

KANZA SOCIETY, INC.

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

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, 2015 and 2014, 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 our audit provides a reasonable basis for our 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, 2015 and 2014, 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

December 28, 2015

KANZA SOCIETY, INC

STATEMENTS OF FINANCIAL POSITION

	September 30, 2015			
<u>ASSETS</u>	Operating fund	Restricted fund	Board designated reserve fund	Total
Current assets:				
Cash and cash equivalents	\$ 32,723	\$ 169,535	\$ 292,349	\$ 494,607
Certificates of deposit	-	26,974	610,976	637,950
Accounts receivable net of allowance for doubtful accounts of \$4,500 at 9-30-14 and 9-30-13	19,487	-	74	19,561
Pledges receivable net of allowance for uncollectible pledges of \$5,476 and \$4,459 at 9-30-15 and 9-30-14	56,579	-	65,000	121,579
Grants receivable	76,172	-	-	76,172
Prepaid expense	7,195	-	-	7,195
Total current assets	192,156	196,509	968,399	1,357,064
Property and equipment:				
Buildings and leasehold improvements	-	700,052	-	700,052
Equipment	-	3,802,428	-	3,802,428
Vehicles	-	12,992	-	12,992
	-	4,515,472	-	4,515,472
Less accumulated depreciation	-	(2,334,329)	-	(2,334,329)
	-	2,181,143	-	2,181,143
Other assets:				
Investments	-	-	6,700	6,700
Beneficial interest in Community Foundation	-	-	119,004	119,004
Broadcast license/goodwill	-	1,182,200	-	1,182,200
Capital credits	117,431	-	-	117,431
	117,431	1,182,200	125,704	1,425,335
	\$ 309,587	\$ 3,559,852	\$ 1,094,103	\$ 4,963,542
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable	\$ 160,709	\$ 2,022	\$ -	\$ 162,731
Unearned underwriting	35,006	-	-	35,006
Accrued vacation	9,648	-	-	9,648
Deferred grants	-	29,304	-	29,304
Total current liabilities	205,363	31,326	-	236,689
Interfund borrowings:				
Due to restricted fund	185,135	-	-	185,135
Due to board designated reserve	8,995	-	-	8,995
Due from operating fund	-	(185,135)	(8,995)	(194,130)
	194,130	(185,135)	(8,995)	-
Net Assets:				
Unrestricted	(89,906)	2,437,787	863,913	3,211,794
Temporarily restricted	-	1,275,874	120,181	1,396,055
Permanently restricted	-	-	119,004	119,004
	(89,906)	3,713,661	1,103,098	4,726,853
	\$ 309,587	\$ 3,559,852	\$ 1,094,103	\$ 4,963,542

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

September 30, 2014

Operating fund	Restricted fund	Board designated reserve fund	Total
\$ 2,244	\$ 270,241	\$ 393,215	\$ 665,700
-	26,974	243,387	270,361
32,234	-	-	32,234
45,336	-	-	45,336
87,104	-	-	87,104
-	-	-	-
<u>166,918</u>	<u>297,215</u>	<u>636,602</u>	<u>1,100,735</u>
-	696,119	-	696,119
-	3,790,468	-	3,790,468
-	12,992	-	12,992
-	4,499,579	-	4,499,579
-	(2,155,072)	-	(2,155,072)
-	<u>2,344,507</u>	-	<u>2,344,507</u>
-	-	6,700	6,700
-	-	-	-
-	1,182,200	-	1,182,200
<u>107,905</u>	-	-	<u>107,905</u>
<u>107,905</u>	<u>1,182,200</u>	<u>6,700</u>	<u>1,296,805</u>
<u>\$ 274,823</u>	<u>\$ 3,823,922</u>	<u>\$ 643,302</u>	<u>\$ 4,742,047</u>
\$ 133,183	\$ -	\$ -	\$ 133,183
52,173	-	-	52,173
12,844	-	-	12,844
-	29,304	-	29,304
<u>198,200</u>	<u>29,304</u>	-	<u>227,504</u>
122,715	-	-	122,715
-	-	-	-
-	(122,715)	-	(122,715)
<u>122,715</u>	<u>(122,715)</u>	-	-
(46,092)	2,671,953	404,673	3,030,534
-	1,245,380	119,625	1,365,005
-	-	119,004	119,004
<u>(46,092)</u>	<u>3,917,333</u>	<u>643,302</u>	<u>4,514,543</u>
<u>\$ 274,823</u>	<u>\$ 3,823,922</u>	<u>\$ 643,302</u>	<u>\$ 4,742,047</u>

