

**KANZA SOCIETY, INC.**

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**FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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**KANZA SOCIETY, INC.**

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## INDEPENDENT AUDITOR'S REPORT

KANZA Society, Inc.  
Garden City, Kansas 67846

We have audited the accompanying financial statements of KANZA Society, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, 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 KANZA Society, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kennedy McKee & Company LLP*

January 15, 2018

# KANZA SOCIETY, INC

## STATEMENTS OF FINANCIAL POSITION

	September 30, 2017			
	Operating fund	Restricted fund	Board designated reserve fund	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 12,731	\$ 12,859	\$ 93,930	\$ 119,520
Certificates of deposit	-	27,702	620,104	647,806
Accounts receivable net of allowance for doubtful accounts of \$4,500 at 9-30-17 and 9-30-16	41,415	-	-	41,415
Pledges receivable net of allowance for uncollectible pledges of \$5,787 and \$8,018 at 9-30-17 and 9-30-16	51,986	-	65,000	116,986
Grants receivable	79,757	-	-	79,757
Prepaid expense	3,598	-	-	3,598
Total current assets	189,487	40,561	779,034	1,009,082
Property and equipment:				
Buildings and leasehold improvements	-	700,052	-	700,052
Equipment	-	3,856,250	-	3,856,250
Vehicles	-	-	-	-
	-	4,556,302	-	4,556,302
Less accumulated depreciation	-	(2,677,880)	-	(2,677,880)
	-	1,878,422	-	1,878,422
Other assets:				
Investments	-	-	6,700	6,700
Beneficial interest in Community Foundation	-	-	126,763	126,763
Broadcast license/goodwill	-	1,182,200	-	1,182,200
Capital credits	140,260	-	-	140,260
	140,260	1,182,200	133,463	1,455,923
	\$ 329,747	\$ 3,101,183	\$ 912,497	\$ 4,343,427
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable	\$ 112,752	\$ 2,044	\$ -	\$ 114,796
Unearned underwriting	46,712	-	-	46,712
Accrued vacation	11,557	-	-	11,557
Deferred grants	-	29,304	-	29,304
Total current liabilities	171,021	31,348	-	202,369
Interfund borrowings:				
Due to restricted fund	343,715	-	-	343,715
Due to board designated reserve	98,397	-	-	98,397
Due from operating fund	-	(343,715)	(98,397)	(442,112)
	442,112	(343,715)	(98,397)	-
Net Assets:				
Unrestricted	(283,386)	2,130,750	860,801	2,708,165
Temporarily restricted	-	1,282,800	31,089	1,313,889
Permanently restricted	-	-	119,004	119,004
	(283,386)	3,413,550	1,010,894	4,141,058
	\$ 329,747	\$ 3,101,183	\$ 912,497	\$ 4,343,427

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

September 30, 2016

Operating fund	Restricted fund	Board designated reserve fund	Total
\$ 4,392	\$ 73,053	\$ 215,019	\$ 292,464
-	27,551	615,222	642,773
31,165	-	-	31,165
59,383	-	65,000	124,383
78,114	-	-	78,114
5,397	-	-	5,397
<u>178,451</u>	<u>100,604</u>	<u>895,241</u>	<u>1,174,296</u>
-	700,052	-	700,052
-	3,832,092	-	3,832,092
-	12,992	-	12,992
-	4,545,136	-	4,545,136
-	(2,515,545)	-	(2,515,545)
-	<u>2,029,591</u>	-	<u>2,029,591</u>
-	-	6,700	6,700
-	-	115,994	115,994
-	1,182,200	-	1,182,200
121,817	-	-	121,817
<u>121,817</u>	<u>1,182,200</u>	<u>122,694</u>	<u>1,426,711</u>
<u>\$ 300,268</u>	<u>\$ 3,312,395</u>	<u>\$ 1,017,935</u>	<u>\$ 4,630,598</u>
\$ 69,663	\$ 5,592	\$ -	\$ 75,255
48,072	-	-	48,072
10,269	-	-	10,269
-	29,304	-	29,304
<u>128,004</u>	<u>34,896</u>	-	<u>162,900</u>
317,447	-	-	317,447
5,397	-	-	5,397
-	(317,447)	(5,397)	(322,844)
<u>322,844</u>	<u>(317,447)</u>	<u>(5,397)</u>	<u>-</u>
(150,580)	2,297,186	873,239	3,019,845
-	1,297,760	31,089	1,328,849
-	-	119,004	119,004
<u>(150,580)</u>	<u>3,594,946</u>	<u>1,023,332</u>	<u>4,467,698</u>
<u>\$ 300,268</u>	<u>\$ 3,312,395</u>	<u>\$ 1,017,935</u>	<u>\$ 4,630,598</u>

