP"), provides an overview of KTEP's financial activities during the years ended August 31, 2020 and 2019.

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 pronouncements. Following this section are the basic financial statements and notes which should be read in conjunction with this discussion and analysis. The Statements of Net Position provide 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 Statements of Revenues, Expenses, and Changes in Net Position provide information on income and expenses for the year, with additional detail of the expenses provided in the supplementary Schedules of Functional Expenses. The Statements of Cash Flows show 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.

KTEP-FM
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MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2020 AND 2019

Financial Highlights

A summarized comparison of KTEP's assets, and net position at August 31, 2020, 2019 and 2018, are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 280,597	\$ 117,947	\$ 93,105
Capital assets, net	<u>1,784</u>	<u>2,676</u>	<u>3,568</u>
Total assets	<u>\$ 282,381</u>	<u>\$ 120,623</u>	<u>\$ 96,673</u>
Current liabilities	\$ 59,052	\$ 86,879	\$ 82,556
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	59,052	86,879	82,556
Net Position			
Investment in capital assets	1,784	2,676	3,568
Restricted	-	-	2,000
Unrestricted	<u>221,545</u>	<u>31,068</u>	<u>8,549</u>
Ending net position	<u>\$ 282,381</u>	<u>\$ 120,623</u>	<u>\$ 96,673</u>

Current assets increased by \$162,650 as of August 31, 2020 consisting of an increase in cash of \$162,479, as KTEP received a stabilization grant from the Corporation for Public Broadcasting. Capital assets decreased by \$892, as a result of depreciation. Current liabilities decreased by \$27,827 as of August 31, 2020, due to a decrease in accounts payable of \$71,810 resulting from timing of payments of programming fees. The decrease was offset by an increase in deferred revenue of \$43,983 resulting from a contract that was paid upfront.

KTEP's total net position increased by \$189,585 as of August 31, 2020. The decrease in investment in capital assets corresponds with the decrease in capital assets discussed above. The increase in unrestricted net position of \$190,477 was the result of an increase in underwriting contracts and receiving a stabilization grant from the Corporation of Public Broadcasting.

Current assets increased by \$24,842 as of August 31, 2019 consisting of an increase in cash of \$28,973, offset by reductions in receivables of \$1,693, and prepaid expenses of \$2,438. Capital assets decreased by \$892 as a result of depreciation. Current liabilities increased by \$4,323 as of August 31, 2019 due to timing of payments of programming fees.

KTEP's total net position increased by \$19,627 as of August 31, 2019. The decrease in investment in capital assets corresponds with the decrease in capital assets discussed above. The increase in unrestricted net position of \$22,519 was the result of operating activities, net of depreciation expense, and use of restricted net position in the amount of \$2,000 for the specified purpose.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2020 AND 2019

A summarized comparison of KTEP's revenues, expenses and changes in net position for the years ended August 31, 2020, 2019 and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues			
UTEP direct and indirect support	\$ 362,829	\$ 403,333	\$ 390,623
Grants	254,230	144,699	148,409
Membership, gifts and other	<u>402,912</u>	<u>382,628</u>	<u>347,549</u>
Total revenue	<u>1,019,971</u>	<u>930,660</u>	<u>886,581</u>
Operating expenses			
Program services	578,289	629,140	651,066
Supporting services	<u>252,097</u>	<u>281,893</u>	<u>281,637</u>
Total expenses	<u>830,386</u>	<u>911,033</u>	<u>932,703</u>
Operating income (loss)	<u>189,585</u>	<u>19,627</u>	<u>(46,122)</u>
Change in net position	189,585	19,627	(46,122)
Beginning net position	<u>33,744</u>	<u>14,117</u>	<u>60,239</u>
Ending net position	<u>\$ 223,329</u>	<u>\$ 33,744</u>	<u>\$ 14,117</u>

Operating revenues for 2020 increased by a net amount of \$89,311 or 10%. Grants increased by \$109,531 in 2020, as KTEP received a stabilization grant from CPB. UTEP's direct and indirect support decreased by \$40,504, primarily due a decrease in the indirect administration allocation.

