

KACU-FM

Financial Statements and
Independent Auditor's Report

Years Ended
May 31, 2014 and 2013

KACU-FM
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Independent Auditor's Report

To the Institutional Licensee of
KACU-FM:

We have audited the accompanying financial statements of KACU-FM (a nonprofit organization), which comprise the statements of financial position as of May 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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 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 KACU-FM as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Certified Public Accountants

Abilene, Texas
November 24, 2014

KACU-FM
Statements of Financial Position
May 31, 2014 and 2013

Assets	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 29,532	\$ 64,650
Investments	58,952	55,121
Contributions receivable	1,646	1,255
Prepaid programming	<u>7,329</u>	<u>6,380</u>
Total current assets	97,459	127,406
 Property, plant and equipment, net	 <u>84,264</u>	 <u>95,281</u>
 Total assets	 \$ <u><u>181,723</u></u>	 \$ <u><u>222,687</u></u>
 Net Assets		
Net assets		
Unrestricted	\$ 127,648	\$ 172,450
Temporarily restricted	6,815	2,977
Permanently restricted	<u>47,260</u>	<u>47,260</u>
Total net assets	<u>181,723</u>	<u>222,687</u>
 Total net assets	 \$ <u><u>181,723</u></u>	 \$ <u><u>222,687</u></u>

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

KACU-FM
Statements of Activities
Years Ended May 31, 2014 and 2013

	2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Revenues			
Pledge drive contributions	\$ 77,709	\$	\$
CPB grant		82,007	
Underwriting	37,393		
Underwriting- barter/trade	21,700		
Rental income	37,520		
Net realized and unrealized gains (losses)		6,482	
Support from institutional licensee	95,073		
25th Anniversary luncheon			
Contributed facilities and utilities	29,821		
Net assets released from restrictions:			
Satisfaction of donor restrictions	84,651	(84,651)	
Total revenues	<u>383,867</u>	<u>3,838</u>	<u>-</u>
Expenses			
Program services			
Programming and production	137,219		
Broadcasting	97,945		
Program information and promotion	430		
Support services			
Management and general	60,232		
Fundraising and membership development	91,071		
Underwriting	41,772		
Total expenses	<u>428,669</u>	<u>-</u>	<u>-</u>
Change in net assets	(44,802)	3,838	-
Net assets at beginning of year	<u>172,450</u>	<u>2,977</u>	<u>47,260</u>
Net assets at end of year	\$ <u>127,648</u>	\$ <u>6,815</u>	\$ <u>47,260</u>

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

2013

<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 77,709	\$ 77,312	\$	\$	\$ 77,312
82,007		116,570		116,570
37,393	38,078			38,078
21,700	28,500			28,500
37,520	38,680			38,680
6,482	15	4,940		4,955
95,073	100,940			100,940
-	3,770			3,770
29,821	26,957			26,957
-	138,579	(138,579)		-
<u>387,705</u>	<u>452,831</u>	<u>(17,069)</u>	<u>-</u>	<u>435,762</u>
137,219	142,816			142,816
97,945	142,956			142,956
430	1,972			1,972
60,232	52,224			52,224
91,071	56,407			56,407
41,772	45,597			45,597
<u>428,669</u>	<u>441,972</u>	<u>-</u>	<u>-</u>	<u>441,972</u>
(40,964)	10,859	(17,069)	-	(6,210)
<u>222,687</u>	<u>161,591</u>	<u>20,046</u>	<u>47,260</u>	<u>228,897</u>
\$ <u>181,723</u>	\$ <u>172,450</u>	\$ <u>2,977</u>	\$ <u>47,260</u>	\$ <u>222,687</u>

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2014

	Program Services		
	<u>Programming & Production</u>	<u>Broadcasting</u>	<u>Program Information & Promotion</u>
EXPENSES:			
Salaries	\$ 15,287	\$ 51,739	\$
Employee benefits and taxes	3,638	12,314	
Contract labor			
Bartered services received			
Contributed facilities and utilities		14,911	
Depreciation		9,868	
Advertising			430
Audit			
Dues	4,240		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		1,833	
Purchased programming	114,054	7,280	
Seminars and conferences			
Subscriptions			
Travel			
Pager/ cell/ telephone			
Other			
Total expenses	\$ <u>137,219</u>	\$ <u>97,945</u>	\$ <u>430</u>

