

KACU-FM

**Financial Statements and
Independent Auditor's Report**

**Years Ended
May 31, 2009 and 2008**

KACU-FM
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Independent Auditor's Report

To the Institutional Licensee of
KACU-FM:

We have audited the accompanying statements of financial position of KACU-FM as of May 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of KACU-FM's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KACU-FM at May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Davis Kinard & Co, PC
DAVIS KINARD & CO, PC

Abilene, Texas
November 27, 2009

KACU-FM
Statements of Financial Position
May 31, 2009 and 2008

Assets	<u>2009</u>	<u>2008</u>
Current assets		
Cash	\$ 13,726	\$ 17,389
Prepaid programming	10,828	13,697
Prepaid software maintenance	815	932
Total current assets	<u>25,369</u>	<u>32,018</u>
Property, plant and equipment, net	<u>10,510</u>	<u>17,834</u>
Total assets	<u><u>\$ 35,879</u></u>	<u><u>\$ 49,852</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ <u>3,471</u>	\$ <u>7,394</u>
Total current liabilities	3,471	7,394
Net assets		
Unrestricted	17,835	25,286
Temporarily restricted	<u>14,573</u>	<u>17,172</u>
Total net assets	<u>32,408</u>	<u>42,458</u>
Total liabilities and net assets	<u><u>\$ 35,879</u></u>	<u><u>\$ 49,852</u></u>

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

KACU-FM
Statements of Activities
Years Ended May 31, 2009 and 2008

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Pledge drive contributions	\$ 101,428	\$	\$ 101,428
Contributions for digital project		1,000	1,000
CPB grant		109,805	109,805
Underwriting	102,076		102,076
Underwriting- barter/trade	64,100		64,100
Rental income	23,600		23,600
Other revenue	5,337		5,337
Support from institutional licensee	117,023		117,023
Concert ticket sales	67,467		67,467
Contributed facilities and utilities	24,560		24,560
Net assets released from restrictions:			
Satisfaction of donor restrictions	113,404	(113,404)	-
Total revenues	<u>618,995</u>	<u>(2,599)</u>	<u>616,396</u>
Expenses			
Program services			
Programming and production	159,892		159,892
Broadcasting	206,881		206,881
Program information and promotion	24,934		24,934
Support services			
Management and general	68,006		68,006
Fundraising and membership development	88,772		88,772
Underwriting	77,961		77,961
Total expenses	<u>626,446</u>	<u>-</u>	<u>626,446</u>
Change in net assets	(7,451)	(2,599)	(10,050)
Net assets at beginning of year	<u>25,286</u>	<u>17,172</u>	<u>42,458</u>
Net assets at end of year	\$ <u>17,835</u>	\$ <u>14,573</u>	\$ <u>32,408</u>

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

2008

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 105,213	\$	\$ 105,213
	6,000	6,000
	106,186	106,186
68,255		68,255
13,229		13,229
21,600		21,600
4,524		4,524
133,934		133,934
-		-
20,394		20,394
<u>105,686</u>	<u>(105,686)</u>	<u>-</u>
<u>472,835</u>	<u>6,500</u>	<u>479,335</u>
155,808		155,808
147,245		147,245
13,123		13,123
62,788		62,788
51,153		51,153
43,352		43,352
<u>473,469</u>	<u>-</u>	<u>473,469</u>
(634)	6,500	5,866
<u>25,920</u>	<u>10,672</u>	<u>36,592</u>
<u>\$ 25,286</u>	<u>\$ 17,172</u>	<u>\$ 42,458</u>

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2009

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 48,383	\$ 108,332	\$
Employee benefits and taxes	14,314	18,892	
Bartered services received			
Contributed facilities and utilities		12,280	
Depreciation		7,031	
Advertising			16,854
Audit			
Community programs			8,080
Dues	593		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		648	
Purchased programming	91,757	5,857	
Seminars and conferences			
Subscriptions			
Pager/ cell/ telephone			
Travel	4,845		
Utilities		24,291	
Other		29,550	
Total expenses	\$ <u>159,892</u>	\$ <u>206,881</u>	\$ <u>24,934</u>

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

<u>Support Services</u>				
<u>Management & General</u>	<u>Fundraising/ Member Development</u>	<u>Underwriting</u>	<u>Total</u>	
\$ 7,534	\$ 32,213	\$ 35,429	\$	231,891
2,229	9,530	10,482		55,447
	32,050	32,050		64,100
12,280				24,560
293				7,324
				16,854
4,500				4,500
				8,080
592				1,185
10,790	75			10,865
1,671	4,577			6,248
3,159	813			3,972
	9,514			9,514
				648
				97,614
5,789				5,789
1,195				1,195
1,935				1,935
				4,845
				24,291
<u>16,039</u>				<u>45,589</u>
<u>\$ 68,006</u>	<u>\$ 88,772</u>	<u>\$ 77,961</u>	<u>\$</u>	<u>626,446</u>

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2008

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 37,983	\$ 82,566	\$
Employee benefits and taxes	9,470	20,586	
Bartered services received			
Contributed facilities and utilities		10,197	
Depreciation		7,297	
Staff development			4,949
Advertising			
Audit			8,174
Community programs	1,661		
Dues			
Office supplies			
Postage and shipping			
Printing			
Promotional materials		1,823	
Repairs and maintenance	102,248	6,526	
Purchased programming			
Subscriptions			
Pager/ cell/ telephone			
Travel	4,446		
Utilities		18,250	
Other			
	\$ 155,808	\$ 147,245	\$ 13,123
Total expenses	\$ 155,808	\$ 147,245	\$ 13,123