Operating expenses for 2020 decreased by \$80,647 or 9%. Program services decreased \$50,851 as the result of efforts to reduce programming and other costs. Supporting services decreased by \$29,796 as result in a reduction of fundraising activities due to the pandemic.

Operating revenues for 2019 increased by a net amount of \$44,079 or 5%. Membership, gifts and other revenues increased by \$35,079 in 2019, as the result of increased outreach efforts. UTEP's direct and indirect support increased by \$12,710, primarily due to paying a percentage of wages of specific students and the increase in wages overall. Grant revenue decreased by \$3,710.

Operating expenses for 2019 decreased by \$21,670 or 2%. Program services decreased \$21,926 as the result of efforts to reduce programming and other costs and a decrease in depreciation expenses. Supporting services increased by \$256.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2020 AND 2019

Economic Outlook

The year 2020 will be recorded as one of the most challenging in recent history. Of course, this is largely due to the pandemic. Radio, both public and commercial, were not immune to the pandemic's effects—operationally and fiscally.

Over the past few years, there has been a steady growth in the amount of revenues generated by the KTEP underwriting program. In the previous fiscal year ending in August 2019, KTEP generated \$70,367 in underwriting. This constitutes a growth of 59% growth from the previous year. In fiscal year 2020, KTEP saw the greatest increase in its history climbing to \$120,722 or a growth of 71.6%. Many public radio stations across the country saw steep declines in their underwriting.

The pandemic's effect on KTEP was manifested in several ways. First, KTEP lost many smaller budget underwriting clients. These clients, in some cases, were forced to close during the pandemic. Interestingly, several large budget clients actually increased the amount of monies spent on underwriting. These monies were instrumental in helping offset the losses from the smaller budget clients, as well as the cancellation of the 2020 KTEP Spring Pledge Drive. Moreover, there were several "gifts" or donations made to help support the station. One additional factor helped stabilize the station during this period. The Corporation for Public Broadcasting, working with the U.S. Congress, was able to issue stimulus checks throughout the public broadcasting system. In the case of KTEP, the station received a check in the amount of \$112,000.

There is one more interesting item to note. The pandemic and the political atmosphere seemed to create a greater need and respect for the services provided by public radio. We are hopeful that this trend continues and translates into greater revenues for KTEP.

Contacting KTEP's Management

This financial report is designed to provide our listening and membership community and grantors with a general overview of KTEP's finances. If you have any questions about this report, please contact KTEP's General Manager at 500 West University Avenue, Cotton Memorial Bldg, Suite 203, El Paso, Texas 79968.

KTEP-FM
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STATEMENTS OF NET POSITION
AUGUST 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash	\$ 266,389	\$ 103,910
Membership and gift receivables	5,612	2,014
Prepaid expenses	<u>8,596</u>	<u>12,023</u>
Total current assets	<u>280,597</u>	<u>117,947</u>
Capital assets, net	<u>1,784</u>	<u>2,676</u>
Total assets	<u>\$ 282,381</u>	<u>\$ 120,623</u>
<u>LIABILITIES AND NET POSITIONS</u>		
Current Liabilities:		
Accounts payable	\$ 15,069	\$ 86,879
Deferred revenue	<u>43,983</u>	<u>-</u>
Total liabilities	<u>59,052</u>	<u>86,879</u>
Net Position		
Investment in capital assets	1,784	2,676
Unrestricted net position	<u>221,545</u>	<u>31,068</u>
Total net position	<u>223,329</u>	<u>33,744</u>
Total liabilities and net position	<u>\$ 282,381</u>	<u>\$ 120,623</u>

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
University of Texas at El Paso direct support	\$ 298,223	\$ 313,070
Indirect administrative and occupancy support from		
University of Texas at El Paso	64,606	90,263
Membership contributions and gifts	240,728	265,980
Grants	254,230	144,699
Program underwriting	120,722	70,367
In-kind contributions	<u>41,462</u>	<u>46,281</u>
Total operating revenues	<u>1,019,971</u>	<u>930,660</u>
Operating Expenses:		
Programming and production	378,334	400,951
Broadcasting	149,917	156,956
Program information and production	50,038	71,233
Management and general	216,723	222,810
Funraising and membership development	<u>35,374</u>	<u>59,083</u>
Total operating expenses	<u>830,386</u>	<u>911,033</u>
Operating income	<u>189,585</u>	<u>19,627</u>
Change in net position	189,585	19,627
Net position, beginning of year	<u>33,744</u>	<u>14,117</u>
Net position, end of year	<u>\$ 223,329</u>	<u>\$ 33,744</u>

