

KHSU-FM RADIO

A Public Broadcasting Entity Operated by
Humboldt State University

AUDITORS' REPORT AND FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors
KHSU-FM Radio

Report on the Financial Statements

We have audited the accompanying financial statements of KHSU-FM Radio (KHSU), a Public Broadcasting Entity Operated by Humboldt State University, as of June 30, 2019, and the related notes to the financial statements, which collectively comprise the KHSU's basic financial statements as listed in the table of contents.

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 KHSU as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of KHSU as of June 30, 2018, were audited by other auditors whose report, dated November 26, 2018, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KHSU's basic financial statements. The statement of functional expenses (supplementary information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2020 on our consideration of KHSU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KHSU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KHSU's internal control over financial reporting and compliance.

Moss Adams LLP

Medford, Oregon
May 29, 2020

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Management's Discussion and Analysis

June 30, 2019 and 2018

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of KHSU-FM (the Station) for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

This annual report consists of a series of financial statements prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This standard is applicable to the Station as it is a telecommunications entity operated by Humboldt State University (the University). Consistent with the University, the Station has adopted the business-type activity (BTA) reporting model to represent its activities.

The financial statements include the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Station.

Statements of Net Position - The statements of net position include all assets and liabilities. Assets and liabilities are generally reported on an accrual basis, as of the statements date. The statements also identify major categories of restrictions on the net position of the Station.

Statements of Revenues, Expenses, and Changes in Net Position - The statements of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the year on an accrual basis.

Statements of Cash Flows - The statements of cash flows present the inflows and outflows of cash for the year and is summarized by operating, noncapital financing, capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for the year's activities.

Reporting Entity

Note 1 to these financial statements describes the relationships between the University and its auxiliary organizations, the Humboldt State University Sponsored Programs Foundation and Humboldt State University Foundation, relevant to the operation of the Station.

Analytical Overview

In April, 2019, the University refocused the Station's programming to air more national and regional public radio programming and streamlined operations to address operational challenges and to prevent further negative impact to the University's budget as well as to better align the University's financial support with its mission and with opportunities to students. After these changes took place, a partnership was formed with Capital Public Radio Inc (CapRadio) in Sacramento whereby CapRadio was contracted to program and operate the Station remotely. As a result of these changes, operating expenses decreased \$289,761 from the prior year primarily due to the decreases in programming and production, and management and general support services of \$77,340 and \$129,729, respectively. The decrease in expenses was offset by a decrease in non-operating revenues of \$180,055 primarily due to declines in listener support, donated facilities, equipment and administrative support from the University, and non-government contracts and grants of \$62,035, \$107,622 and \$98,607, respectively. These decreases in revenue resulted in an increase in support from the University of \$86,463 from the prior year.

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Management's Discussion and Analysis

June 30, 2019 and 2018

The following discussion highlights management's understanding on the key financial aspects of the Station's financial activities. Included are comparative analyses of current year and prior year activities and balances, a discussion of long-term debt, capital assets, and factors impacting future reporting periods.

Comparative Analyses of Current Year and Prior Year Activities and Balances

A summary of key financial statement information is used as a basis for reviewing current year results in comparison with the prior year.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 19,853	\$ 80,831	\$ 150,994
Noncurrent assets	<u>216,230</u>	<u>235,153</u>	<u>139,298</u>
Total assets	<u>236,083</u>	<u>315,984</u>	<u>290,292</u>
Liabilities			
Current liabilities	23,865	47,850	41,130
Long-Term liabilities	<u>8,441</u>	<u>27,048</u>	<u>8,659</u>
Total liabilities	<u>32,306</u>	<u>74,898</u>	<u>49,789</u>
Net position			
Net investment in capital assets	173,188	191,790	97,174
Restricted for capital projects	-	780	2,175
Restricted for nonexpendable endowments	43,042	43,363	41,924
Unrestricted	<u>(12,453)</u>	<u>5,153</u>	<u>99,230</u>
Total net position	<u>\$ 203,777</u>	<u>\$ 241,086</u>	<u>\$ 240,503</u>

