

# **Bradley P. Mickelson, CPA**

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**KUMD-FM  
(UNIT OF THE UNIVERSITY OF MINNESOTA)  
DULUTH, MN**

**ANNUAL FINANCIAL STATEMENTS  
AS OF JUNE 30, 2016**

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
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## **FINANCIAL SECTION**

# **Bradley P. Mickelson, CPA**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Director  
University Media Resources  
KUMD-FM  
Duluth, Minnesota

I have audited the accompanying financial statements of KUMD-FM (Unit of the University of Minnesota) (the Station) (a tax-exempt organization), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position 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 Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KUMD-FM June 30, 2016, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 6 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KUMD-FM's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

*Bradley P. Mickelson, CPA*

BRADLEY P. MICKELSON  
Certified Public Accountant

Duluth, Minnesota  
December 30, 2016

## **REQUIRED SUPPLEMENTARY INFORMATION**



**KUMD-FM  
(UNIT OF THE UNIVERSITY OF MINNESOTA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

**Introduction**

As management for KUMD, we offer readers of the Station's financial statements this narrative overview and analysis of the financial activities of the Station for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the Station's financial statements and the accompanying notes.

**Overview of the Financial Statements**

KUMD's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

**Statement of Net Position** – The Statement of Net Position provides information about the Station's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at a point in time, thereby, providing information about the financial health of the Station. Over time, increases or decreases in the Station's net position are one indicator of whether its financial health is improving or deteriorating.

**Statement of Revenues, Expenses and Changes in Net Position** – This purpose of this statement is intended to provide information about the activities (operating and nonoperating revenues and expenses) of the Station during the period being reported and its effect upon the net position of the Station.

**Statement of Cash Flows** – The statement of cash flows is intended to show the cash receipts and payments from the Station's activities over the period being reported.

**Notes to Financial Statements** – The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information** – Consists of management's discussion and analysis of the Station's financial statements.

## Financial Highlights

- The total assets of the Station exceeded its liabilities at the close of 2016 by \$76,017, a decrease of \$53,588 over 2015. Of this amount, \$57,867 may be used to meet the Station's obligations to creditors.

### Condensed Statements of Net Position

	2016	2015	Change
<b>Assets</b>			
Current Assets	185,089	167,798	17,291
Capital Assets, Net	18,150	34,183	(16,033)
<b>Total Assets</b>	<u>203,239</u>	<u>201,981</u>	<u>1,258</u>
Deferred Outflows of Resources	-	-	-
<b>Liabilities</b>			
Current Liabilities	105,507	72,376	33,131
Noncurrent Liabilities	21,715	-	21,715
<b>Total Liabilities</b>	<u>127,222</u>	<u>72,376</u>	<u>54,846</u>
Deferred Inflows of Resources	-	-	-
<b>Net Position</b>			
Unrestricted	11,719	45,759	(34,040)
Restricted - Expendable	46,148	49,663	(3,515)
Net Investment in Capital Assets	18,150	34,183	(16,033)
<b>Total Net Position</b>	<u>76,017</u>	<u>129,605</u>	<u>(53,588)</u>

### Assets

Current assets are used to support current operations and consist of cash and cash equivalents and accounts receivable. Noncurrent assets consist of capital assets, net of accumulated depreciation.

As of June 30, 2016, total assets increased \$1,258 over 2015 due to a net increase in current assets, primarily from accounts receivable, with an offsetting decrease in capital assets, net of accumulated depreciation.

### Liabilities

Current liabilities are obligations that are expected to become due and payable during the next fiscal year. They consist of accounts payable and accrued liabilities for salaries payable and compensated absences. Noncurrent liabilities consist of compensated



absences that are estimated to become due and payable over a period of time greater than one year.

As of June 30, 2016 total liabilities increased \$54,846 over 2015 primarily due to payroll accrual.

### **Net Position**

Unrestricted – Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital purposes.

Restricted - Expendable – Expendable assets are available for expenditure by the Station, but only in accordance with restrictions placed on their use by donors and other external entities.

Net Investment in Capital Assets – Includes the Station's property and equipment, net of accumulated depreciation.