**KANZA SOCIETY, INC**  
**STATEMENTS OF ACTIVITIES**

Year ended September 30, 2017

	Operating fund	Restricted fund		Board designated reserve fund			Total
	Unrestricted	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues, gains and other support:							
Memberships	\$ 354,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354,224
In-kind contributions	147,590	-	-	-	-	-	147,590
Other contributions	213,557	32,269	7,452	200	-	-	253,478
Community service grants	208,233	-	-	-	-	-	208,233
State appropriations	79,757	-	-	-	-	-	79,757
Underwriting	199,551	-	-	-	-	-	199,551
Subcarrier lease	34,475	-	-	-	-	-	34,475
Investment income	587	163	-	15,964	-	-	16,714
Other	1,532	-	-	-	-	-	1,532
Net assets released from restrictions:							
Satisfaction of payment restrictions	-	22,412	(22,412)	-	-	-	-
Total revenues, gains and other support	1,239,506	54,844	(14,960)	16,164	-	-	1,295,554
Expenses:							
Program services:							
Programming and production	458,955	-	-	-	-	-	458,955
Engineering	424,414	159,775	-	-	-	-	584,189
Promotion	3,902	-	-	-	-	-	3,902
Total program services expense	887,271	159,775	-	-	-	-	1,047,046
Supporting activities:							
Management and general	306,474	26,812	-	-	-	-	333,286
Fundraising and membership	241,862	-	-	-	-	-	241,862
Total supporting activities expense	548,336	26,812	-	-	-	-	575,148
Total expenses	1,435,607	186,587	-	-	-	-	1,622,194
Change in net assets	(196,101)	(131,743)	(14,960)	16,164	-	-	(326,640)
Net assets at beginning of year	(150,580)	2,297,186	1,297,760	873,239	31,089	119,004	4,467,698
Transfers	63,295	(34,693)	-	(28,602)	-	-	-
Net assets at end of year	\$ (283,386)	\$ 2,130,750	\$ 1,282,800	\$ 860,801	\$ 31,089	\$ 119,004	\$ 4,141,058

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

Year ended September 30, 2016

Operating fund	Restricted fund		Board designated reserve fund			Total
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently restricted	
\$ 402,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 402,595
184,364	-	-	-	-	-	184,364
219,966	47,862	23,085	7,841	-	-	298,754
182,892	-	-	-	-	-	182,892
78,114	-	-	-	-	-	78,114
221,250	-	-	-	-	-	221,250
34,403	-	-	-	-	-	34,403
496	593	-	1,485	-	-	2,574
636	-	-	-	-	-	636
-	1,199	(1,199)	89,092	(89,092)	-	-
1,324,716	49,654	21,886	98,418	(89,092)	-	1,405,582
439,540	-	-	-	-	-	439,540
448,723	194,535	-	-	-	-	643,258
2,490	713	-	-	-	-	3,203
890,753	195,248	-	-	-	-	1,086,001
320,378	27,668	-	-	-	-	348,046
230,690	-	-	-	-	-	230,690
551,068	27,668	-	-	-	-	578,736
1,441,821	222,916	-	-	-	-	1,664,737
(117,105)	(173,262)	21,886	98,418	(89,092)	-	(259,155)
(89,906)	2,437,787	1,275,874	863,913	120,181	119,004	4,726,853
56,431	32,661	-	(89,092)	-	-	-
<u>\$ (150,580)</u>	<u>\$ 2,297,186</u>	<u>\$ 1,297,760</u>	<u>\$ 873,239</u>	<u>\$ 31,089</u>	<u>\$ 119,004</u>	<u>\$ 4,467,698</u>