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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flow from operating activities:		
Direct support from the University of Texas at El Paso	\$ 298,223	\$ 313,070
Cash receipts from membership, gifts, and underwriting	401,835	338,040
Cash receipts from grants	254,230	144,699
Cash payments for employee salaries and benefits	(342,122)	(351,182)
Cash payments to suppliers of goods or services	<u>(449,687)</u>	<u>(415,654)</u>
Net cash provided (used) by operating activities	<u>162,479</u>	<u>28,973</u>
Net increase (decrease) in cash	162,479	28,973
Cash, beginning of year	<u>103,910</u>	<u>74,937</u>
Cash, end of year	<u>\$ 266,389</u>	<u>\$ 103,910</u>
Reconciliation of operating gain (loss) to net cash used by operating activities		
Operating gain	\$ 189,585	\$ 19,627
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Depreciation	892	892
Changes in assets and liabilities:		
Membership and gift receivables	(3,598)	1,693
Prepaid expenses	3,427	2,438
Accounts payable	(71,810)	4,323
Deferred revenue	<u>43,983</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 162,479</u>	<u>\$ 28,973</u>

KTEP-FM
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

KTEP-FM (“KTEP”) is a public radio station which is operated by the University of Texas at El Paso (“UTEP”) in the Communications Department within the College of Liberal Arts and is governed by the University of Texas System Board of Regents. KTEP operates at the frequency 88.5 on the FM dial, providing news, music, and other programs. KTEP is not a separate legal entity nor is it a separate fund of UTEP. Its financial activity is accounted for as a group of accounts within the UTEP accounting system. All accounting transactions of KTEP are processed by UTEP’s administrative offices, and all amounts contained in these financial statements are included in the financial statements of the University of Texas at El Paso, which is part of the University of Texas System, a component unit of the State of Texas.

These financial statements present only KTEP 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, 2020 and 2019, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Complete financial statements of UTEP can be obtained at its administrative offices.

Basis of Financial Statement Presentation and Basis of Accounting

The financial statements of KTEP are presented for the purpose of reporting to the Corporation for Public Broadcasting. KTEP prepares its 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*. KTEP uses the reporting model for business-type activities (enterprise fund) for its financial statements, which is one of the reporting model options allowed by CPB.

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Using this 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. All revenues and expenses not meeting the definition of operating revenues or expenses are reported as non-operating revenues and expenses. Revenues associated with or restricted by donors to use for capital improvements are recorded as nonoperating revenues.

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Basis of Financial Statement Presentation and Basis of Accounting (Continued)

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

Cash and Cash Equivalents

Cash balances are commingled with other UTEP funds, which are entirely insured or collateralized by depository financial institutions. Since UTEP controls any cash and cash equivalents, it is the responsibility of UTEP to comply with the Depository Contract Law and Public Funds Investment Act. Any of KTEP's funds would be subject to the policies and contractual provisions governing deposits and investments for UTEP. Interest earned on available cash balances is not allocated to KTEP. For purposes of reporting cash flows, KTEP considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Allowance for bad debt

The allowance is determined based on prior year's experience and management's analysis of specific contracts made. As of August 31, 2020 and 2019, the allowance for uncollectible receivables was \$0.

Capital Assets

Purchased capital assets are recorded at cost. Donated property is recorded at the fair market value at the date of receipt. KTEP follows UTEP's capitalization policy and capitalizes equipment costing \$5,000 or more and buildings and improvements costing \$100,000 or more. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets over periods of 5 to 30 years. Maintenance and repair costs are charged to expense.

Net Position

Investment in capital assets represents KTEP's capital assets, net of accumulated depreciation, reduced by outstanding debt obligations related to those capital assets. There were no outstanding debt obligations at August 31, 2020 or August 31, 2019.