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Management's Discussion and Analysis

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues:			
Business and industry	\$ 111,075	\$ 244,760	\$ 253,428
Underwriting trades	<u>13,680</u>	<u>27,594</u>	<u>49,622</u>
Total operating revenues	124,755	272,354	303,050
Nonoperating revenues:			
General appropriation from			
Humboldt State University	485,190	398,727	265,048
Donated facilities, equipment and			
administrative support from			
Humboldt State University	172,418	280,040	260,339
Corporation for Public			
Broadcasting grant	170,243	167,639	177,551
Local grants	15,000	113,607	-
Listener support	210,120	272,155	333,156
Endowment income, net	<u>2,907</u>	<u>3,765</u>	<u>4,736</u>
Total nonoperating revenues	<u>1,055,878</u>	<u>1,235,933</u>	<u>1,040,830</u>
 Total Operating and nonoperating Revenues	 1,180,633	 1,508,287	 1,343,880
Expenses:			
Programming and production	321,310	398,649	439,047
Broadcasting	224,872	263,341	205,259
Fund-raising and memberships	250,046	294,269	237,229
Management and general	<u>421,715</u>	<u>551,444</u>	<u>512,523</u>
Total expenses	<u>1,217,942</u>	<u>1,507,703</u>	<u>1,394,058</u>
 Increase (decrease) in net position	 (37,309)	 583	 (50,178)
Beginning net position	<u>241,086</u>	<u>240,503</u>	<u>290,681</u>
Ending net position	\$ <u><u>203,777</u></u>	\$ <u><u>241,086</u></u>	\$ <u><u>240,503</u></u>

Capital Assets

The Station's capital assets consist of production and broadcast equipment and building and improvements of \$718,554 and \$50,064, respectively. An increase of \$8,228 from the prior year. In May 2019, construction work in process assets related to the purchase of the FM radio broadcast station KBAE totaling \$121,835 were placed in service.

Long-term Debt

The Station, as an individual program within the University, has no external long-term debt. Obligations of the University and its auxiliaries are reflected in those organizations' financial statements and are not meaningful with respect to the operation of the Station.

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Management's Discussion and Analysis

June 30, 2019 and 2018

Factors Impacting Future Periods

A letter of intent was signed on March 30, 2020 with CapRadio to enter into a long-term Operation and Management Agreement to enhance the impact of public media in Northern California through a collaboration with the Station, and its associated stations, that are all licensed to the University. This agreement will provide North Coast listeners with new and expanded opportunities for national news, regional news, music and other programs. The Station will remain a service of the University with close ties to the University and surrounding community, preserving the stations identity and its crucial role in furthering community service and the educational outreach of the University. The station will remain licensed to the University while CapRadio will assume management, operating and revenue responsibility and risk to the extent permitted by the Federal Communications Commission (FCC) rules and policies. Both the Station and CapRadio agree that it is important to maintain a local staff presence at the Station to facilitate local marketing, fundraising and content creation, and will work together to achieve this goal.

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Statement of Net Position

June 30, 2019 and 2018

Assets	2019	2018
Current assets		
Cash and cash equivalents	\$ 15,650	\$ 4,118
Accounts receivable	-	67,206
Pledges receivable-net of allowance	4,203	8,727
Restricted receivables for capital projects, current	-	780
Total current assets	<u>19,853</u>	<u>80,831</u>
Noncurrent assets		
Capital assets, non-depreciable	-	113,607
Capital assets	718,554	596,719
Accumulated depreciation	<u>(545,366)</u>	<u>(518,536)</u>
Total net capital assets	173,188	191,790
Restricted cash and cash equivalent held for endowment	5,329	5,650
Endowment investment	<u>37,713</u>	<u>37,713</u>
Total noncurrent assets	<u>216,230</u>	<u>235,153</u>
Total assets	<u>236,083</u>	<u>315,984</u>
Liabilities		
Current liabilities		
Accounts payable	3,006	29,052
Accrued compensated balances, current	<u>20,859</u>	<u>18,798</u>
Total current liabilities	23,865	47,850
Noncurrent liabilities		
Other long-term liabilities	8,441	8,559
Accrued compensated balances, noncurrent	<u>-</u>	<u>18,489</u>
Total noncurrent liabilities	<u>8,441</u>	<u>27,048</u>
Total liabilities	<u>32,306</u>	<u>74,898</u>
Net position		
Net investment in capital assets	173,188	191,790
Restricted for capital projects	-	780
Restricted for nonexpendable endowments	43,042	43,363
Unrestricted	<u>(12,453)</u>	<u>5,153</u>
Total net position	\$ <u>203,777</u>	\$ <u>241,086</u>

