



Financial Statements
May 31, 2019 and 2018
KACU-FM

Independent Auditor’s Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statement of Functional Expenses-2019	5
Statement of Functional Expenses-2018	6
Statements of Cash Flows	7
Notes to Financial Statements	8



Independent Auditor's Report

To the Institutional Licensee
KACU-FM
Abilene, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of KACU-FM (a nonprofit organization), which comprise the statements of financial position as of May 31, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 and Note 10 to the financial statements, KACU-FM has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Net assets at May 31, 2018 have been adjusted to combine temporarily restricted and permanently restricted net assets into a single category of net assets with donor restrictions. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Abilene, Texas
December 13, 2019

KACU-FM
Statements of Financial Position
May 31, 2019 and 2018

	2019	(As Adjusted) 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 46,696	\$ 35,611
Investments	62,544	65,523
Contributions receivable	360	5,635
Prepaid programming	8,845	13,587
Total current assets	118,445	120,356
Property, plant and equipment, net	130,470	151,462
	\$ 248,915	\$ 271,818
Net Assets		
Without donor restrictions		
Undesignated	\$ 186,371	\$ 206,295
Board-designated endowment	6,502	6,625
With donor restrictions		
Perpetual in nature	56,042	58,898
Total net assets	\$ 248,915	\$ 271,818

KACU-FM
Statements of Activities
Years Ended May 31, 2019 and 2018

	2019			(As Adjusted) 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Pledge drive contributions	101,153	\$ -	\$ 101,153	\$ 78,829	\$ -	\$ 78,829
CPB grant		117,921	117,921		119,679	119,679
Underwriting	28,792	-	28,792	34,452	-	34,452
Underwriting- barter/trade	17,319	-	17,319	17,084	-	17,084
Net realized and unrealized gains (losses)	(123)	-	(123)	1,125	8,540	9,665
Support from institutional licensee	172,168	-	172,168	148,056	-	148,056
Contributed facilities and utilities	29,208	-	29,208	29,468	-	29,468
Net assets released from restrictions						
Satisfaction of donor restrictions	120,777	(120,777)	-	122,413	(122,413)	-
Total revenues	469,294	(2,856)	466,438	431,427	5,806	437,233
Expenses						
Program services						
Programming and production	203,934	-	203,934	176,022	-	176,022
Broadcasting	97,819	-	97,819	133,216	-	133,216
Program information and promotion	40,491	-	40,491	-	-	-
Support services						
Management and general	58,980	-	58,980	62,629	-	62,629
Fundraising and membership development	51,096	-	51,096	54,637	-	54,637
Underwriting	37,021	-	37,021	34,977	-	34,977
Total expenses	489,341	-	489,341	461,481	-	461,481
Change in Net Assets	(20,047)	(2,856)	(22,903)	(30,054)	5,806	(24,248)
Net Assets at Beginning of Year	212,920	58,898	271,818	242,974	53,092	296,066
Net Assets at End of Year	\$ 192,873	\$ 56,042	\$ 248,915	\$ 212,920	\$ 58,898	\$ 271,818

See Notes to Financial Statements

KACU-FM

Statement of Functional Expenses-2019

Year Ended May 31, 2019

Expenses	Program Services			Support Services			Total
	Programming & Production	Broadcasting	Program Information & Promotion	Management & General	Fundraising/ Member Development	Underwriting	
Salaries	\$ 57,719	\$ 28,980	\$ 34,889	\$ 18,168	\$ 21,818	\$ 21,817	\$ 183,391
Employee benefits and taxes	17,315	8,694	5,602	5,450	6,545	6,545	50,151
Rent	-	17,388	-	-	-	-	17,388
Bartered services received	-	-	-	-	8,660	8,659	17,319
Contributed facilities and utilities	-	14,604	-	14,604	-	-	29,208
Depreciation	-	18,895	-	2,098	-	-	20,993
Professional services	-	-	-	8,020	-	-	8,020
Dues	500	-	-	500	-	-	1,000
Office supplies	-	-	-	487	593	-	1,080
Postage and shipping	-	-	-	-	1,775	-	1,775
Printing	-	-	-	-	2,132	-	2,132
Promotional materials	-	-	-	2,710	4,816	-	7,526
Repairs and maintenance	-	8,821	-	-	-	-	8,821
Purchased programming	128,400	-	-	-	-	-	128,400
Subscriptions	-	-	-	11	-	-	11
Pager/ cell/ telephone	-	437	-	-	-	-	437
Travel	-	-	-	3,143	-	-	3,143
Other	-	-	-	3,789	4,757	-	8,546
Total expenses	\$ 203,934	\$ 97,819	\$ 40,491	\$ 58,980	\$ 51,096	\$ 37,021	\$ 489,341