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

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Revenues

Grant funding is recognized as revenue when all eligibility requirements imposed by the grantor have been met. Membership contributions, gifts, and underwriting support are recognized as operating revenues in the period they are received in relation to monthly payments. In the event of prepayment for a long term contract, the underwriting revenue is recorded as deferred revenue for the period of which services has not been render. Non-cash contributed support is recognized as revenue when the goods or services have been provided.

Functional Expenses

Expenses are directly charged to the function that receives the benefit. Payroll expenses of staff whose time benefits more than one function are allocated based upon management's estimate of the percentage of the staff's time spent on each function. Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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. Revenue for this support is recognized in the period the expenses are incurred. These direct and indirect amounts are included as both revenues and expenses in the statements 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 estimated value of this support is recognized in the statements of revenues, expenses, and changes in net position as indirect administrative support and 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 U.S. 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 the related expenditure is capitalized.

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

In-kind Contributions

Program information services used in operations are donated to KTEP by businesses and non-profit organizations. These in-kind contributions are included in the financial statements at fair value determined on the basis of the donors' usual and customary fees charged for equivalent goods or services. The value of these services was \$41,462 and \$46,281 for years ended August 31, 2020 and 2019, respectively. These amounts are included as both support and expenses in the statements of revenues, expenses, and changes in net position.

Fundraising and Membership Development

KTEP does not provide thank you gifts of significant value (premiums) or incur other direct, third-party expenses for special fundraising activities. Anyone making contributions to KTEP is considered a member except for underwriters.

Program Underwriting

Underwriters are those who donate and receive an on-air acknowledgment in the form of an announcement of their program sponsorship on a monthly basis.

Advertising

Advertising costs are expensed in the period in which they are incurred.

Income Taxes

As a governmental entity, UTEP is exempt from taxes. As such, KTEP is also exempt from taxes.

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.

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

2. CAPITAL ASSETS

A summary of capital assets activity for the years ended August 31, 2020 and 2019 are as follows:

	Beginning Balance 2019	Additions	Retirement	Ending Balance 2020
Transmission, broadcasting and studio equipment	\$ 307,485	\$ -	\$ -	\$ 307,485
	307,485	-	-	307,485
Less accumulated depreciation for: Transmission, broadcasting and studio equipment	(304,809)	(892)	-	(305,701)
	(304,809)	(892)	-	(305,701)
Capital assets, net	\$ 2,676	\$ (892)	\$ -	\$ 1,784

	Beginning Balance 2018	Additions	Retirement	Ending Balance 2019
Transmission, broadcasting and studio equipment	\$ 307,485	\$ -	\$ -	\$ 307,485
	307,485	-	-	307,485
Less accumulated depreciation for: Transmission, broadcasting and studio equipment	(303,917)	(892)	-	(304,809)
	(303,917)	(892)	-	(304,809)
Capital assets, net	\$ 3,568	\$ (892)	\$ -	\$ 2,676

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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

2. CAPITAL ASSETS (Continued)

Depreciation expense of \$892 for years ended August 31, 2020 and 2019, were charged to broadcasting.

3. PENSION PLANS

Since personnel working for KTEP are employees of UTEP, they are eligible to participate in the benefit programs of UTEP. All full-time employees at KTEP are covered by either the Teacher Retirement System of Texas (TRS) or the Optional Retirement Program (ORP) as UTEP employees. The required employer contribution for KTEP employees is recorded as an expense in these financial statements. The net pension liability related to TRS and the related deferred inflows and outflows of resources are recorded by the University of Texas System, which is a component unit of the State of Texas.

Teacher Retirement System of Texas (TRS)

Plan Description: TRS is a cost-sharing multiple-employer defined benefit pension that has a special funding situation. TRS was established and is administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue code. The Texas Legislature establishes benefit and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

Pension Plan Fiduciary Net Position: Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at https://www.trs.texas.gov/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

Benefits Provided: TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There is no automatic post-employment benefit changes; including automatic COLAs.

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3. PENSION PLANS (continued)

Benefits Provided (Continued): Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions: Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. The 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contributions for fiscal years 2020 thru 2025.