See accompanying Notes.

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KHSU-FM RADIO
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Statements of Revenues, Expenses, & Changes in Net Position

Years Ended June 30, 2019 and 2018

Revenues:	<u>2019</u>	<u>2018</u>
Operating revenues:		
Business and Industry	\$ 111,075	\$ 244,760
Underwriting trades	13,680	27,594
Total operating revenues	<u>124,755</u>	<u>272,354</u>
 Expenses:		
Operating expenses:		
Program services:		
Programming and production	321,309	398,649
Broadcasting	224,872	263,341
Total program services	<u>546,181</u>	<u>661,990</u>
 Support services:		
Fund-raising and memberships	250,046	294,269
Management and general	421,715	551,444
Total support services	<u>671,761</u>	<u>845,713</u>
Total operating expenses	<u>1,217,942</u>	<u>1,507,703</u>
Operating loss	<u>(1,093,187)</u>	<u>(1,235,350)</u>
 Nonoperating revenues:		
General appropriation from Humboldt State University	485,190	398,727
Non-Government Contracts and Grants	15,000	113,607
Donated facilities, equipment and administrative support from Humboldt State University	172,418	280,040
Corporation for Public Broadcasting Grant	170,243	167,639
Listener support	210,120	272,155
Endowment income, net	2,907	3,765
Nonoperating revenues	<u>1,055,878</u>	<u>1,235,933</u>
Increase (decrease) in net position	<u>(37,309)</u>	<u>583</u>
 Net position:		
Net position at beginning of year	241,086	240,503
Net position at end of year	\$ <u><u>203,777</u></u>	\$ <u><u>241,086</u></u>

See accompanying Notes.

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KHSU-FM RADIO
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Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from business and industry	\$ 178,281	\$ 258,486
Cash payments to suppliers for goods and services	(389,970)	(437,652)
Cash payments to employees for service	(657,636)	(693,869)
Net cash used in operating activities	<u>(869,325)</u>	<u>(873,035)</u>
Cash flows from noncapital financing activities:		
General appropriations from Humboldt State University	485,190	398,727
Grants and contracts received	170,243	167,639
Non-Governmental grants and contracts received	15,000	113,607
Listener support received	215,423	272,498
Net cash provided by noncapital financing activities	<u>885,856</u>	<u>952,471</u>
Cash flows from capital and related financing activities:		
Capital assets acquired	(8,228)	(120,786)
Net cash used in capital and related financing activities	<u>(8,228)</u>	<u>(120,786)</u>
Cash flows from investing activities:		
Investment income	2,907	3,764
Purchase of investments	-	(237)
Net cash provided by investing activities	<u>2,907</u>	<u>3,527</u>
Net increase (decrease) in cash and cash equivalents	11,210	(37,823)
Cash and cash equivalents at beginning of year	9,768	47,591
Cash and cash equivalents at end of year	<u>\$ 20,978</u>	<u>\$ 9,768</u>
Supplemental schedule of noncash transactions:		
Donated facilities, equipment and administrative support from Humboldt State University	<u>\$ 172,418</u>	<u>\$ 280,040</u>
In-kind trades from business and industry	<u>\$ 13,680</u>	<u>\$ 27,594</u>

See accompanying Notes.