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

Expenses	Program Services			Support Services			Total
	Programming & Production	Broadcasting	Program Information & Promotion	Management & General	Fundraising/Member Development	Underwriting	
Salaries	\$ 33,397	\$ 50,005	\$ -	\$ 17,611	\$ 33,639	\$ 21,139	\$ 155,791
Employee benefits and taxes	8,767	13,126	-	4,673	8,831	5,548	40,945
Rent	-	18,608	-	-	-	-	18,608
Bartered services received	-	-	-	-	8,290	8,290	16,580
Contributed facilities and utilities	-	14,734	-	14,734	-	-	29,468
Depreciation	-	21,080	-	213	-	-	21,293
Professional services	-	-	-	7,845	-	-	7,845
Dues	147	-	-	148	-	-	295
Office supplies	-	-	-	5,500	-	-	5,500
Postage and shipping	-	-	-	2,594	-	-	2,594
Printing	-	-	-	2,770	445	-	3,215
Promotional materials	-	-	-	-	3,432	-	3,432
Repairs and maintenance	-	7,128	-	-	-	-	7,128
Purchased programming	133,711	8,535	-	-	-	-	142,246
Subscriptions	-	-	-	15	-	-	15
Pager/ cell/ telephone	-	-	-	509	-	-	509
Special events	-	-	-	983	-	-	983
Other	-	-	-	5,034	-	-	5,034
Total expenses	\$ 176,022	\$ 133,216	\$ -	\$ 62,629	\$ 54,637	\$ 34,977	\$ 461,481

KACU-FM
Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ (22,903)	\$ (24,248)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized (gain) loss on investments	123	(9,665)
Depreciation	20,993	21,293
(Gain) loss on disposal of assets	-	839
(Increase) decrease in		
Contributions receivable	5,275	(5,245)
Prepaid expenses	4,741	(1,539)
	8,229	(18,565)
Net Cash from (used for) Operating Activities		
Investing Activities		
Increase (decrease) in ACU Investment Pool	2,856	2,734
Acquisition of property, plant and equipment	-	(6,622)
	2,856	(3,888)
Net Cash from (used for) Investing Activities		
Net Change in Cash and Cash Equivalents	11,085	(22,453)
Cash and Cash Equivalents at Beginning of Year	35,611	58,064
Cash and Cash Equivalents at End of Year	\$ 46,696	\$ 35,611

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. Expenses are reported as decreases in net assets without donor restrictions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- (or certain grantor-) imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an endowment fund.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. KACU-FM reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These result in reclassification from net assets with donor restrictions to net assets without donor restrictions.

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

Contributions, including unconditional contributions receivable, 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, 2019 and 2018 of \$360 and \$5,635, respectively, are expected to be collected in less than one year and management believes that no allowance for uncollectible contributions is necessary.

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

Property, plant and equipment 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 statements 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.

Functional Allocation of Expenses

The costs of program and support services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification of expenses by function. Certain joint expenses, such as employee benefits, payroll and depreciation, 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.

Change in Accounting Policy

As of June 1, 2018, KACU-FM adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to improve a financial statement user's ability to assess an Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments are applied on a retrospective basis. KACU-FM has adopted this standard as management believes the standard improves the usefulness and understandability of KACU-FM's financial reporting.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 46,696	\$ 35,611
Contributions receivable	360	5,635
	<u>\$ 47,056</u>	<u>\$ 41,246</u>

The Organization regularly monitors the availability of resources required to meet its operating needs. For purpose of analyzing resources available to meet general expenditures within one year of the statement of financial position date, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next twelve months, the Organization follows a policy of operating with a balanced budget.

Endowment funds consist of donor restricted endowments and funds designated by the board as endowments. Donor restricted endowment funds are not available for general expenditure. A board-designated endowment of \$6,502 and \$6,625 at May 31, 2019 and 2018, respectively, is subject to an annual spending rate of 4.5%. Although the Organization does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

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.

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.

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, 2019 and 2018:

		Fair Value Measurements as of May 31, 2019				
		Fair Value	Unfunded Commitments	Liquidation and side pocket holdings	Redemption Frequency*	Redemption Notice Period
ACU Investment Pool (a)		\$ 62,544	\$ -	\$ -	Quarterly	None
		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

*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:

	2019	2018
Transmitter and tower	\$ 209,245	\$ 209,245
Studio and technical equipment	52,639	52,639
Office equipment	23,959	23,959
Total cost	285,843	285,843
Less accumulated depreciation	(155,373)	(134,381)
Net property and equipment	\$ 130,470	\$ 151,462

Depreciation expense for the years ended May 31, 2019 and 2018, was \$20,993 and \$21,293, respectively.

