

# **KACU-FM**

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**Financial Statements and  
Independent Auditor's Report**

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**Years Ended  
May 31, 2012 and 2011**

**KACU-FM**  
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Independent Auditor's Report

To the Institutional Licensee of  
KACU-FM:

We have audited the accompanying statements of financial position of KACU-FM as of May 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of KACU-FM's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KACU-FM at May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Abilene, Texas  
October 24, 2012

**KACU-FM**  
**Statements of Financial Position**  
**May 31, 2012 and 2011**

<b>Assets</b>	<u>2012</u>	<u>2011</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 72,714	\$ -
Investments	47,245	-
Contributions receivable	400	3,093
Prepaid programming	<u>7,878</u>	<u>18,730</u>
Total current assets	128,237	21,823
Property, plant and equipment, net	<u>100,660</u>	<u>110,519</u>
<b>Total assets</b>	<u><u>\$ 228,897</u></u>	<u><u>\$ 132,342</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ -	\$ 10,070
Total current liabilities	-	<u>10,070</u>
<b>Net assets</b>		
Unrestricted	161,591	122,272
Temporarily restricted	20,046	-
Permanently restricted	<u>47,260</u>	<u>-</u>
Total net assets	<u>228,897</u>	<u>122,272</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 228,897</u></u>	<u><u>\$ 132,342</u></u>

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

**KACU-FM**  
**Statements of Activities**  
**Years Ended May 31, 2012 and 2011**

	2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Revenues</b>			
Pledge drive contributions	\$ 110,044	\$	\$
CPB grant		142,546	
Underwriting	54,382		
Underwriting- barter/trade	16,266		
Rental income	25,680		
Other revenue	(15)		
Support from institutional licensee	140,462		
Concert ticket sales	-		
25th Anniversary luncheon	32,455		47,260
Contributed facilities and utilities	25,182		
Net assets released from restrictions:			
Satisfaction of donor restrictions	122,500	(122,500)	
Total revenues	526,956	20,046	47,260
<b>Expenses</b>			
Program services			
Programming and production	134,999		
Broadcasting	185,020		
Program information and promotion	3,363		
Support services			
Management and general	53,978		
Fundraising and membership development	58,874		
Underwriting	51,404		
Total expenses	487,637	-	-
<b>Change in net assets</b>	39,319	20,046	47,260
<b>Net assets at beginning of year</b>	122,272	-	-
<b>Net assets at end of year</b>	\$ 161,591	\$ 20,046	\$ 47,260

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

2011

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$	110,044	\$ 79,688	\$	\$	\$ 79,688
	142,546		118,853		118,853
	54,382	79,918			79,918
	16,266	27,815			27,815
	25,680	22,800			22,800
	(15)	4,021			4,021
	140,462	169,860			169,860
	-	6,275			6,275
	79,715	-			-
	25,182	24,942			24,942
	-	118,853	(118,853)		-
	<u>594,262</u>	<u>534,172</u>	<u>-</u>	<u>-</u>	<u>534,172</u>
	134,999	162,963			162,963
	185,020	197,421			197,421
	3,363	12,152			12,152
	53,978	63,649			63,649
	58,874	57,543			57,543
	51,404	56,836			56,836
	<u>487,637</u>	<u>550,564</u>	<u>-</u>	<u>-</u>	<u>550,564</u>
	106,625	(16,392)	-	-	(16,392)
	<u>122,272</u>	<u>138,664</u>	<u>-</u>	<u>-</u>	<u>138,664</u>
\$	<u><u>228,897</u></u>	<u><u>122,272</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>122,272</u></u>

**KACU-FM**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2012**

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 34,798	\$ 103,114	\$
Employee benefits and taxes	8,043	23,832	
Contract labor			
Bartered services received			
Contributed facilities and utilities		12,591	
Depreciation		10,773	
Advertising			3,363
Audit			
Dues	1,538		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		701	
Purchased programming	90,621	5,784	
Seminars and conferences			
Subscriptions			
Pager/ cell/ telephone			
Utilities		28,224	
Special events			
Other			
Total expenses	\$ 134,999	\$ 185,020	\$ 3,363