# KANZA SOCIETY, INC

## STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

	PROGRAM SERVICES				SUPPORTING ACTIVITIES			Total
	Programming and production	Engineering	Promotion	Total program services	Management and general	Fund raising and membership	Total supporting activities	
Salaries and benefits	\$ 206,897	\$ 72,712	\$ -	\$ 279,609	\$ 149,621	\$ 192,170	\$ 341,791	\$ 621,400
Professional services	52,329	53,299	-	105,628	19,657	20,069	39,726	145,354
Occupancy	3,123	233,661	-	236,784	36,683	3,123	39,806	276,590
Programming	133,251	-	-	133,251	-	-	-	133,251
Depreciation	-	151,106	-	151,106	24,220	-	24,220	175,326
Maintenance and repairs	162	8,039	-	8,201	4,047	-	4,047	12,248
Telephone	-	8,769	-	8,769	19,369	-	19,369	28,138
Printing, publications and dues	41,890	-	2,046	43,936	5,288	5,284	10,572	54,508
Postage and handling	183	742	-	925	555	6,010	6,565	7,490
Insurance	-	54,537	-	54,537	3,235	-	3,235	57,772
Supplies	1,875	37	371	2,283	11,988	4,066	16,054	18,337
Publicity/advertising	828	-	908	1,736	21,586	4,604	26,190	27,926
Conferences, travel and training	2,287	1,287	577	4,151	15,906	6,536	22,442	26,593
Bad debts	-	-	-	-	12,094	-	12,094	12,094
Other	16,130	-	-	16,130	9,037	-	9,037	25,167
	<u>\$ 458,955</u>	<u>\$ 584,189</u>	<u>\$ 3,902</u>	<u>\$ 1,047,046</u>	<u>\$ 333,286</u>	<u>\$ 241,862</u>	<u>\$ 575,148</u>	<u>\$ 1,622,194</u>

Year Ended September 30, 2016

	PROGRAM SERVICES				SUPPORTING ACTIVITIES			Total
	Programming and production	Engineering	Promotion	Total program services	Management and general	Fund raising and membership	Total supporting activities	
Salaries and benefits	\$ 179,389	\$ 73,785	\$ -	\$ 253,174	\$ 152,898	\$ 180,143	\$ 333,041	\$ 586,215
Professional services	64,917	93,571	-	158,488	18,913	17,351	36,264	194,752
Occupancy	2,689	232,051	-	234,740	43,329	2,689	46,018	280,758
Programming	130,803	-	-	130,803	-	-	-	130,803
Depreciation	-	155,206	-	155,206	26,010	-	26,010	181,216
Maintenance and repairs	173	25,510	-	25,683	2,040	-	2,040	27,723
Telephone	-	5,810	-	5,810	15,301	-	15,301	21,111
Printing, publications and dues	39,831	-	525	40,356	4,360	5,294	9,654	50,010
Postage and handling	-	762	35	797	1,805	6,475	8,280	9,077
Insurance	-	55,212	-	55,212	2,099	-	2,099	57,311
Supplies	1,630	119	620	2,369	7,107	7,991	15,098	17,467
Publicity/advertising	2,143	-	88	2,231	18,333	4,150	22,483	24,714
Conferences, travel and training	3,923	1,232	1,310	6,465	16,055	6,597	22,652	29,117
Bad debts	-	-	-	-	29,374	-	29,374	29,374
Other	14,042	-	625	14,667	10,422	-	10,422	25,089
	<u>\$ 439,540</u>	<u>\$ 643,258</u>	<u>\$ 3,203</u>	<u>\$ 1,086,001</u>	<u>\$ 348,046</u>	<u>\$ 230,690</u>	<u>\$ 578,736</u>	<u>\$ 1,664,737</u>

