

# KACU-FM

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Financial Statements and  
Independent Auditor's Report

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Years Ended  
May 31, 2018 and 2017



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

To the Institutional Licensee of  
KACU-FM:

### Report on the Financial Statements

We have audited the accompanying financial statements of KACU-FM (a nonprofit organization), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adjustments for Prior Period Financial Statements**

The financial statements of KACU-FM as of and for the year ended May 31, 2017, were audited by Davis Kinard & Co, PC, who joined Eide Bailly LLP on December 4, 2017, and whose report dated October 31, 2017, expressed an unmodified opinion on those financial statements. As discussed in Note 9 to the financial statements, certain errors resulting in understatement of amounts previously reported for prepaid programming as of May 31, 2017, were discovered during the current year. Accordingly, the 2017 financial statements have been restated to correct this error. Davis Kinard & Co, PC reported on the 2017 financial statements before the restatement.

As part of our audit of the 2018 financial statements, we also audited the adjustments described in Note 9 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the KACU-FM other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned to the left of the typed text below it.

Abilene, Texas  
December 13, 2018

**KACU-FM**  
**Statements of Financial Position**  
**May 31, 2018 and 2017**

<b>Assets</b>	<u>2018</u>	<u>(As Restated)</u> <u>2017</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 35,611	\$ 58,064
Investments	65,523	58,592
Contributions receivable	5,635	390
Prepaid programming	<u>13,587</u>	<u>12,048</u>
Total current assets	120,356	129,094
Property, plant and equipment, net	<u>151,462</u>	<u>166,972</u>
<b>Total Assets</b>	<u><u>\$ 271,818</u></u>	<u><u>\$ 296,066</u></u>
<b>Net Assets</b>		
<b>Net assets</b>		
Unrestricted	\$ 212,920	\$ 242,974
Temporarily restricted	11,638	5,832
Permanently restricted	<u>47,260</u>	<u>47,260</u>
Total net assets	<u>271,818</u>	<u>296,066</u>
<b>Total Net assets</b>	<u><u>\$ 271,818</u></u>	<u><u>\$ 296,066</u></u>

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

**KACU-FM**  
**Statements of Activities**  
**Years Ended May 31, 2018 and 2017**

	2018		
	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Revenues</b>			
Pledge drive contributions	\$ 78,829	\$	\$
CPB grant		119,679	
Underwriting	34,452		
Underwriting- barter/trade	17,084		
Rental income	-		
Net realized and unrealized gains (losses)	1,125	8,540	
Support from institutional licensee	148,056		
Contributed facilities and utilities	29,468		
Other income (loss)	-		
Net assets released from restrictions:			
Satisfaction of donor restrictions	122,413	(122,413)	
Total revenues	431,427	5,806	-
<b>Expenses</b>			
Program services			
Programming and production	176,022		
Broadcasting	133,216		
Program information and promotion	-		
Support services			
Management and general	62,629		
Fundraising and membership development	54,637		
Underwriting	34,977		
Total expenses	461,481	-	-
<b>Change in net assets</b>	(30,054)	5,806	
<b>Net assets at beginning of year, as restated</b>	242,974	5,832	47,260
<b>Net assets at end of year</b>	\$ 212,920	\$ 11,638	\$ 47,260

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

(As Restated)

2017

<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 78,829	\$ 64,162	\$	\$	\$ 64,162
119,679		118,132		118,132
34,452	42,198			42,198
17,084	12,480			12,480
-	4,666			4,666
9,665	-	7,781		7,781
148,056	162,180			162,180
29,468	30,843			30,843
-	372			372
-	121,287	(121,287)		-
<u>437,233</u>	<u>438,188</u>	<u>4,626</u>	<u>-</u>	<u>442,814</u>
176,022	158,228			158,228
133,216	128,494			128,494
-	360			360
62,629	76,175			76,175
54,637	54,513			54,513
34,977	32,849			32,849
<u>461,481</u>	<u>450,619</u>	<u>-</u>	<u>-</u>	<u>450,619</u>
(24,248)	(12,431)	4,626		(7,805)
<u>296,066</u>	<u>255,405</u>	<u>1,206</u>	<u>47,260</u>	<u>303,871</u>
\$ <u>271,818</u>	\$ <u>242,974</u>	\$ <u>5,832</u>	\$ <u>47,260</u>	\$ <u>296,066</u>

**KACU-FM**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2018**

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 33,397	\$ 50,005	\$ -
Employee benefits and taxes	8,767	13,126	-
Rent	-	18,608	-
Bartered services received	-	-	-
Contributed facilities and utilities	-	14,734	-
Depreciation	-	21,080	-
Professional services	-	-	-
Dues	147	-	-
Office supplies	-	-	-
Postage and shipping	-	-	-
Printing	-	-	-
Promotional materials	-	-	-
Repairs and maintenance	-	7,128	-
Purchased programming	133,711	8,535	-
Subscriptions	-	-	-
Pager/ cell/ telephone	-	-	-
Travel	-	-	-
Other	-	-	-
Total expenses	\$ 176,022	\$ 133,216	\$ -