### **Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<b>2016</b>	<b>2015</b>	<b>Change</b>
Operating Revenues	690,851	688,329	2,522
Operating Expenses	1,122,864	1,213,321	(90,457)
Operating Loss	(432,013)	(524,992)	92,979
Nonoperating Revenues	378,425	416,539	(38,114)
Decrease in Net Position	(53,588)	(108,453)	54,865
Net Position at Beginning of Year	129,605	238,058	(108,453)
<b>Net Position at End of Year</b>	<b>76,017</b>	<b>129,605</b>	<b>(53,588)</b>

The statement presents the Station's operating and nonoperating financial activity (revenues and expenses) during the year, and it displays the net loss from operations. Operating revenues are those that are generated by the Station's principal ongoing operations, such as student service fees, listener support, and sponsored grants. Nonoperating revenues include appropriations allocated from the University and donated goods and services.

Total operating and nonoperating revenues decreased \$35,592 primarily due to nonoperating revenues that relate to an increase in University general appropriation with an offsetting net decrease in other University support.

Total operating expenses decreased \$90,457 primarily due to a decrease in management and general expenses.

### **Contacting the Station's Financial Management**

This financial report is designated to provide KUMD's, customers, investors and creditors with a general overview the Station's finances. Questions regarding this report or additional financial information should be addressed to: KUMD, 1201 Ordean Ct., Humanities Building, Room 130, Duluth, MN 55812.

## **BASIC FINANCIAL STATEMENTS**

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

2016

Assets and Deferred Outflows of Resources

Current Assets

Cash and Cash Equivalents	\$ 155,951
Accounts Receivable	<u>29,138</u>
Total Current Assets	<u>185,089</u>

Non-Current Assets

Capital Assets	139,000
Accumulated Depreciation	<u>(120,850)</u>
Capital Assets, Net	<u>18,150</u>

Deferred Outflows of Resources	<u>-</u>
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Total Assets and Deferred Outflows of Resources	<u>\$ 203,239</u>
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Liabilities and Deferred Inflows of Resources

Current Liabilities

Accounts Payable	\$ 19,477
Accrued Liabilities	<u>86,030</u>
Total Current Liabilities	<u>105,507</u>

Non-Current Liabilities

Accrued Liabilities	<u>21,715</u>
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Deferred Inflows of Resources	<u>-</u>
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Total Liabilities and Deferred Inflows of Resources	<u>\$ 127,222</u>
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Net Position

Unrestricted	11,719
Restricted – Expendable	46,148
Net Investment in Capital Assets	<u>18,150</u>
Total Net Position	<u>\$ 76,017</u>

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

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>
<u>Operating Revenues</u>	
Corporation for Public Broadcasting Grants	\$ 212,297
Underwriting	140,475
Student Service Fees	133,476
Listener Support	99,703
State of Minnesota Legacy Grant	95,118
Other State Grants	4,903
Other Revenue	4,879
Total Operating Revenue	<u>690,851</u>
<u>Operating Expenses</u>	
Programming and Production	\$ 565,752
Broadcasting	79,720
Management and General	328,988
Fundraising	137,705
Depreciation	10,699
Total Operating Expenses	<u>1,122,864</u>
Operating Loss	<u>(432,013)</u>
<u>Nonoperating Revenues</u>	
University General Appropriation	150,493
Donated Facilities and Admin. University Support	112,490
Studio Renovation University Support	49,237
Donated Goods and Services – NFFS	35,387
Donated Goods and Services – Non NFFS	30,818
Total Nonoperating Revenues	<u>378,425</u>
Decrease in Net Position	(53,588)
<u>Net Position</u>	
Beginning of the year	<u>129,605</u>
End of year	<u>\$ 76,017</u>

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

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>
<u>Cash Flows from Operating Activities</u>	
Corporation for Public Broadcasting Grants	\$ 212,297
Underwriting	140,475
Student Service Fees	133,476
Listener Support	99,703
State of Minnesota Legacy Grant	70,282
Other State Grants	799
Other Revenue	4,682
Payments to Employees for Wages/Benefits	(639,310)
Payments to Suppliers for Goods and Services	<u>(190,077)</u>
Net Cash Flows Used by Operating Activities	(167,674)
<u>Cash Flows From Noncapital Financing Activities</u>	
University General Appropriation	<u>150,493</u>
Net Cash Flows Provided by Noncapital Financing Activities	150,493
Net Decrease in Cash and Cash Equivalents	(17,181)
Beginning Cash and Cash Equivalents	<u>167,798</u>
Ending Cash and Cash Equivalents	<u><u>\$ 150,617</u></u>
<u>Reconciliation of Net Operating Revenues(Expenses) to</u>	
<u>Net Cash Used by Operating Activities</u>	
Operating Loss	\$ (432,013)
Depreciation Expense	10,699
Donated Facilities and Admin. University Support	112,490
Studio Renovation University Support	49,237
Donated Goods and Services-NFFS	35,387
Donated Goods and Services-Non NFFS	30,818
Changes in Assets and Liabilities	
Accounts Receivable	(29,138)
Accounts Payable	4,377
Accrued Liabilities	<u>50,469</u>
Net Cash Flows Used by Operating Activities	<u><u>\$ (167,674)</u></u>