Note 5 - Net Assets Released from Restrictions

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

	2019	2018
Endowment distribution of earnings	\$ 2,856	\$ 2,734
CPB grants	117,921	119,679
Net assets released from restrictions	\$ 120,777	\$ 122,413

Note 6 - 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 net assets with donor restrictions until satisfaction of the time and purpose restrictions, after which they are reported as a release from net assets with donor restrictions and an increase in net assets without donor restrictions.

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 \$29,208 and \$29,468 for the years ended May 31, 2019 and 2018, 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 \$11,839 and \$9,506 for the years ended May 31, 2019 and 2018, respectively, and are recorded in benefits expense in the accompanying financial statements.

Note 8 - Endowment

KACU-FM's endowment consists of one individual donor restricted endowment fund managed in Abilene Christian University's Investment Pool. The net assets of the endowment fund are classified and reported based on the existence or absence of donor restrictions. Endowment funds without donor restrictions represents board-designated funds.

Interpretation of Relevant Law

KACU-FM interprets the State of Texas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing KACU-FM, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate so much of a donor restricted endowment fund as KACU-FM determines is prudent for the uses, benefits, purposes and duration for which the endowment is established. The assets in the endowment fund remain restricted until appropriated for expenditure by KACU-FM.

Endowment net assets consisted of the following at May 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 56,042	\$ 56,042
Board designated endowment funds	<u>6,502</u>	<u>-</u>	<u>6,502</u>
Total endowment funds	<u>\$ 6,502</u>	<u>\$ 56,042</u>	<u>\$ 62,544</u>

Endowment net assets consisted of the following at May 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 58,898	\$ 58,898
Board designated endowment funds	<u>6,625</u>	<u>-</u>	<u>6,625</u>
Total endowment funds	<u>\$ 6,625</u>	<u>\$ 58,898</u>	<u>\$ 65,523</u>

Changes in endowment net assets for the year ended May 31, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, May 31, 2018	\$ 6,625	\$ 58,898	\$ 65,523
Net realized and unrealized gains (losses)	(123)	-	(123)
Appropriations for expenditure	<u>-</u>	<u>(2,856)</u>	<u>(2,856)</u>
Endowment net assets, May 31, 2019	<u>\$ 6,502</u>	<u>\$ 56,042</u>	<u>\$ 62,544</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2017	\$ 5,500	\$ 53,092	\$ 58,592
Net realized and unrealized gains (losses)	1,125	8,540	9,665
Appropriations for expenditure	-	(2,734)	(2,734)
Endowment net assets, May 31, 2018	<u>\$ 6,625</u>	<u>\$ 58,898</u>	<u>\$ 65,523</u>

Return Objective and Risk Parameters

KACU-FM 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 KACU-FM must hold in perpetuity or for a donor specified period. KACU-FM expects its endowment fund, 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, 2019 and 2018 was (0.19)% and 16.50%, respectively.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, KACU-FM 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). KACU-FM 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

KACU-FM 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, KACU-FM 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 KACU-FM'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 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at May 31, 2019 and 2018.

	2019	2018
Endowment		
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation	\$ 56,042	\$ 58,898

Note 10 - Adjustment Resulting from Change in Accounting Policy

As disclosed in Note 1, KACU-FM adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 1, 2018. As part of the adoption, changes were made to the presentation of the financial statements and classification of net assets. The following is a summary of the effects of the change in accounting policy in KACU-FM's May 31, 2018 financial statements.

The effect on KACU-FM's statement of financial position as of May 31, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Unrestricted net assets	\$ 212,920	\$ (212,920)	\$ -
Temporarily restricted net assets	11,638	(11,638)	-
Permanently restricted net assets	47,260	(47,260)	-
Net assets without donor restrictions	-	212,920	212,920
Net assets with donor restrictions	-	58,898	58,898

The effect on KACU-FM's statement of activities as of May 31, 2018 is as follows:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Adjusted</u>
Net assets, beginning of year			
Unrestricted net assets	\$ 242,974	\$ (242,974)	\$ -
Temporarily restricted net assets	5,832	(5,832)	-
Permanently restricted net assets	47,260	(47,260)	-
Net assets without donor restrictions	-	242,974	242,974
Net assets with donor restrictions	-	53,092	53,092
Net assets, end of year			
Unrestricted net assets	\$ 212,920	\$ (212,920)	\$ -
Temporarily restricted net assets	11,638	(11,638)	-
Permanently restricted net assets	47,260	(47,260)	-
Net assets without donor restrictions	-	212,920	212,920
Net assets with donor restrictions	-	58,898	58,898

Note 11 - Related Party Transactions

KACU-FM received contributions from board members and employees totaling \$25,470 and \$2,340 for the years ended May 31, 2019 and 2018, respectively.

Note 12 - Subsequent Events

The public broadcaster has evaluated subsequent events through December 13, 2019, the date the financial statements were available to be issued. No subsequent events were identified for disclosure through this date.