

KACU-FM

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

**Years Ended
May 31, 2011 and 2010**

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, 2011 and 2010, 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, 2011 and 2010, 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
November 29, 2011

KACU-FM
Statements of Financial Position
May 31, 2011 and 2010

| Assets | <u>2011</u> | <u>2010</u> |
|---|--------------------------|--------------------------|
| Current assets | | |
| Contributions receivable | \$ 3,093 | \$ - |
| Prepaid programming | <u>18,730</u> | <u>19,996</u> |
| Total current assets | 21,823 | 19,996 |
| Property, plant and equipment, net | <u>110,519</u> | <u>118,668</u> |
| Total assets | <u><u>\$ 132,342</u></u> | <u><u>\$ 138,664</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ <u>10,070</u> | \$ <u>-</u> |
| Total current liabilities | 10,070 | - |
| Net assets | | |
| Unrestricted | <u>122,272</u> | <u>138,664</u> |
| Total net assets | <u>122,272</u> | <u>138,664</u> |
| Total liabilities and net assets | <u><u>\$ 132,342</u></u> | <u><u>\$ 138,664</u></u> |

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

KACU-FM
Statements of Activities
Years Ended May 31, 2011 and 2010

| | 2011 | | |
|--|--------------|---------------------------|------------|
| | Unrestricted | Temporarily Restricted | Total |
| Revenues | | | |
| Pledge drive contributions | \$ 79,688 | \$ | \$ 79,688 |
| CPB grant | | 118,853 | 118,853 |
| Underwriting | 79,918 | | 79,918 |
| Underwriting- barter/trade | 27,815 | | 27,815 |
| Rental income | 22,800 | | 22,800 |
| Other revenue | 4,021 | | 4,021 |
| Support from institutional licensee | 169,860 | | 169,860 |
| Concert ticket sales | 6,275 | | 6,275 |
| Contributed facilities and utilities | 24,942 | | 24,942 |
| Net assets released from restrictions: | | | |
| Satisfaction of donor restrictions | 118,853 | (118,853) | - |
| Total revenues | 534,172 | - | 534,172 |
| Expenses | | | |
| Program services | | | |
| Programming and production | 162,963 | | 162,963 |
| Broadcasting | 197,421 | | 197,421 |
| Program information and promotion | 12,152 | | 12,152 |
| Support services | | | |
| Management and general | 63,649 | | 63,649 |
| Fundraising and membership development | 57,543 | | 57,543 |
| Underwriting | 56,836 | | 56,836 |
| Total expenses | 550,564 | - | 550,564 |
| Change in net assets | (16,392) | - | (16,392) |
| Net assets at beginning of year | 138,664 | - | 138,664 |
| Net assets at end of year | \$ 122,272 | \$ - | \$ 122,272 |

2010

| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--------------------------|-----------------------------------|--------------------------|
| \$ 94,466 | \$ | \$ 94,466 |
| | 210,144 | 210,144 |
| 91,028 | | 91,028 |
| 39,000 | | 39,000 |
| 22,211 | | 22,211 |
| 14 | | 14 |
| 127,958 | | 127,958 |
| 699 | | 699 |
| 22,554 | | 22,554 |
| <u>224,717</u> | <u>(224,717)</u> | <u>-</u> |
| <u>622,647</u> | <u>(14,573)</u> | <u>608,074</u> |
| 128,773 | | 128,773 |
| 166,190 | | 166,190 |
| 9,908 | | 9,908 |
| 65,928 | | 65,928 |
| 64,210 | | 64,210 |
| 66,809 | | 66,809 |
| <u>501,818</u> | <u>-</u> | <u>501,818</u> |
| 120,829 | (14,573) | 106,256 |
| <u>17,835</u> | <u>14,573</u> | <u>32,408</u> |
| \$ <u><u>138,664</u></u> | \$ <u><u>-</u></u> | \$ <u><u>138,664</u></u> |

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

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

| | Program Services | | |
|--------------------------------------|-----------------------------|--------------|---------------------------------------|
| | Programming & Production | Broadcasting | Program Information & Promotion |
| EXPENSES: | | | |
| 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 |

| 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 |
| <u>\$ 63,649</u> | <u>\$ 57,543</u> | <u>\$ 56,836</u> | <u>\$</u> | <u>550,564</u> |