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



**KUMD-FM  
(UNIT OF THE UNIVERSITY OF MINNESOTA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**FINANCIAL REPORTING ENTITY**

KUMD-FM radio station (the Station), in addition to other units, is operated by University Relations & Development of the University of MN Duluth (UMD). KUMD-FM is located on the campus of UMD.

These financial statements present the financial position, results of operations and cash flows of KUMD-FM radio station only, and do not extend to the University of Minnesota as a whole or any other University organization or department. KUMD is an enterprise fund of the University of Minnesota. Economic support from the University of Minnesota to the Station is committed on a year-to-year basis. General appropriation support from the University has been approved through June 30, 2016.

**FINANCIAL STATEMENT PRESENTATION**

The financial statements have been prepared in accordance with accounting principles prescribed by the Governmental Accounting Standards Board.

**BASIS OF ACCOUNTING**

The University is considered to be a special purpose government engaged primarily in business type activities. As a result, the Station prepares its financial statements using the accrual basis of accounting and the economic resources measurement focus. Under the accrual basis of accounting, revenues and expenses are recognized when earned or incurred.

**NET POSITION**

The net position of the Station is summarized for financial reporting purposes into the following classifications:

Unrestricted – Net positions that have no external restrictions imposed.

Restricted – Expendable -Net positions that are restricted for specific purposes by grantors, donors or law. Restrictions on these assets are released when KUMD complies with the stipulations required by the grantor, donor, or legislative act.

Net investment in capital assets – Capital assets, net of accumulated depreciation.

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE A– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**CASH AND CASH EQUIVALENTS**

Receipts and disbursements of the station are recorded through other departments of the University of Minnesota resulting in cash balances available to the Station. The University invests its cash balances in several investment pools. Each pool has a specific set of guidelines designed to meet its investment objectives within risk parameters established for that pool. The Station considers these investments to be cash for purposes of the Statement of Cash Flows.

**NET INVESTMENT IN CAPITAL ASSETS**

Buildings, equipment, furniture and fixtures are recorded at cost, except those received as gifts or bequests, which are recorded at market value at the date of gift. Asset purchases are capitalized if \$5,000 or greater. Depreciation and amortization are charged to expenditures using the straight-line method over the estimated useful lives of the assets as follows:

Transmission, tower and antenna	10-15 years
Equipment	5 years

**ACCRUED LIABILITIES**

Accrued Liabilities is comprised of compensated absences and payroll accrual. Compensated absences for unused vacation time are accrued by multiplying an employee's hourly rate times the available vacation hours as of the financial statement date. Payroll accrual accounts for the remaining days in June 2016 that aren't paid until July 2016, the next fiscal year.

**IN-KIND CONTRIBUTIONS**

Donated goods and services are recorded as non-operating revenues at estimated fair market value. Donated goods totaling \$66,205 (Non NFFS-\$30,818; NFFS-\$35,387) are included in non-operating revenues, and in programming and production expenditures in the statement of revenues, expenses and changes in net position.

Donated facilities from UMD consist of office and studio space, together with related occupancy costs and are recorded as nonoperating revenues and expenditures at estimated fair rental values. In addition, during 2016, facilities management contributed \$49,237 in labor and materials to studio renovations. Administrative support from UMD consists of allocated financial and student development department costs and certain other expenses incurred by the University on behalf of the Station. Donated facilities and administrative support totaled \$125,659 during 2016.

**KUMD-FM  
(UNIT OF THE UNIVERSITY OF MINNESOTA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE A –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**REVENUE CLASSIFICATION**

The University has classified revenue into Operating Revenue and Nonoperating Revenue based on the following criteria:

Operating Revenues – Revenues that result from exchange activities that contribute to the mission of KUMD. Exchange activities are transactions where the amount received approximates the fair value of the goods or services given up. The Station considers student service fees, underwriting, the Corporation for Public Broadcasting and other grants and other revenue to be exchange transactions.