KTEP covered employees were required to contribute 7.7 % of their annual compensation in 2020, 2019, and 2018. The employer required contribution was 7.5 % for 2020 and 6.8% for 2020 and 2019 of eligible employees' annual compensation. KTEP's actual contributions to TRS were \$10,015, \$6,934 and \$6,610 for 2020, 2019, and 2018, respectively.

Optional Retirement Program (ORP)

Certain professionals, administrators and faculty may irrevocably elect to participate in the Optional Retirement Program, instead of 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 percent vesting occurs after one year of participation. Covered employees are required to contribute 6.65% of their annual compensation, and the employer contribution is 8.5% (including supplement) of their annual compensation. The contribution rates are established by the Texas Legislature and may fluctuate periodically.

KTEP contributions to ORP were \$9,070, \$11,553 and \$11,273, for 2020, 2019, and 2018, respectively.

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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 twenty-one hours per month, depending upon the years of employment. UTEP estimates and charges a percentage of employee salaries to KTEP to fund the accrued compensable absences for its employees. The liability for unused vacation is recorded by UTEP.

Postemployment Health and Life Insurance Benefit - 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.

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 primarily funded through direct and indirect support provided by UTEP.

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6. CONCENTRATION OF REVENUE

KTEP receives substantial support from UTEP in the form of direct appropriations and grants for operating and indirect administrative and occupancy support.

Direct support for operating includes the cost of KTEP employees, utilities and maintenance for broadcasting facilities, and other direct expenses. Direct support from UTEP was \$298,223 and \$313,070 for the years ended August 31, 2020 and 2019, respectively, which represents 29% and 34% of operating revenues for the year ended August 31, 2020 and 2019, respectively.

Indirect support from UTEP consists of allocated administrative and occupancy costs incurred by UTEP for which KTEP receives benefits. The estimated 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. For the year ended August 31, 2020, the indirect support was calculated using the standard method adopted by the Corporation for Public Broadcasting (CBP). The rate was calculated using the licensee's indirect cost and direct cost (minus institutional support and physical support). The calculated rate for the year ending August 31, 2020 was 8.93%. For the year ended August 31, 2019, the indirect support was 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% was effective from September 1, 2016 to August 31, 2020. The rate was modified to exclude certain cost components that do not benefit KTEP, resulting in an applied rate of 15.51% for the year ended August 31, 2019. The value of indirect support was \$64,606 and \$90,263 for the years ended August 31, 2020 and 2019, respectively, which represents 6% and 10% of operating revenues for the years ended August 31, 2020 and 2019, 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, 2020 and at August 31, 2019 was \$3,437 and \$3,347, respectively. Rental expense incurred for 2020 and 2019 was \$41,244 and \$41,468, respectively.

The following is a schedule of future minimum obligations under this operating lease as of August 31, 2020 based on the rate in effect at August 31, 2020:

<u>Year ended August 31</u>	<u>Amount</u>
2021	\$ 41,244
2022	3,437

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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 support 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 financial support, which may require a station to return a portion of the grants funds to the CPB. Management believes that any disallowance of non-federal financial support would not have a material impact on the amount of grant proceeds received by KTEP.

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 grants funds for ten years after completion of the project.

9. NEW ACCOUNTING PRONOUNCEMENTS

The following are new Governmental Accounting Standards Board (GASB) Statements that have future implementation dates. KTEP has not early implemented nor had it completed the process of evaluating the impact on its financial position that will result from adopting the listed Governmental Accounting Board Statements listed below:

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 96, *Subscription-Based Information Technology Agreements*, effective for fiscal years beginning after June 15, 2022.