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Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash		
used in operating activities:		
Operating loss	\$ (1,093,187)	\$ (1,235,350)
Adjustments to reconcile operating loss to net cash		
used in operating activities:		
Depreciation expense	26,830	26,169
Donated facilities, equipment and administrative support from Humboldt State University	172,418	280,040
Change in assets and liabilities:		
Accounts receivable	67,206	13,726
Accounts payable	(26,046)	23,864
Other long term liabilities	(118)	8,559
Accrued compensated balances	(16,428)	9,957
Net cash used in operating activities	\$ <u>(869,325)</u>	\$ <u>(873,035)</u>

See accompanying Notes.

KHSU-FM RADIO
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Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 1 - Organization and Nature of Activities

KHSU-FM Radio (the Station) is a telecommunications entity operated by Humboldt State University (the University) in Arcata, California, under a license granted by the Federal Communications Commission. All amounts contained in this report are included in the audited financial statements of The California State University system. The University is a component unit of The California State University system. The Station is part of the University and as such, is exempt from federal and state income taxes.

The Humboldt State University Sponsored Programs Foundation (Sponsored Program Foundation), an auxiliary organization of the University, provided certain functions for the Station under an operating agreement with the University. The functions performed include employing full-time and part-time staff deemed necessary to operate by management of the Station, in addition to providing payroll, benefit administration services, and related human resources services. The Humboldt State University Foundation (Foundation), an auxiliary organization of the University, maintains the Station's operating funds. The Sponsored Program Foundation and the Foundation are affiliated organization component units of the University and as such, their financial data are included in the financial statements of the University.

These financial statements represent only those of the Station and include the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. The statements do not purport to, nor do they present fairly the University's financial position or the changes in its financial position, or its cash flows as of June 30, 2019 and 2018.

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. The Station has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the Station prepares its statement of cash flows using the direct method.

(b) Cash and Cash Equivalents

Cash balances of the Station are included in accounts maintained by the Foundation and the University. In addition, the Station's surplus operating funds are managed by the Foundation. These funds are available to meet current obligations. The Station considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

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Notes to Financial Statements

Years Ended June 30, 2019 and 2018

(c) Accounts Receivable

Accounts receivable are stated at the amount billed to underwriters. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Station did not provide an allowance for delinquent accounts receivable, as it believed all amounts were collectible.

(d) Pledges Receivable

Pledges receivable are accrued as of the end of the fiscal year, provided the pledge is verifiable, measurable, and conditions, if present, have been met. Pledges, net of an allowance of \$5,323 total \$9,526 as of June 30, 2019 and \$4,246 and \$12,973 as of June 30, 2018. The allowance for uncollectible pledges is calculated based on the Station's past experience with collections.

(e) Equipment Lien

Two equipment liens were filed on December 21, 2012 on equipment purchased under National Telecommunications and Information Administration (NTIA) Grant. The term of these priority liens shall extend for a period of ten years during which time the Federal Government retains a priority reversionary interest in the equipment. The secured organization is NTIA/PTFP U.S. Department of Commerce.

Grant Number	Start Date	End Date	Capital	Noncapital	Total	Description
06-01-N10158	05/01/2012	04/30/2022	\$ 69,485	\$ -	\$ 69,485	Stand-by Generator
06-01-N10176	08/01/2012	07/31/2022	\$ 23,033	\$ 129,468	\$ 152,501	Production Equipment

(f) Capital Assets

Capital assets include property and equipment stated at cost or, if received as a gift, the fair value at the date of gift, less accumulated depreciation computed on the straight-line basis over the estimated useful lives of 5-30 years. The capitalization threshold for equipment is \$5,000.

(g) Net Position

The Station resources are classified for accounting and financial reporting purposes into the following net position categories:

Net investment in capital assets - Resources resulting from capital acquisition or construction, net of accumulated depreciation.

Restricted for capital projects - Resources restricted by donor intent for the purpose of funding capital projects.

Unrestricted - Net resources which are available for use by the Station.