# KANZA SOCIETY, INC

## STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	2017	2016
Cash flows from operating activities:		
Cash received from members	\$ 349,527	\$ 370,417
Cash received from underwriters	187,941	222,638
Cash received from grantors and contributions	539,825	557,893
Cash received from special events	1,519	-
Cash received from others	34,488	35,039
Investment income received	5,945	2,574
Cash paid to suppliers and employees	<u>(1,268,893)</u>	<u>(1,363,728)</u>
Net cash provided (used) by operating activities	<u>(149,648)</u>	<u>(175,167)</u>
Cash flows from investing activities:		
Payments for property and equipment	(24,156)	(29,664)
Purchase of investments	(5,033)	(1,813)
Capital credit refunds received	<u>5,893</u>	<u>4,501</u>
Net cash used by investing activities	<u>(23,296)</u>	<u>(26,976)</u>
Net increase (decrease) in cash and cash equivalents	(172,944)	(202,143)
Cash and cash equivalents, beginning of year	<u>292,464</u>	<u>494,607</u>
Cash and cash equivalents, end of year	<u><u>\$ 119,520</u></u>	<u><u>\$ 292,464</u></u>
Reconciliation of change in net assets to cash used by operating activities:		
Change in net assets	<u>\$ (326,640)</u>	<u>\$ (259,155)</u>
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	175,327	181,216
Capital credits	(24,337)	(8,888)
Change in beneficial interest in Community Foundation	(10,769)	-
Decrease (increase) in:		
Accounts receivable	(10,250)	(11,603)
Pledges receivable	7,397	(2,804)
Prepaid expense	1,799	1,799
Grants receivable	(1,643)	(1,942)
Increase (decrease) in:		
Accounts payable	39,540	(87,477)
Unearned underwriting	(1,360)	13,066
Accrued vacation	<u>1,288</u>	<u>621</u>
	<u>176,992</u>	<u>83,988</u>
Net cash provided (used) by operating activities	<u><u>\$ (149,648)</u></u>	<u><u>\$ (175,167)</u></u>

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

# KANZA SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of KANZA Society, Inc. (the Society) is presented to assist in understanding the Society's financial statements. The financial statements and notes are representations of the Society's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America.

#### 1. Nature of business

KANZA Society, Inc. was established as a not-for-profit Kansas corporation which operates noncommercial public radio stations with studios in Garden City, Kansas and Amarillo, Texas. The Society is supported primarily through funding from the Corporation for Public Broadcasting, state appropriations, memberships and underwriting.

#### 2. Basis of presentation

The Society reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### 3. Cash and cash equivalents

For purposes of the statement of cash flows, the Society considers all unrestricted highly liquid instruments with maturities of three months or less to be cash equivalents.

#### 4. Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Society provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of underwriters to meet their obligations. Receivables are considered to be impaired if full principal payments are not received in accordance with the contractual terms. It is the Society's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

#### 5. Pledges receivable

Operating fund - The Society engages in fund-raising campaigns manifested by on-air and mail fund-raising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Society for enhancement of the program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. However, uncollected pledges that are not enforceable against contributors are not shown as assets on the balance sheets. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Society. This usage is consistent with appeals for contributions and pledges. The pledges are all due in the following fiscal year.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5. Pledges receivable (continued)

Board designated reserve fund - unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The pledges are due in the following fiscal year.

### 6. Fair value measurements

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

### 7. Property and equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

### 8. Broadcast license/goodwill

Broadcast license/goodwill is tested for impairment on an annual basis. No impairment was recognized for the years ended September 30, 2017 and 2016.