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



Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 17,611	\$ 33,639	\$ 21,139	\$	155,791
4,673	8,831	5,548		40,945
-	-	-		18,608
-	8,290	8,290		16,580
14,734	-	-		29,468
213	-	-		21,293
7,845	-	-		7,845
148	-	-		295
5,500	-	-		5,500
2,594	-	-		2,594
2,770	445	-		3,215
-	3,432	-		3,432
-	-	-		7,128
-	-	-		142,246
15	-	-		15
509	-	-		509
983	-	-		983
5,034	-	-		5,034
<u>\$ 62,629</u>	<u>\$ 54,637</u>	<u>\$ 34,977</u>	<u>\$</u>	<u>461,481</u>

**KACU-FM**  
**Statement of Functional Expenses**  
**Year Ended May 31, 2017**

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 33,407	\$ 50,021	\$
Employee benefits and taxes	8,633	12,926	
Rent		18,240	
Bartered services received			
Contributed facilities and utilities		15,422	
Depreciation		20,528	
Advertising			360
Professional services			
Dues	437		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		3,969	
Purchased programming	115,751	7,388	
Subscriptions			
Pager/ cell/ telephone			
Special events			
Other			
Total expenses	\$ 158,228	\$ 128,494	\$ 360

The accompanying notes are an integral part of these financial statements

Support Services				
Management & General	Fundraising/ Member Development	Underwriting	Total	
\$ 18,767	\$ 33,650	\$ 21,145	\$ 156,990	
4,850	8,696	5,464	40,569	
			18,240	
	6,240	6,240	12,480	
15,421			30,843	
207			20,735	
			360	
7,880			7,880	
438			875	
15,887			15,887	
1,879			1,879	
6,913	1,110		8,023	
	4,817		4,817	
			3,969	
			123,139	
300			300	
438			438	
853			853	
2,342			2,342	
<u>\$ 76,175</u>	<u>\$ 54,513</u>	<u>\$ 32,849</u>	<u>\$ 450,619</u>	

**KACU-FM**  
**Statements of Cash Flows**  
**Years Ended May 31, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (24,248)	\$ (7,805)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(9,665)	(7,781)
Depreciation	21,293	20,735
(Gain) loss on disposal of assets	839	2,700
(Increase) decrease in:		
Contributions receivable	(5,245)	(280)
Prepaid expenses	(1,539)	(179)
Net cash provided by (used in) operating activities	(18,565)	7,390
 <b>Cash flows from investing activities</b>		
Increase (decrease) in ACU Investment Pool	2,734	2,682
Acquisition of property, plant and equipment	(6,622)	(17,200)
Net cash used in investing activities	(3,888)	(14,518)
 <b>Net change in cash and cash equivalents</b>	(22,453)	(7,128)
 Cash and cash equivalents at beginning of year	58,064	65,192
 <b>Cash and cash equivalents at end of year</b>	\$ 35,611	\$ 58,064

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

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**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. The financial statements herein present the financial position, changes in net assets and cash flows of only this division of ACU (KACU-FM).

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.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

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

**Basis of Presentation – continued**

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, 2018 and 2017 of \$5,635 and \$390, respectively, are expected to be collected in less than one year and management believes that no allowance for uncollectible contributions is necessary.

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.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

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

**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 \$0 and \$360 for the years ended May 31, 2018 and 2017, respectively.

**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.

**Upcoming Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958). The main provisions of the update are (1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, the entity will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets; (2) Present on the face of the financial statements of activities the amount of change in each of the two classes of net assets rather than that of the currently required three classes; and (3) Provide enhanced disclosures regarding liquidity and self-imposed limits on the use of resources. The new standard will be effective for annual financial statements for fiscal years beginning after December 15, 2018, and is not expected to have a significant impact on KACU-FM's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The FASB issued this Update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. KACU-FM should apply the Update for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. KACU-FM is evaluating the potential impact of the Update on its financial statements.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**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.

Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships which do not have readily determinable fair values. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. As a result, the ACU Investment Pool is not classified in the fair value hierarchy.