The Station has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available. Generally, the Station attempts to utilize restricted funds first when practicable.

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Notes to Financial Statements

Years Ended June 30, 2019 and 2018

(h) Revenue Recognition

Unconditional contributions, pledges, and grants are recorded as revenues in the accompanying statements of revenues, expenses, and changes in net position when verifiable, measurable, and probable of collection and eligibility requirements are met. In-kind contributions, other than the contribution from the University, are recognized as revenue at the estimated fair value at the date of the gift.

The portion of the University's indirect costs attributable to the Station's operations and the value of space provided to the Station by the University are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting.

(i) Operating and Nonoperating Revenues

Revenues are classified as either operating or nonoperating according to standards issued by GASB. Operating revenues for the Station include underwriting. Nonoperating revenues include grants, gifts, University allocations, and investment earnings.

(j) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(k) Accrued Compensated Absences

The Station's policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as cash payments. The expense and the related liability are recognized as vacation benefits as earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the date of the balance sheet.

(l) Functional Expenses

The Station allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

Note 2 - Cash and Cash Equivalents

Cash is pooled with the Foundation and the University. As of June 30, 2019 and 2018, there were no cash balances on deposit with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) maximums of \$250,000.

Disclosures regarding risks related to cash and cash equivalents including interest rate risk, credit risk, and custodial risk as of June 30, 2019 and 2018 can be found in the Foundation Notes to Financial Statements. The Station does not believe a material risk of loss exists with respect to its financial position due to these risks.

KHSU-FM RADIO
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Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 3 – Capital Assets

A summary of the capital assets at June 30, 2019 follows:

	July 1, 2018	Additions	Disposals	June 30, 2019
Construction Work in Progress	\$ 113,607	\$ 8,228	\$ (121,835)	\$ -
Production and broadcast equipment	423,974	121,835	-	545,809
Production and broadcast equipment (Federally funded)	122,681	-	-	122,681
Building and improvements	50,064	-	-	50,064
Total Capital Assets	710,326	130,063	(121,835)	718,554
Accumulated Depreciation	(518,536)	(26,830)	-	(545,366)
Net Capital Assets	\$ <u>191,790</u>	\$ <u>103,233</u>	\$ <u>(121,835)</u>	\$ <u>173,188</u>

A summary of the capital assets at June 30, 2018 follows:

During the year ended June 30, 2019 and 2018, depreciation expense of \$26,830 and \$26,169 was allocated to the following functional expenses:

Functional Expense	2019	2018
Program and Production	\$ 3,276	\$ 2,337
Broadcasting	23,554	23,832
	\$ <u>26,830</u>	\$ <u>26,169</u>

Note 4 - Retirement Plans and Post-Retirement Benefits

Station employees are participants in various retirement programs, including the Federal Insurance Contributions Act (FICA). Certain administrative employees of the Station participate in a defined contribution plan. Regular staff participates in the California Public Employees' Retirement Fund System. All plan disclosures can be found in The California State University Notes to the Financial Statements and the Sponsored Program Foundation Notes to the Financial Statements. The University does not allocate costs for these plans to the Station.

KHSU-FM RADIO
A Public Broadcasting Entity Operated by Humboldt State University

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 5 - Donated Facilities and Administrative Support

Donated facilities and administrative support from the University is comprised of costs for institutional support and physical plant operations, which are allocated financial costs incurred by the University on behalf of the Station. These amounts are recorded in the accompanying statement of revenues, expenses, and changes in net position as revenue and offsetting expenses and were calculated based on Corporation for Public Broadcasting guidelines using the basic method. Costs for institutional support and physical plant operations are as follows:

	2019	2018
Institutional support	\$ 178,838	\$ 268,322
Physical plant operations	(6,420)	11,718
Total donated facilities and administrative support	<u>\$ 172,418</u>	<u>\$ 280,040</u>

Note 6 - Leases

The Station entered into operating leases in the prior years for tower antennas and buildings. During the year ended June 30, 2019 the lease expense was \$28,745.