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

Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 10,319	\$ 2,305	\$ 34,972	\$ 185,508	
2,385	533	8,083	42,876	
	25,272		25,272	
	8,133	8,133	16,266	
12,591			25,182	
478	492	216	11,959	
			3,363	
4,700			4,700	
1,538	63		3,138	
6,852			6,852	
1,804			1,804	
6,396	6,635		13,031	
	737		737	
			701	
			96,405	
629			629	
1,425			1,425	
2,280			2,280	
			28,224	
	14,704		14,704	
<u>2,581</u>			<u>2,581</u>	
<u>\$ 53,978</u>	<u>\$ 58,874</u>	<u>\$ 51,404</u>	<u>\$ 487,637</u>	



**KACU-FM**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2011**

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
<b>EXPENSES:</b>			
Salaries	\$ 34,488	\$ 112,793	\$
Employee benefits and taxes	8,012	26,202	
Bartered services received			
Contributed facilities and utilities		12,471	
Depreciation		10,715	
Advertising			11,557
Audit			
Community programs			595
Dues	566		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		300	
Purchased programming	114,974	7,339	
Seminars and conferences			
Subscriptions			
Pager/ cell/ telephone			
Travel	4,923		
Utilities		27,601	
Other			
Total expenses	\$ 162,963	\$ 197,421	\$ 12,152

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

Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 10,825	\$ 30,980	\$ 34,660	\$	223,746
2,515	7,197	8,052		51,978
	13,907	13,908		27,815
12,471				24,942
476	492	216		11,899
				11,557
4,700				4,700
				595
566	23			1,155
6,672	674			7,346
1,721				1,721
4,802	2,498			7,300
	1,772			1,772
				300
				122,313
1,505				1,505
6,656				6,656
2,280				2,280
				4,923
				27,601
8,460				8,460
\$ 63,649	\$ 57,543	\$ 56,836	\$	550,564

**KACU-FM**  
**Statements of Cash Flows**  
**Years Ended May 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 106,625	\$ (16,392)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investments	15	-
Contributions restricted for long-term investment	(47,260)	-
Depreciation	11,959	11,899
(Increase) decrease in:		
Contributions receivable	2,693	(3,093)
Prepaid expenses	10,852	1,266
Increase (decrease) in:		
Accounts payable	(10,070)	10,070
Net cash provided by operating activities	<u>74,814</u>	<u>3,750</u>
 <b>Cash flows from investing activities</b>		
Purchase of investments	(47,260)	-
Acquisition of property, plant and equipment	(2,100)	(3,750)
Net cash used by investing activities	<u>(49,360)</u>	<u>(3,750)</u>
 <b>Cash flows from investing activities</b>		
Contributions restricted for endowment	<u>47,260</u>	<u>-</u>
Net cash provided by investing activities	<u>47,260</u>	<u>-</u>
 <b>Net change in cash and cash equivalents</b>	 72,714	 -
 Cash and cash equivalents at beginning of year	 <u>-</u>	 <u>-</u>
 <b>Cash and cash equivalents at end of year</b>	 <u>\$ 72,714</u>	 <u>\$ -</u>

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

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 1: Summary of Significant Accounting Policies**

A summary of KACU-FM's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Organization**

KACU-FM is a noncommercial, listener-supported public radio station located on frequency 89.7 FM in Abilene, Texas. KACU-FM broadcasts a wide range of programming from National Public Radio and Public Radio International as well as locally produced programming. KACU-FM began broadcasting on June 2, 1986 and is an integral part of the Journalism and Mass Communications Department at Abilene Christian University.

KACU-FM is not a legally separate entity from its institutional licensee, Abilene Christian University (ACU). As a result, the financial position of KACU-FM and changes in its net assets and its cash flows are presented in the consolidated financial statements of ACU. ACU is incorporated and operating as a not-for-profit institution of higher education. The University is a tax-exempt institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("IRC") and is not a "private foundation" under Section 501(a) of the IRC; accordingly, no provision for taxes has been made in the financial statements.

**Basis of Presentation**

The financial statements of KACU-FM have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses recognized when incurred.

The focus of these financial statements is to present balances and transactions according to existence or absence of donor-imposed restrictions. This has been accomplished by classification of revenues and expenses into three classes of net assets – unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations and which result from the operating activities of KACU-FM.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of KACU-FM and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by KACU-FM.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions receivable at May 31, 2012 and 2011 of \$400 and \$3,093, respectively, are expected to be collected in less than one year and management believes that no allowance for uncollectible contributions is necessary.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 1: Summary of Significant Accounting Policies – continued**

With respect to temporarily restricted net assets, KACU-FM has adopted the following accounting policies:

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets and then released from restriction.