KANZA SOCIETY, INC
STATEMENTS OF ACTIVITIES

Year ended September 30, 2015

	Year ended September 30, 2015						Total
	Operating fund Unrestricted	Restricted fund		Board designated reserve fund			
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues, gains and other support:							
Memberships	\$ 403,143	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,143
In-kind contributions	191,218	-	-	-	-	-	191,218
Other contributions	210,734	3,100	41,000	456,828	-	-	711,662
Community service grants	174,513	-	-	-	-	-	174,513
State appropriations	76,172	-	-	-	-	-	76,172
Federal and state grants	-	-	-	-	-	-	-
Underwriting	219,354	-	-	-	-	-	219,354
Subcarrier lease	34,548	-	-	-	-	-	34,548
Investment income	322	95	-	-	556	-	973
Other	-	-	-	-	-	-	-
Net assets released from restrictions:							
Satisfaction of equipment acquisition restrictions	-	10,506	(10,506)	-	-	-	-
Total revenues, gains and other support	1,310,004	13,701	30,494	456,828	556	-	1,811,583
Expenses:							
Program services:							
Programming and production	421,300	-	-	-	-	-	421,300
Engineering	438,355	161,971	-	-	-	-	600,326
Promotion	4,799	2,152	-	-	-	-	6,951
Total program services expense	864,454	164,123	-	-	-	-	1,028,577
Supporting activities:							
Management and general	298,605	29,986	-	-	-	-	328,591
Fundraising and membership	241,473	632	-	-	-	-	242,105
Total supporting activities expense	540,078	30,618	-	-	-	-	570,696
Total expenses	1,404,532	194,741	-	-	-	-	1,599,273
Change in net assets	(94,528)	(181,040)	30,494	456,828	556	-	212,310
Net assets at beginning of year	(46,092)	2,671,953	1,245,380	404,673	119,625	119,004	4,514,543
Transfers	50,714	(53,126)	-	2,412	-	-	-
Net assets at end of year	\$ (89,906)	\$ 2,437,787	\$ 1,275,874	\$ 863,913	\$ 120,181	\$ 119,004	\$ 4,726,853

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

Year ended September 30, 2014

Operating fund	Restricted fund		Board designated reserve fund			Total
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently restricted	
\$ 376,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 376,760
171,834	-	-	-	-	-	171,834
211,472	-	108,190	42,634	-	-	362,296
171,420	-	-	-	-	-	171,420
87,104	-	-	-	-	-	87,104
-	72	-	-	-	-	72
196,937	-	-	-	-	-	196,937
32,229	-	-	-	-	-	32,229
354	198	-	-	1,826	-	2,378
-	1,558	-	-	-	-	1,558
-	17,902	(17,902)	38,594	(38,594)	-	-
1,248,110	19,730	90,288	81,228	(36,768)	-	1,402,588
405,234	-	-	-	-	-	405,234
381,735	176,030	-	-	-	-	557,765
1,305	-	-	-	-	-	1,305
788,274	176,030	-	-	-	-	964,304
277,920	23,763	-	-	-	-	301,683
277,071	12,069	-	-	-	-	289,140
554,991	35,832	-	-	-	-	590,823
1,343,265	211,862	-	-	-	-	1,555,127
(95,155)	(192,132)	90,288	81,228	(36,768)	-	(152,539)
(53,342)	2,927,896	1,155,092	362,039	156,393	119,004	4,667,082
102,405	(63,811)	-	(38,594)	-	-	-
\$ (46,092)	\$ 2,671,953	\$ 1,245,380	\$ 404,673	\$ 119,625	\$ 119,004	\$ 4,514,543