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

Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 12,643	\$ 34,803	\$ 24,803	\$	139,275
3,009	8,283	5,903		33,147
	31,200			31,200
	10,850	10,850		21,700
14,910				29,821
441	492	216		11,017
				430
5,040				5,040
4,241	173			8,654
6,501				6,501
1,027				1,027
4,020	1,094			5,114
	4,176			4,176
				1,833
				121,334
275				275
169				169
780				780
3,788				3,788
3,388				3,388
\$ <u>60,232</u>	\$ <u>91,071</u>	\$ <u>41,772</u>	\$	<u>428,669</u>

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2013

	Program Services		
	<u>Programming & Production</u>	<u>Broadcasting</u>	<u>Program Information & Promotion</u>
EXPENSES:			
Salaries	\$ 37,307	\$ 90,600	\$
Employee benefits and taxes	8,259	20,056	
Contract labor			
Bartered services received			
Contributed facilities and utilities		13,479	
Depreciation		11,752	
Advertising			1,972
Audit			
Dues	3,125		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		1,002	
Purchased programming	94,125	6,067	
Seminars and conferences			
Subscriptions			
Pager/ cell/ telephone			
Special events			
Other			
Total expenses	\$ <u>142,816</u>	\$ <u>142,956</u>	\$ <u>1,972</u>

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

Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 8,640	\$ 6,520	\$ 25,489	\$	168,556
1,746	1,443	5,642		37,146
	30,666			30,666
	14,250	14,250		28,500
13,478				26,957
519	492	216		12,979
				1,972
4,800				4,800
3,125	127			6,377
4,313				4,313
1,660				1,660
4,863	1,827			6,690
	1,082			1,082
				1,002
				100,192
1,826				1,826
494				494
1,458				1,458
1,670				1,670
3,632				3,632
\$ <u>52,224</u>	\$ <u>56,407</u>	\$ <u>45,597</u>	\$	<u>441,972</u>

KACU-FM
Statements of Cash Flows
Years Ended May 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (40,964)	\$ (6,210)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Unrealized gain/loss on investments	(6,482)	(4,955)
Depreciation	11,017	12,979
(Increase) decrease in:		
Contributions receivable	(391)	(855)
Prepaid expenses	<u>(949)</u>	<u>1,498</u>
Net cash provided (used) by operating activities	(37,769)	2,457
Cash flows from investing activities		
(Increase) decrease in investments	2,651	(2,921)
Acquisition of property, plant and equipment	<u>-</u>	<u>(7,600)</u>
Net cash provided (used) by investing activities	<u>2,651</u>	<u>(10,521)</u>
Net change in cash and cash equivalents	(35,118)	(8,064)
Cash and cash equivalents at beginning of year	<u>64,650</u>	<u>72,714</u>
Cash and cash equivalents at end of year	\$ <u><u>29,532</u></u>	\$ <u><u>64,650</u></u>

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

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

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, 2014 and 2013 of \$1,646 and \$1,255, 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, 2014 and 2013

NOTE 1: Summary of Significant Accounting Policies – continued

Basis of Presentation – 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 \$430 and \$1,972 for the years ended May 31, 2014 and 2013, respectively.

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

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 the units in the ACU investment pool is based on valuations provided by ACU. The underlying investments within the pool are 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: 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.

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
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 2: Fair Value Measurements - continued

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, 2014				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
ACU Investment Pool	\$ -	\$ 58,952	\$ -	\$ 58,952
Total Investments	\$ -	\$ 58,952	\$ -	\$ 58,952
Fair Value Measurements as of May 31, 2013				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
ACU Investment Pool	\$ -	\$ 55,121	\$ -	\$ 55,121
Total Investments	\$ -	\$ 55,121	\$ -	\$ 55,121

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 2: 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, 2014 and 2013:

Fair Value Measurements as of May 31, 2014					
	<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)	\$ <u>58,952</u>	\$ <u>-</u>	\$ <u>-</u>	Quarterly	None
	\$ <u><u>58,952</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>		
Fair Value Measurements as of May 31, 2013					
	<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)	\$ <u>55,121</u>	\$ <u>-</u>	\$ <u>-</u>	Quarterly	None
	\$ <u><u>55,121</u></u>	\$ <u><u>-</u></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.