KACU-FM will use restricted net assets first for contributions received for which both the restricted and the unrestricted net assets are available.

**Gifts of Long-Lived Assets**

The public broadcaster reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the public broadcaster reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

**Property, Plant and Equipment**

Fixed assets are reported at cost or, in the case of donated property, at estimated fair value determined as of the date of receipt. Small tools and equipment are not capitalized but are expensed as the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of individual assets, which range from 5 to 15 years. Depreciation expense is allocated to various program and support services according to the use of the related asset.

**Cash Equivalents**

For purposes of the statement of cash flows, KACU-FM considers any short-term investment with an original maturity of three months or less to be a cash equivalent. KACU-FM's cash is pooled with that of its institutional licensee, ACU.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense was \$3,363 and \$11,557 for the years ended May 31, 2012 and 2011, respectively.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 1: Summary of Significant Accounting Policies – continued**

**Functional Allocation of Expenses**

Certain joint expenses, such as employee benefits and payroll, are allocated among the program and support services to which they relate. Expenses are allocated based on employees' time incurred or other appropriate usage factors.

**Investments**

The investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on valuations provided by the external investment managers.

**NOTE 2: Investments**

During 2012, KACU-FM began investing in the ACU Investment Pool, which owns a direct interest in managed funds comprising the diversified portfolio. During the year ended May 31, 2012, KACU-FM invested \$47,260 for 200.727 units in the investment pool. The pro-rata share of the entire pool's earnings for the year ended May 31, 2012 was a (\$15) deficit. The fair value of KACU-FM's investment in the pool at May 31, 2012 was \$47,245.

**NOTE 3: Fair Value Measurements**

Accounting standards require certain disclosures about assets and liabilities measured and reported at fair value and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of KACU-FM's investments.

The inputs are summarized in three levels as outlined below:

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include publicly traded securities and mutual funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Level 2 Inputs - Quoted prices for similar assets in active markets; quoted prices for identical or similar assets that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies as described below. Assets in this category generally include hedge funds, hedge funds of funds and private equity.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 3: Fair Value Measurements - continued**

Level 3 Inputs - Unobservable inputs for the valuation of the asset. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets in this category generally include hedge funds of funds, private equity funds, and other similar assets. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

Authoritative guidance provides that if a reporting entity has the ability to redeem an investment with a private investment fund at the net asset value per share (or its equivalent) at the measurement date or within the near term and there are no other liquidity restrictions, the private investment shall be categorized as Level 2.

KACU-FM's investments in private investment funds not otherwise traded on a securities exchange are classified within Level 2 or Level 3 of the fair value hierarchy, as the value of these interests are primarily based on the respective net asset value reported by management of each private investment fund rather than actual market transactions and other observable market data. If KACU-FM has the ability to redeem its investment at the net asset value per share (or its equivalent) at the measurement date or within 120 days thereof and upon no greater than 90 days prior written notice and there are no other potential liquidity restrictions, the investment is categorized within Level 2. As a result, the investment in the ACU Investment Pool is considered Level 2 since the investment is carried at the net asset value per share and KACU-FM can redeem its investment with the ACU Investment Pool at the measurement date within the 90 day reasonableness timeframe.

KACU-FM's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The following classifies KACU-FM's assets carried at fair value based upon the three-tier hierarchy:

Fair Value Measurements as of May 31, 2012								
		Level 1 Inputs		Level 2 Inputs		Level 3 Inputs		Total Fair Value
ACU Investment Pool	\$	-	\$	47,245	\$	-	\$	47,245
Total Investments	\$	-	\$	47,245	\$	-	\$	47,245

As of May 31, 2011, KACU-FM had no investments.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 3: Fair Value Measurements - continued**

ASC 820 requires additional disclosure for certain types of investments that calculate net asset value per share but are not listed on national exchanges to assist in understanding the nature and risk of the investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments in major categories at May 31, 2012:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Liquidation and side pocket holdings</u>	<u>Redemption Frequency*</u>	<u>Redemption Notice Period</u>
ACU Investment Pool (a)	\$ 47,245	\$ -	\$ -	Quarterly	None
	<u>\$ 47,245</u>	<u>\$ -</u>	<u>\$ -</u>		

\*Redemption frequency and redemption notice period reflect general redemption terms.