KANZA SOCIETY, INC

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended September 30, 2015

	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	\$ 174,802	\$ 70,752	\$ -	\$ 245,554	\$ 141,125	\$ 173,182	\$ 314,307	\$ 559,861
Professional services	52,782	53,465	-	106,247	27,686	34,144	61,830	168,077
Occupancy	2,594	244,237	-	246,831	38,769	2,594	41,363	288,194
Programming	133,677	-	-	133,677	-	-	-	133,677
Depreciation	-	152,215	-	152,215	27,042	-	27,042	179,257
Maintenance and repairs	133	23,749	-	23,882	2,030	11	2,041	25,923
Telephone	-	3,413	-	3,413	20,085	-	20,085	23,498
Printing, publications and dues	38,761	-	1,805	40,566	4,561	5,113	9,674	50,240
Postage and handling	-	1,129	-	1,129	147	7,441	7,588	8,717
Insurance	-	49,784	-	49,784	2,262	-	2,262	52,046
Supplies	588	154	815	1,557	6,964	8,358	15,322	16,879
Publicity/advertising	1,068	-	3,811	4,879	15,835	3,876	19,711	24,590
Conferences, travel and training	2,109	1,778	520	4,407	16,957	7,386	24,343	28,750
Bad debts	-	-	-	-	15,504	-	15,504	15,504
Other	14,786	(350)	-	14,436	9,624	-	9,624	24,060
	<u>\$ 421,300</u>	<u>\$ 600,326</u>	<u>\$ 6,951</u>	<u>\$ 1,028,577</u>	<u>\$ 328,591</u>	<u>\$ 242,105</u>	<u>\$ 570,696</u>	<u>\$ 1,599,273</u>

Year Ended September 30, 2014

	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	\$ 187,456	\$ 70,891	\$ -	\$ 258,347	\$ 131,657	\$ 174,177	\$ 305,834	\$ 564,181
Professional services	36,179	49,705	-	85,884	29,487	78,818	108,305	194,189
Occupancy	2,554	223,207	-	225,761	41,136	2,554	43,690	269,451
Programming	125,106	-	-	125,106	-	-	-	125,106
Depreciation	-	155,585	-	155,585	26,231	-	26,231	181,816
Maintenance and repairs	-	15,782	-	15,782	2,870	-	2,870	18,652
Telephone	-	3,465	-	3,465	14,463	-	14,463	17,928
Printing, publications and dues	40,988	-	680	41,668	6,921	7,857	14,778	56,446
Postage and handling	-	236	-	236	132	9,052	9,184	9,420
Insurance	-	32,260	-	32,260	2,488	-	2,488	34,748
Supplies	-	55	606	661	2,553	723	3,276	3,937
Publicity/advertising	-	-	-	-	11,364	9,067	20,431	20,431
Conferences, travel and training	846	1,799	19	2,664	15,199	6,892	22,091	24,755
Bad debts	-	-	-	-	7,550	-	7,550	7,550
Other	12,105	4,780	-	16,885	9,632	-	9,632	26,517
	<u>\$ 405,234</u>	<u>\$ 557,765</u>	<u>\$ 1,305</u>	<u>\$ 964,304</u>	<u>\$ 301,683</u>	<u>\$ 289,140</u>	<u>\$ 590,823</u>	<u>\$ 1,555,127</u>

KANZA SOCIETY, INC
STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	2015	2014
Cash flows from operating activities:		
Cash received from members	\$ 376,396	\$ 361,598
Cash received from underwriters	214,934	206,480
Cash received from grantors and contributions	908,205	578,637
Cash received from others	34,548	33,787
Investment income received	973	2,378
Cash paid to suppliers and employees	(1,207,989)	(1,219,079)
Net cash provided (used) by operating activities	327,067	(36,199)
Cash flows from investing activities:		
Payments for property and equipment	(15,893)	(5,648)
Purchase of investments	(367,588)	(1,507)
Transferred to Western Kansas Community Foundation	(119,004)	-
Capital credit refunds received	4,325	2,783
Net cash used by investing activities	(498,160)	(4,372)
Net increase (decrease) in cash and cash equivalents	(171,093)	(40,571)
Cash and cash equivalents, beginning of year	665,700	706,271
Cash and cash equivalents, end of year	\$ 494,607	\$ 665,700
Reconciliation of change in net assets to cash used by operating activities:		
Change in net assets	\$ 212,310	\$ (152,539)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	179,257	181,816
Capital credits	(13,850)	(22,987)
Decrease (increase) in:		
Accounts receivable	12,747	(6,722)
Pledges receivable	(76,317)	(7,612)
Prepaid expense	(7,196)	-
Grants receivable	10,932	(42,255)
Increase (decrease) in:		
Accounts payable	29,547	(3,136)
Unearned underwriting	(17,167)	16,265
Accrued vacation	(3,196)	971
	114,757	116,340
Net cash provided (used) by operating activities	\$ 327,067	\$ (36,199)

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

KANZA SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2015 and 2014

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

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date.