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9. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or were scheduled to become effective for periods beginning after June 15, 2018, and later. The following statements are postponed until the effective dates as prescribed by GASB statement No. 95:

- Statement 83, *Certain Asset Retirement Obligations*, effective for reporting periods beginning after June 15, 2019.
- Statement 84 and Implementation Guide 2019-2, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2019.
- Statement 87 and Implementation Guide 2019-3, *Leases*, effective for fiscal years beginning after June 15, 2021 and all reporting periods thereafter.
- Statement 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*, effective for reporting periods beginning after June 15, 2019.
- Statement 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, effective for reporting periods beginning after December 15, 2020.
- Statement 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for reporting periods beginning after December 15, 2020.
- Statement 91, *Conduit Debt Obligations*, effective for reporting periods beginning after December 15, 2021.
- Statement 92, *Omnibus 2020*, effective for reporting periods beginning after June 15, 2021.
- Statement 93, *Replacement of Interbank Offered Rates*, effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

10. SUBSEQUENT EVENTS

KTEP has evaluated subsequent events through March 12, 2021, the date on which the financial statements were available to be issued. In December 2019, a novel strain of a coronavirus (SARS-CoV-2) was reported to have surfaced in China. On March 11, 2020, the World Health Organization declared a global pandemic of the novel coronavirus and the disease it causes, coronavirus disease 2019 (COVID-19). The spread of this virus has caused business disruptions to KTEP. We are monitoring developments and following guidelines set by the Local, State and Federal Governments so we may continue to serve safely. However, the extent of the impact of the pandemic on KTEP will depend on future developments, including the duration and spread of the outbreak and length and extent of guidance and requirements issued by governments; all of which are highly uncertain and cannot be predicated at the time.

SUPPLEMENTARY INFORMATION

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SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2020

	Program Services			Supporting Services			Total Expenses	
	Programmin g and Production	Broadcasting	Program Information and Promotion	Total Program Services	Management and General	Fundraising and Membership		Total Supportin g Services
Salaries, wages and employee benefits	\$ 136,622	\$ 58,345	\$ 6,651	\$ 201,618	\$ 109,290	\$ 31,214	\$ 140,504	\$ 342,122
Programming expenses	241,712	-	-	241,712	-	-	-	241,712
Indirect administrative costs	-	-	-	-	64,606	-	64,606	64,606
Professional and contract services	-	33,304	1,547	34,851	33,569	-	33,569	68,420
Advertising	-	-	41,840	41,840	-	-	-	41,840
Rent	-	41,244	-	41,244	-	-	-	41,244
Electricity	-	13,755	-	13,755	-	-	-	13,755
Depreciation	-	892	-	892	-	-	-	892
Office and other supplies	-	-	-	-	5,592	-	5,592	5,592
Printing, postage and promotion	-	-	-	-	1,451	1,999	3,450	3,450
Repair and improvement expenses	-	2,377	-	2,377	530	-	530	2,907
Miscellaneous expenses	-	-	-	-	1,685	2,161	3,846	3,846
Total expenses	\$ 378,334	\$ 149,917	\$ 50,038	\$ 578,289	\$ 216,723	\$ 35,374	\$ 252,097	\$ 830,386

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SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Programmin g and Production</u>	<u>Broadcasting</u>	<u>Program Information and Promotion</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising and Membership</u>	<u>Total Supportin g Services</u>	
Salaries, wages and employee benefits	\$ 132,424	\$ 53,591	\$ 19,223	\$ 205,238	\$ 103,882	\$ 42,062	\$ 145,944	\$ 351,182
Programming expenses	268,527	-	-	268,527	-	-	-	268,527
Indirect administrative costs	-	-	-	-	90,263	-	90,263	90,263
Professional and contract services	-	36,021	1,973	37,994	24,172	2,103	26,275	64,269
Advertising	-	-	47,037	47,037	-	-	-	47,037
Rent	-	41,468	-	41,468	-	-	-	41,468
Electricity	-	14,292	-	14,292	-	-	-	14,292
Depreciation	-	892	-	892	-	-	-	892
Office and other supplies	-	1,374	-	1,374	3,590	100	3,690	5,064
Printing, postage and promotion	-	-	-	-	304	14,818	15,122	15,122
Repair and improvement expenses	-	9,318	-	9,318	-	-	-	9,318
Miscellaneous expenses	-	-	3,000	3,000	599	-	599	3,599
Total expenses	<u>\$ 400,951</u>	<u>\$ 156,956</u>	<u>\$ 71,233</u>	<u>\$ 629,140</u>	<u>\$ 222,810</u>	<u>\$ 59,083</u>	<u>\$ 281,893</u>	<u>\$ 911,033</u>