(a) This category consists of an investment in a unitized investment pool managed by Abilene Christian University. The pool is a diversified portfolio of public and nonpublic securities including domestic equities, international equities, fixed income securities and private equity, invested by professional third-party managers with different investment styles to diversify risk and maximize returns.

**NOTE 4: Property, Plant and Equipment**

Property, plant and equipment at May 31 consist of the following:

	<u>2012</u>	<u>2011</u>
Transmitter and tower	\$ 105,882	\$ 105,882
Studio and technical equipment	91,905	91,605
Office equipment	11,444	11,444
Total cost	209,231	208,931
Less: Accumulated Depreciation	(108,571)	(98,412)
Net Property and equipment	<u>\$ 100,660</u>	<u>\$ 110,519</u>

Depreciation expense for the years ended May 31, 2012 and 2011 was \$11,959 and \$11,899, respectively.

**NOTE 5: Restricted Net Assets**

Temporarily restricted net assets represent unexpended CPB grants. Temporarily restricted net assets were \$20,046 and \$0 at May 31, 2012 and 2011, respectively. Net assets were released from restrictions in the amounts of \$122,500 and \$118,853 for the years ended May 31, 2012 and 2011, respectively, due to satisfying the grant restricted purpose of operating expenses.



**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 5: Restricted Net Assets – continued**

Permanently restricted net assets represent the endowment account invested in the ACU Investment Pool. There were permanently restricted net assets at May 31, 2012 of \$47,260. For the year ended May 31, 2011, there were no permanently restricted net assets.

**NOTE 6: Community Service Grants**

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

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

The CSGs are reported on the accompanying financial statements as increases in temporarily restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from temporarily restricted net assets and an increase in unrestricted net assets.

**NOTE 7: Indirect Administrative Support**

The institutional licensee, ACU, provides certain administrative services and support for KACU-FM. Such services and support include physical plant operations, office space and related utilities. This indirect administrative support is recognized in the accompanying financial statements as revenue and expense totaling \$25,182 and \$24,942 in 2012 and 2011, respectively.

KACU-FM also participates in ACU's defined contribution retirement plan and employee health insurance plan. Employer contributions to the retirement plan for KACU-FM's employees totaled \$14,204 and \$13,976 for the years ended May 31, 2012 and 2011, respectively, and are recorded in benefits expense in the accompanying financial statements.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 8: Endowment**

The Organization's endowment consists of one individual donor restricted endowment fund managed in Abilene Christian University's Investment Pool. The net assets of endowment funds are classified and reported based on the existence or absence of donor restrictions.

Interpretation of Relevant Law

The Organization, relying on information and advice from legal counsel and appointed officers, has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As a result of this interpretation, for financial reporting purposes, the Organization classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the instructions of the applicable gift instruments. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure with the standard of care required by UPMIFA.

Endowment net assets consist of the following at May 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>(15)</u>	\$ <u>-</u>	\$ <u>47,260</u>	\$ <u>47,245</u>

Changes in endowment net assets for the year ended May 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2011	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	47,260	47,260
Net investment income	-	-	-	-
Net realized and unrealized gains (losses)	(15)	-	-	(15)
Appropriations for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, May 31, 2012	\$ <u>(15)</u>	\$ <u>-</u>	\$ <u>47,260</u>	\$ <u>47,245</u>

**KACU-FM**  
Notes to Financial Statements  
May 31, 2012 and 2011

**NOTE 8: Endowment – continued**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment accounts may fall below the level that the donor or ASC 820 requires KACU-FM to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$15 as of May 31, 2012. This deficiency resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and the continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objective and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor specified period. The Organization expects its endowment funds, over time, to provide an average rate-of-return in excess of 5.5% annually plus inflation. Actual returns in any given year may vary from this amount. As KACU-FM only had invested funds for part of the year ended May 31, 2012, the average rate-of-return was not obtained.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest, dividends, rents, and royalties). The Organization targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year an amount equal to 70% of an endowment's prior year distribution for spending, adjusted for inflation plus 1%, plus 30% of its beginning of year market value, times the target rate of 4.5%. Distributions are then limited to no less than 2% nor greater than 6% of beginning endowment market value and annual increases for an individual endowment to 7%. Accordingly, over time, the Organization expects the current spending policy to allow its endowment to grow at an average of at least 1% plus inflation annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**NOTE 9: Subsequent Events**

The public broadcaster has evaluated subsequent events through October 24, 2012, the date the financial statements were available to be issued.