Future minimum lease payments under noncancellable operating lease agreements are as follows:

Year Ending June 30	Total Rent Due
2020	\$ 27,495
2021	27,495
2022	27,495
2023	27,495
2024	23,931
thereafter	109,190
	<u>\$ 243,101</u>

Note 7 - Taxes

The Internal Revenue Service has ruled that the units of the University, which include the Station, are exempt under Code Sections 115 (a). Therefore, no provision for income taxes has been made.

Note 8 – Risk Management

The Station is exposed to various risks of loss related to torts theft of, damage to, and destruction of assets, errors and omissions; injuries to employees, and natural disasters. The Station is covered under the University's insurance policies for all such risks of loss, including workers' compensation and employees' health and accident insurance. Additional information may be found in the California State University Notes to the Financial Statements.

Note 9 – Subsequent Events

On March 30, 2020 the Station signed a letter of intent with CapRadio to enter into a long-term Operation and Management Agreement. The Station will remain a service of the University and licensed to the University while CapRadio will assume management, operating and revenue responsibility and risk to the extent permitted by the Federal Communications Commission rules and policies.

SUPPLEMENTARY INFORMATION

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KHSU-FM RADIO
A Public Broadcasting Entity Operated by Humboldt State University

Statement of Functional Expenses

Year Ended June 30, 2019

	<u>Program services</u>		Total program services	<u>Support services</u>		Total support services	Grand Total
	<u>Program and production</u>	<u>Broadcasting</u>		<u>Fund-raising and membership</u>	<u>Management and general</u>		
Salaries, payroll taxes, and employee benefits	\$ 124,139	\$ 122,028	\$ 246,167	\$ 192,456	\$ 202,468	\$ 394,924	\$ 641,091
Supplies and other services							
Advertising	-	-	-	13,680	-	13,680	13,680
Communications	518	10,996	11,514	-	4,364	4,364	15,878
Computer networks	249	6,756	7,005	-	5,779	5,779	12,784
Contractual services	-	1,690	1,690	-	17,373	17,373	19,063
Equipment	-	4,122	4,122	-	993	993	5,115
Events	-	-	-	20	-	20	20
Hospitality expense	-	-	-	6,229	976	7,205	7,205
Indirect cost expense	(453)	-	(453)	(2,395)	11,294	8,899	8,446
Investment services fee	-	-	-	-	121	121	121
Memberships	-	-	-	425	150	575	575
Postage and freight	68	4	72	1,091	2,746	3,837	3,909
Operating Expenses	-	720	720	8,887	-	8,887	9,607
Printing	328	-	328	8,327	805	9,132	9,460
Programming costs and other fees	181,931	-	181,931	-	626	626	182,557
Space rental	100	28,211	28,311	-	(1,700)	(1,700)	26,611
Supplies and services	11,701	14,777	26,478	21,326	1,244	22,570	49,048
Telephone - usage charges	-	11,549	11,549	-	1,441	1,441	12,990
Travel in state	(548)	465	(83)	-	(623)	(623)	(706)
Transfers out	-	-	-	-	1,240	1,240	1,240
Total supplies and other services	193,894	79,290	273,184	57,590	46,829	104,419	377,603
Depreciation	3,276	23,554	26,830	-	-	-	26,830
Donated facilities,equipment and administrative support from Humboldt State University	-	-	-	-	172,418	172,418	172,418
Total expenses	<u>\$ 321,309</u>	<u>\$ 224,872</u>	<u>\$ 546,181</u>	<u>\$ 250,046</u>	<u>\$ 421,715</u>	<u>\$ 671,761</u>	<u>\$ 1,217,942</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
KHSU-FM Radio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KHSU-FM Radio (KHSU), a Public Broadcasting Entity Operated by Humboldt State University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise KHSU's basic financial statements, and have issued our report thereon dated May 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KHSU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KHSU's internal control. Accordingly, we do not express an opinion on the effectiveness of KHSU's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KHSU's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Medford, Oregon
May 29, 2020