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 3: Property, Plant and Equipment

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

	2014	2013
Transmitter and tower	\$ 105,882	\$ 105,882
Studio and technical equipment	99,405	99,405
Office equipment	11,444	11,444
Total cost	216,731	216,731
Less: Accumulated Depreciation	(132,467)	(121,450)
Net Property and equipment	\$ 84,264	\$ 95,281

Depreciation expense for the years ended May 31, 2014 and 2013 was \$11,017 and \$12,979, respectively.

NOTE 4: Restricted Net Assets

Temporarily restricted net assets consist of the following at May 31:

	2014	2013
Donor-restricted endowment earnings	\$ 6,192	\$ 2,361
CPB grants	623	616
Temporarily restricted net assets	\$ 6,815	\$ 2,977

Net assets released from restrictions consist of the following at May 31:

	2014	2013
Endowment distribution of earnings	\$ 2,651	\$ 2,579
CPB grants	82,000	136,000
Net assets released from restrictions	\$ 84,651	\$ 138,579

Permanently restricted net assets represent the endowment account invested in the ACU Investment Pool. There were permanently restricted net assets at May 31, 2014 and 2013 of \$47,260.

NOTE 5: Community Service Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public 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.

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 5: Community Service Grants – continued

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 6: 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 \$29,821 and \$26,957 in 2014 and 2013, 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 \$10,570 and \$14,967 for the years ended May 31, 2014 and 2013, respectively, and are recorded in benefits expense in the accompanying financial statements.

NOTE 7: 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.

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 7: Endowment – continued

Endowment net assets consisted of the following at May 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,192	\$ 47,260	\$ 53,452
Board-designated endowment funds	5,500	-	-	5,500
Total endowment funds	\$ <u>5,500</u>	\$ <u>6,192</u>	\$ <u>47,260</u>	\$ <u>58,952</u>

Endowment net assets consisted of the following at May 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,361	\$ 47,260	\$ 49,621
Board-designated endowment funds	5,500	-	-	5,500
Total endowment funds	\$ <u>5,500</u>	\$ <u>2,361</u>	\$ <u>47,260</u>	\$ <u>55,121</u>

Changes in endowment net assets for the year ended May 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2013	\$ 5,500	\$ 2,361	\$ 47,260	\$ 55,121
Net realized and unrealized gains (losses)	-	6,482	-	6,482
Appropriations for expenditure	<u>-</u>	<u>(2,651)</u>	<u>-</u>	<u>(2,651)</u>
Endowment net assets, May 31, 2014	\$ <u>5,500</u>	\$ <u>6,192</u>	\$ <u>47,260</u>	\$ <u>58,952</u>

KACU-FM
Notes to Financial Statements
May 31, 2014 and 2013

NOTE 7: Endowment – continued

Changes in endowment net assets for the year ended May 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2012	\$ (15)	\$ -	\$ 47,260	\$ 47,245
Transfer to create board-designated endowment	5,500			5,500
Net realized and unrealized gains (losses)	15	4,940	-	4,955
Appropriations for expenditure	<u>-</u>	<u>(2,579)</u>	<u> </u>	<u>(2,579)</u>
Endowment net assets, May 31, 2013	\$ <u>5,500</u>	\$ <u>2,361</u>	\$ <u>47,260</u>	\$ <u>55,121</u>

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. KACU-FM's rate of return for the years ended May 31, 2014 and 2013 was 11.7% and 9.4%, respectively

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.

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NOTE 7: Endowment – continued

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 8: Subsequent Events

The public broadcaster has evaluated subsequent events through November 24, 2014, the date the financial statements were available to be issued. No subsequent events were identified for disclosure through this date.