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

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2010

| | Program Services | | |
|--------------------------------------|-----------------------------|-------------------|---------------------------------------|
| | Programming & Production | Broadcasting | Program Information & Promotion |
| EXPENSES: | | | |
| Salaries | \$ 34,922 | \$ 97,769 | \$ |
| Employee benefits and taxes | 10,168 | 15,414 | |
| Bartered services received | | | |
| Contributed facilities and utilities | | 11,277 | |
| Depreciation | | 11,753 | |
| Advertising | | | 1,155 |
| Audit | | | |
| Community programs | | | 8,753 |
| Dues | 1,892 | | |
| Office supplies | | | |
| Postage and shipping | | | |
| Printing | | | |
| Promotional materials | | | |
| Repairs and maintenance | | 681 | |
| Purchased programming | 79,291 | 5,061 | |
| Seminars and conferences | | | |
| Subscriptions | | | |
| Pager/ cell/ telephone | | | |
| Travel | 2,500 | | |
| Utilities | | 24,235 | |
| Other | | | |
| Total expenses | \$ 128,773 | \$ 166,190 | \$ 9,908 |

| Support Services | | | |
|-------------------------|---------------------------------------|------------------|-------------------|
| Management & General | Fundraising/ Member Development | Underwriting | Total |
| \$ 8,170 | \$ 30,218 | \$ 36,640 | \$ 207,719 |
| 2,379 | 8,798 | 10,669 | 47,428 |
| | 19,500 | 19,500 | 39,000 |
| 11,277 | | | 22,554 |
| 490 | | | 12,243 |
| | | | 1,155 |
| 4,600 | | | 4,600 |
| | | | 8,753 |
| 1,892 | 30 | | 3,814 |
| 13,743 | 855 | | 14,598 |
| 1,918 | 1,591 | | 3,509 |
| 1,920 | 1,016 | | 2,936 |
| | 2,202 | | 2,202 |
| | | | 681 |
| | | | 84,352 |
| 649 | | | 649 |
| 2,059 | | | 2,059 |
| 1,777 | | | 1,777 |
| | | | 2,500 |
| | | | 24,235 |
| <u>15,054</u> | | | <u>15,054</u> |
| <u>\$ 65,928</u> | <u>\$ 64,210</u> | <u>\$ 66,809</u> | <u>\$ 501,818</u> |

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

KACU-FM
Statements of Cash Flows
Years Ended May 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (16,392) | \$ 106,256 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 11,899 | 12,243 |
| (Increase) decrease in: | | |
| Contributions receivable | (3,093) | - |
| Prepaid expenses | 1,266 | (8,353) |
| Increase (decrease) in: | | |
| Accounts payable | 10,070 | (3,471) |
| Net cash provided by operating activities | <u>3,750</u> | <u>106,675</u> |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | <u>(3,750)</u> | <u>(120,401)</u> |
| Net cash used by investing activities | <u>(3,750)</u> | <u>(120,401)</u> |
| Net change in cash and cash equivalents | - | (13,726) |
| Cash and cash equivalents at beginning of year | <u>-</u> | <u>13,726</u> |
| Cash and cash equivalents at end of year | <u>\$ -</u> | <u>\$ -</u> |

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

KACU-FM
Notes to Financial Statements
May 31, 2011 and 2010

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, 2011 of \$3,093 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, 2011 and 2010

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 \$11,557 and \$1,155 for the years ended May 31, 2011 and 2010, respectively.

KACU-FM
Notes to Financial Statements
May 31, 2011 and 2010

NOTE 1: Summary of Significant Accounting Policies – continued

Functional Allocation of Expenses

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

NOTE 2: Property, Plant and Equipment

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

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Transmitter and tower | \$ 105,882 | \$ 102,132 |
| Studio and technical equipment | 91,605 | 91,605 |
| Office equipment | 11,444 | 11,444 |
| Total cost | 208,931 | 205,181 |
| Less: Accumulated Depreciation | (98,412) | (86,513) |
| Net Property and equipment | \$ 110,519 | \$ 118,668 |

Depreciation expense for the years ended May 31, 2011 and 2010 was \$11,899 and \$12,243, respectively.

NOTE 3: Restricted Net Assets

Temporarily restricted net assets represent unexpended CPB grants. There were no temporarily restricted net assets at May 31, 2011 and 2010. Net assets were released from restrictions in the amounts of \$118,853 and \$224,717 for the years ended May 31, 2011 and 2010, respectively, due to satisfying the grant restricted purpose of operating expenses.

NOTE 4: 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.

KACU-FM
Notes to Financial Statements
May 31, 2011 and 2010

NOTE 4: Community Service Grants - continued

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 5: 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 \$24,942 and \$22,554 in 2011 and 2010, 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 \$13,976 and \$12,902 for the years ended May 31, 2011 and 2010, respectively, and are recorded in benefits expense in the accompanying financial statements.

NOTE 6: Subsequent Events

The public broadcaster has evaluated subsequent events through November 29, 2011, the date the financial statements were available to be issued.