Level 2: Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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, 2015 and 2014.

9. Unearned underwriting

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

10. Deferred grants

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$35,000 at September 30, 2015 and 2014, 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, 2015 and 2014 totaling \$115,450 and \$105,950 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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015. The Organization is no longer subject to examinations by tax authorities for years before September 30, 2013. No authorities have commenced income tax examinations as of September 30, 2015.

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 \$117,127 at September 30, 2015.

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 during the current year 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, 2015, the amount is \$119,004. 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, 2015 and 2014.

F. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Acquisition of equipment and improvements to facilities	\$ 130,986	\$ 100,492
Investment earnings available for operations	120,181	119,625
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>\$ 1,396,055</u>	<u>\$ 1,365,005</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.

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 \$174,513 and \$171,420 in Community Service Grants during the fiscal years ended September 30, 2015 and 2014, respectively.

I. STATE APPROPRIATIONS

This classification includes financial resources provided to the Society through budgetary authorizations of the State Assembly. State appropriations totaled \$76,172 and \$87,104 for the years ended September 30, 2015 and 2014, 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 10% and 12% of the Society's support for the years ended September 30, 2015 and 2014, and state appropriations accounted for 4% 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, 2015, are as follows:

Year ended September 30,

2016	\$ 66,600
2017	59,643
2018	19,860
2019	8,215
2020	3,200
Thereafter	<u>54,000</u>
	<u>\$ 211,518</u>

Expenses under these leases for the years ended September 30, 2015 and 2014 were \$76,005 and \$82,582, respectively.

The Society also leases studio space under an operating lease. The future minimum rental payments under the lease at September 30, 2015 are as follows:

Year ended September 30,

2016	<u>\$ 5,433</u>
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Rent expense under this lease for the years ended September 30, 2015 and 2014, was \$6,485 and \$6,385, 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, 2015:

Year ended September 30,

2016	\$ 31,503
2017	23,158
2018	14,744
2019	2,003
2020	900
Thereafter	<u>3,600</u>
	<u>\$ 75,908</u>

Lease income recognized on these leases for the years ended September 30, 2015 and 2014 was \$34,548 and \$32,229 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, 2015 and 2014, advertising costs totaled \$17,388 and \$14,733, respectively.

N. TAX-DEFERRED ANNUITY PLAN

During the year ended September 30, 2015, 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, 2015 and 2014. 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.

O. ENDOWMENT (CONTINUED)

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, 2015 is as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Donor-restricted endowment funds	<u>\$ 120,181</u>	<u>\$ 119,004</u>	<u>\$ 239,185</u>

O. ENDOWMENT (CONTINUED)

Changes in endowment net assets as of September, 2015 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Endowment net assets, beginning of year	\$ 119,625	\$ 119,004	\$ 238,629
Investment return: Investment income	<u>556</u>	<u>-</u>	<u>556</u>
Endowment net assets, end of year	<u>\$ 120,181</u>	<u>\$ 119,004</u>	<u>\$ 239,185</u>

Endowment net asset composition by type of fund as of September 30, 2014 is as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Donor-restricted endowment funds	<u>\$ 119,625</u>	<u>\$ 119,004</u>	<u>\$ 238,629</u>

Changes in endowment net assets as of September, 2014 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net endowment assets</u>
Endowment net assets, beginning of year	\$ 156,393	\$ 119,004	\$ 275,397
Investment return: Investment income	1,826	-	1,826
Amounts appropriated for expenditure	<u>(38,594)</u>	<u>-</u>	<u>(38,594)</u>
Endowment net assets, end of year	<u>\$ 119,625</u>	<u>\$ 119,004</u>	<u>\$ 238,629</u>

P. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 28, 2015, 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.