### 9. Unearned underwriting

Revenue for program underwriting is recorded on a pro-rata basis for the periods to which the underwriting relates.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 10. Deferred grants

Grant proceeds received for construction and other projects are deferred and recognized as the related costs are incurred.

### 11. Revenue recognition

Unrestricted contributions, pledges, and grants are recognized as revenue in the statement of financial activity upon receipt. Other unrestricted revenues are recognized as earned either upon receipt or accrual. State appropriation support is reported as unrestricted revenue.

### 12. Restricted support

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### 13. Gifts of long-lived assets

The Society 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### 14. Donated materials, facilities and services

Significant materials, facilities and services are donated to the Society by various individuals and organizations. Donated materials and facilities were \$33,900 and \$36,500 at September 30, 2017 and 2016, recorded at fair value at the date of donation, and have been included in revenue and expenses. The Society received donated services for the years ended September 30, 2017 and 2016 totaling \$64,600 and \$110,600 for research, planning, filing and related follow-ups on FCC applications; web initiative; researching expansion, enhancements; and development. In addition, the Society receives significant amounts of donated services that were not recognized in the financial statements because they did not meet the criteria for recognition.

### 15. Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 16. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

### 17. Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization has not identified any uncertainties in federal or state income taxes for any open tax years as of September 30, 2017. The Organization is no longer subject to examinations by tax authorities for years before September 30, 2015. No authorities have commenced income tax examinations as of September 30, 2017.

## B. CONCENTRATION OF CREDIT RISK

The Society had a concentration of credit risk in excess of federal deposit insurance coverage at one financial institution of \$186,759 and \$181,756 at September 30, 2017 and 2016, respectively.

## C. INVESTMENTS

Investments consist of a stamp collection which is carried at the estimated fair value at the date of the contribution to the Society (Level 3 inputs).

## D. BENEFICIAL INTEREST IN COMMUNITY FOUNDATION

The Organization transferred its Endowment investments to the Western Kansas Community Foundation to be held in an agency endowment fund for the benefit of KANZA Society, Inc. As of September 30, 2017, and 2016 the amount is \$126,763 and \$115,994, respectively. The Community Foundation was granted variance power such that the board of the Community Foundation has the power and the duty to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the Foundation's Board unnecessary, incapable of fulfillment, or inconsistent with the charitable or other exempt needs.

Fair value for the beneficial interest in Community Foundation was obtained from a statement provided by the Community Foundation (Level 2 inputs).

#### E. BROADCAST LICENSE/GOODWILL

During the year ended September 30, 2005, the Society acquired a broadcast license and goodwill in the Amarillo area. The cost of the broadcast license and goodwill totaled \$1,182,200. Reductions to the value of the purchased broadcast license/goodwill are recorded upon impairment. No impairment was recognized for the years ended September 30, 2017 and 2016.

#### F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Acquisition of equipment and improvements to facilities	\$ 137,912	\$ 152,872
Investment earnings available for operations	31,089	31,089
Amarillo station restricted to use as public radio station (any sale of the station for use as other than public radio requires repayment of these grant funds)	<u>1,144,888</u>	<u>1,144,888</u>
	<u>\$ 1,313,889</u>	<u>\$ 1,328,849</u>

#### G. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include gifts which require by donor stipulation that the corpus be invested in perpetuity and only the income be made available for program operations.

#### H. COMMUNITY SERVICE GRANTS

The Corporation for Public Broadcasting is a private, nonprofit grantmaking organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. 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. The Society uses these funds 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.

#### H. COMMUNITY SERVICE GRANTS (CONTINUED)

The Grants are reported on the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the Grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of Grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communication Commission.

The Society received \$208,233 and \$182,892 in Community Service Grants during the fiscal years ended September 30, 2017 and 2016, respectively.

#### I. STATE APPROPRIATIONS

This classification includes financial resources provided to the Society through budgetary authorizations of the State Assembly. State appropriations totaled \$79,757 and \$78,114 for the years ended September 30, 2017 and 2016, respectively.