**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**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, 2018 and 2017:

Fair Value Measurements as of May 31, 2018					
	Fair Value	Unfunded Commitments	Liquidation and side pocket holdings	Redemption Frequency*	Redemption Notice Period
ACU Investment Pool (a)	\$ 65,523	\$ -	\$ -	Quarterly	None
	\$ 65,523	\$ -	\$ -		
Fair Value Measurements as of May 31, 2017					
	Fair Value	Unfunded Commitments	Liquidation and side pocket holdings	Redemption Frequency*	Redemption Notice Period
ACU Investment Pool (a)	\$ 58,592	\$ -	\$ -	Quarterly	None
	\$ 58,592	\$ -	\$ -		

\*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 3: Property, Plant and Equipment**

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

	2018	2017
Transmitter and tower	\$ 209,245	\$ 207,045
Studio and technical equipment	52,639	77,665
Office equipment	23,959	10,024
Total cost	285,843	294,734
Less: Accumulated Depreciation	(134,381)	(127,762)
Net property and equipment	\$ 151,462	\$ 166,972

Depreciation expense for the years ended May 31, 2018 and 2017 was \$21,293 and \$20,735, respectively.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**NOTE 4: Restricted Net Assets**

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

	2018	2017
Unexpended accumulated endowment earnings	\$ 11,638	\$ 5,832
Temporarily restricted net assets	<u>\$ 11,638</u>	<u>\$ 5,832</u>

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

	2018	2017
Endowment distribution of earnings	\$ 2,734	\$ 2,682
CPB grants	119,679	118,605
Net assets released from restrictions	<u>\$ 122,413</u>	<u>\$ 121,287</u>

Permanently restricted net assets represent the endowment account invested in the ACU Investment Pool. There were permanently restricted net assets at May 31, 2018 and 2017 of \$47,260.

**NOTE 5: Community Service Grants**

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant making organization responsible for funding nearly 1,500 locally owned public radio and television 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.

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**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 \$29,468 and \$30,843 in 2018 and 2017, 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 \$9,506 and \$10,002 for the years ended May 31, 2018 and 2017, 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. Unrestricted endowment represents board-designated funds.

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 consisted of the following at May 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,638	\$ 47,260	\$ 58,898
Board-designated endowment funds	<u>6,625</u>	<u>-</u>	<u>-</u>	<u>6,625</u>
Total endowment funds	<u>\$ 6,625</u>	<u>\$ 11,638</u>	<u>\$ 47,260</u>	<u>\$ 65,523</u>

**KACU-FM**  
Notes to Financial Statements  
May 31, 2018 and 2017

**NOTE 7: Endowment– continued**

Endowment net assets consisted of the following at May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,832	\$ 47,260	\$ 53,092
Board-designated endowment funds	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>5,500</u>
Total endowment funds	<u>\$ 5,500</u>	<u>\$ 5,832</u>	<u>\$ 47,260</u>	<u>\$ 58,592</u>

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2017	\$ 5,500	\$ 5,832	\$ 47,260	\$ 58,592
Net realized and unrealized gains (losses)	1,125	8,540	-	9,665
Appropriations for expenditure	<u>-</u>	<u>(2,734)</u>	<u>-</u>	<u>(2,734)</u>
Endowment net assets, May 31, 2018	<u>\$ 6,625</u>	<u>\$ 11,638</u>	<u>\$ 47,260</u>	<u>\$ 65,523</u>

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2016	\$ 5,500	\$ 733	\$ 47,260	\$ 53,493
Net realized and unrealized gains (losses)	-	7,781	-	7,781
Appropriations for expenditure	<u>-</u>	<u>(2,682)</u>	<u>-</u>	<u>(2,682)</u>
Endowment net assets, May 31, 2017	<u>\$ 5,500</u>	<u>\$ 5,832</u>	<u>\$ 47,260</u>	<u>\$ 58,592</u>

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**NOTE 7: Endowment – continued**

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, 2018 and 2017 was 16.50% and 14.55%, 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.

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 December 13, 2018, the date the financial statements were available to be issued. No subsequent events were identified for disclosure through this date.

**NOTE 9: Restatement**

During 2018, misstatements were identified within the 2017 financial statements related to prepaid programming. KACU-FM restated its previously issued financial statements to appropriately reflect prepaid programming at May 31, 2017.

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**NOTE 9: Restatement - continued**

The following is a summary of the effects of the restatements in KACU-FM's May 31, 2017 statement of financial position:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of May 31, 2017:			
Prepaid programming	\$ 5,081	\$ 6,967	\$ 12,048
Total current assets	122,127	6,967	129,094
Total assets	289,099	6,967	296,066
Unrestricted net assets	236,007	6,967	242,974
Total net assets	289,099	6,967	296,066

The following is a summary of the effects of the restatements in KACU-FM's 2017 statement of activities:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
For the year ended May 31, 2017:			
Net assets, beginning of year:			
Unrestricted net assets	248,438	6,967	255,405
Total net assets	296,904	6,967	303,871
Net assets, end of year:			
Unrestricted net assets	236,007	6,967	242,974
Total net assets	289,099	6,967	296,066