Nonoperating Revenues – Revenues that represent nonexchange activities. The primary source of these revenues is appropriations from the University of Minnesota, and other contributions from the University of Minnesota.

**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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE B- OPERATING EXPENSES BY NATURAL CLASSIFICATION**

Operating expenses by natural classification as of June 30, 2016 are as follows:

	<u>2016</u>
Salaries	561,546
Fringe	148,163
In-Kind Facility Support	161,727
In-Kind Goods and Services	66,205
Supplies and Services	174,524
Depreciation	<u>10,699</u>
Total Operating Expenses	<u><u>1,122,864</u></u>

	<u>2016</u>
Programming and Production	\$ 565,752
Broadcasting	<u>79,720</u>
Total Program Expenses	<u>645,472</u>
Management and General	328,988
Fundraising	137,705
Depreciation	<u>10,699</u>
Total Support Services	<u>477,392</u>
Total Operating Expenses	\$ <u><u>1,122,864</u></u>



**KUMD-FM**  
**(UNIT OF THE UNIVERSITY OF MINNESOTA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE C – NET INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT**

Net Investment in capital assets consists of the following at June 30, 2016:

Net Investment in capital assets, net of related debt:	
Transmission, tower and antenna	\$ 53,110
Equipment	<u>85,890</u>
Total	139,000
Accumulated Depreciation	<u>(120,850)</u>
 Total Net Investment in Capital Assets	 <u>\$ 18,150</u>

**NOTE D – RETIREMENT PLANS AND EMPLOYEE BENEFITS**

**Retirement Plans**

The Faculty Retirement Plan (FRP) is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University's Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute to the plan and governs the requirements of this plan. Station employees meeting certain eligibility requirements contribute to the FRP, which is a single-employer defined contribution plan sponsored by the University. Eligible academic employees with hire dates prior to January 2, 2012 contribute 2.5% of covered salary and the University through the central fringe pool contributes 13.0%. Eligible academic employees, with a start date (or who were rehired) on or after January 2, 2012, contribute 5.5% of covered salary and the University through the central fringe pool contributes 10.0%. The FRP covers approximately 9,400 active faculty and professional and administrative (P&A) staff. This amount includes approximately 3,700 with hire dates on or after January 2, 2012.

Station employees meeting certain eligibility requirements also contribute to the State Employees Retirement Fund (SERF) that is administered by the Minnesota State Retirement System (MSRS). SERF is a cost-sharing multiple-employer defined benefit plan that covers multiple employers within the state of Minnesota. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions and contribution rates are established by state statute and can only be modified by state legislature in accordance with Minnesota Chapter 352. Benefits are based on member's age, years of allowable service, and the highest average salary for any sixty successive months of allowable service at termination of service. Required contribution rate for employees and the Station was 5.5 percent of covered salaries for year ending June 30, 2016. The Station's contribution to the SERF for the year ending June 30, 2016 was \$15,512.

**KUMD-FM  
(UNIT OF THE UNIVERSITY OF MINNESOTA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE D – RETIREMENT PLANS AND EMPLOYEE BENEFITS**  
**(continued)**

Effective fiscal year ended June 30, 2015, the University was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions--an Amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date--an Amendment of GASB Statement No. 68*, and apply the requirements to SERF. Due to the Station satisfying its obligation to the central fringe pool, University unit that coordinates payments to SERF, no additional reporting is required for the Station.

A publicly available financial report, which includes financial statements, required supplementary information, and detailed information about the plan's fiduciary net position, can be obtained at [www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information) or by writing to the Minnesota State Retirement System (MSRS), 60 Empire Drive, Suite 300, St. Paul, MN 55103.

**NOTE E – EMPLOYEE BENEFITS**

The station is allocated certain fringe benefit expenses at the discretion of the University. The Station records these expenses on a pay-as-you-go basis. Accordingly, the Station has not accrued for any liability associated with these costs.

**NOTE F – INCOME TAXES**

The Internal Revenue Service has ruled that the University is an integral part of the State of Minnesota. As such, the University is generally exempt from federal income taxes, although, certain activities are subject to federal unrelated business income tax.

**NOTE G – SUBSEQUENT EVENTS**

The financial statements and associated notes have been prepared with knowledge of all material facts and circumstances as of December 30, 2016.