#### J. ECONOMIC DEPENDENCY

The Society depends in large part on its funding from community service grants and state appropriations. If this funding were to cease or be greatly reduced, the Society would have to arrange another source of funding to remain in operation. State appropriations have declined significantly over the past few years, and the Society is seeking alternative sources of revenue and public support.

Community service grants accounted for 16% and 13% of the Society's support for the years ended September 30, 2017 and 2016, and state appropriations accounted for 6% and 6% respectively.

#### K. LEASES - LESSEE

The Society leases tower space for its transmitters under various operating leases. The future minimum rental payments under the existing leases at September 30, 2017, are as follows:

<u>Year ended September 30,</u>	
2018	\$ 41,877
2019	17,642
2020	12,190
2021	12,065
2022	8,630
Thereafter	<u>47,600</u>
	<u>\$ 140,004</u>

Expenses under these leases for the years ended September 30, 2017 and 2016 were \$81,031 and \$75,156, respectively.



#### K. LEASES – LESSEE (CONTINUED)

The Society also leases studio space under an operating lease. The future minimum rental payments under the lease at September 30, 2017 are as follows:

Year ended September 30,

2018	\$ 7,909
2019	<u>6,000</u>
	<u>\$ 13,909</u>

Rent expense under this lease for the years ended September 30, 2017 and 2016, was \$7,807 and \$6,723, respectively.

#### L. LEASES - LESSOR

The Society has entered into agreements to lease out or sublease space on their towers. The following is a schedule by years of future minimum rentals to be received under the leases at September 30, 2017:

Year ended September 30,

2018	\$ 31,687
2019	11,626
2020	8,100
2021	6,300
2022	900
Thereafter	<u>900</u>
	<u>\$ 59,513</u>

Lease income recognized on these leases for the years ended September 30, 2017 and 2016 was \$34,475 and \$34,403 respectively.

#### M. ADVERTISING

The Society uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended September 30, 2017 and 2016, advertising costs totaled \$21,887 and \$20,301, respectively.

#### N. TAX-DEFERRED ANNUITY PLAN

During the year ended September 30, 2017, the Society participated in a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Society. The Society may match employees' contributions to the plan up to 4% of their salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were \$0 for the years ended September 30, 2017 and 2016. No match was made for either year.

## O. ENDOWMENT

The Organization's endowment consists of one fund established for the principal benefit and use of KANZA Society, Inc. Its endowment includes donor-restricted funds to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Organization has adopted investment and informal spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also preserving the fair value of the original gift. Endowment assets are invested in certificates of deposit and a beneficial interest in a Community Foundation. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* The Organization does not have a formal spending policy for appropriating for distribution each year the net investment income, including the appreciation on the investments, from the endowment fund assets. They have generally transferred endowment temporarily restricted net assets as needed. In establishing this informal policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current informal spending policy to allow its endowment funds to preserve the fair value of the original gift.

Endowment net asset composition by type of fund as of September 30, 2017 is as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Donor-restricted endowment funds	<u>\$ 31,089</u>	<u>\$ 119,004</u>	<u>\$ 150,093</u>

O. ENDOWMENT (CONTINUED)

Changes in endowment net assets as of September, 2017 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Endowment net assets, beginning of year	\$ 31,089	\$ 119,004	\$ 150,093
Amounts appropriated for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 31,089</u>	<u>\$ 119,004</u>	<u>\$ 150,093</u>

Endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Donor-restricted endowment funds	<u>\$ 31,089</u>	<u>\$ 119,004</u>	<u>\$ 150,093</u>

Changes in endowment net assets as of September, 2016 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Endowment net assets, beginning of year	\$ 120,181	\$ 119,004	\$ 239,185
Investment return: Investment income	(89,092)	-	(89,092)
Endowment net assets, end of year	<u>\$ 31,089</u>	<u>\$ 119,004</u>	<u>\$ 150,093</u>

P. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2018, the date on which the financial statements were available to be issued. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.