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

Support Services			
Management & General	Fundraising/ Member Development	Underwriting	Total
\$ 8,482	\$ 32,683	\$ 34,700	\$ 196,414
2,115	8,149	8,652	48,972
13,229			13,229
10,197			20,394
284			7,581
			4,949
3,750			3,750
			8,174
1,661			3,322
8,917	45		8,962
1,147	2,890		4,037
1,217	1,140		2,357
1,917	4,541		6,458
			1,823
			108,774
3,106			3,106
1,151	1		1,152
993			993
			4,446
			18,250
<u>4,622</u>	<u>1,704</u>		<u>6,326</u>
<u>\$ 62,788</u>	<u>\$ 51,153</u>	<u>\$ 43,352</u>	<u>\$ 473,469</u>

KACU-FM
Statements of Cash Flows
Years Ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (10,050)	\$ 5,866
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	7,324	7,581
(Increase) decrease in:		
Prepaid expenses	2,986	(9,575)
Accounts receivable	-	10,672
Increase (decrease) in:		
Accounts payable	(3,923)	(4,738)
Net cash (used) provided by operating activities	(3,663)	9,806
 Cash flows from investing activities		
Acquisition of property, plant and equipment	-	(3,425)
Net cash used by investing activities	-	(3,425)
 Net change in cash and cash equivalents	(3,663)	6,381
 Cash and cash equivalents at beginning of year	17,389	11,008
 Cash and cash equivalents at end of year	\$ 13,726	\$ 17,389

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

KACU-FM
Notes to Financial Statements
May 31, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies

A summary of KACU-FM's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Organization

KACU-FM is a noncommercial, listener-supported public radio station located on frequency 89.7 FM in Abilene, Texas. KACU-FM broadcasts a wide range of programming from National Public Radio and Public Radio International as well as locally produced programming. KACU-FM began broadcasting on June 2, 1986 and is an integral part of the Journalism and Mass Communications Department at Abilene Christian University.

KACU-FM is not a legally separate entity from its institutional licensee, Abilene Christian University (ACU). As a result, the financial position of KACU-FM and changes in its net assets and its cash flows are presented in the consolidated financial statements of ACU. ACU is incorporated and operating as a not-for-profit institution of higher education. ACU has been accorded recognition as an organization exempt from income tax under the Tax Reform Act of 1969.

Basis of Presentation

The financial statements of KACU-FM have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses recognized when incurred.

The focus of these financial statements is to present balances and transactions according to existence or absence of donor-imposed restrictions. This has been accomplished by classification of revenues and expenses into three classes of net assets – unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations and which result from the operating activities of KACU-FM.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of KACU-FM and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by KACU-FM.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

With respect to temporarily restricted net assets, KACU-FM has adopted the following accounting policies:

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

KACU-FM
Notes to Financial Statements
May 31, 2009 and 2008

NOTE 1: Summary of Significant Accounting Policies - continued

KACU-FM will use restricted net assets first for contributions received for which both the restricted and the unrestricted net assets are available.

Gifts of Long-Lived Assets

The public broadcaster reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the public broadcaster reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment

Fixed assets are reported at cost or, in the case of donated property, at estimated fair value determined as of the date of receipt. Small tools and equipment are not capitalized but are expensed as the cost is incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of individual assets, which range from 5 to 15 years. Depreciation expense is allocated to various program and support services according to the use of the related asset.

Cash Equivalents

For purposes of the statement of cash flows, **KACU-FM** considers any short-term investment with an original maturity of three months or less to be a cash equivalent. **KACU-FM's** cash is pooled with that of its institutional licensee, **ACU**.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$16,854 and \$3,750 for the years ended May 31, 2009 and 2008, respectively.

KACU-FM
Notes to Financial Statements
May 31, 2009 and 2008

NOTE 2: Property, Plant and Equipment

Property, plant and equipment at May 31 consist of the following:

	2009	2008
Transmitter and tower	\$ 29,980	\$ 29,980
Studio and technical equipment	91,605	93,605
Office equipment	5,060	5,060
Total cost	126,645	128,645
Less: Accumulated Depreciation	(116,135)	(110,811)
Net Property and equipment	\$ 10,510	\$ 17,834

Depreciation expense for the years ended May 31, 2009 and 2008 was \$7,324 and \$7,581, respectively.

NOTE 3: Restricted Net Assets

Temporarily restricted net assets of \$14,573 and \$17,172 at May 31, 2009 and 2008, respectively, represent unexpended CPB grants and funds restricted for the digital radio project. Net assets were released from restrictions in the amounts of \$113,404 and \$105,686 for the years ended May 31, 2009 and 2008, respectively, due to satisfying the grant restricted purpose of operating expenses.

NOTE 4: Community Service Grants

The Corporation for Public Broadcasting (CPB) 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). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, recordkeeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported on the accompanying financial statements as increases in temporarily restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from temporarily restricted net assets and an increase in unrestricted net assets.

KACU-FM
Notes to Financial Statements
May 31, 2009 and 2008

NOTE 5: Indirect Administrative Support

The institutional licensee, ACU, provides certain administrative services and support for **KACU-FM**. Such services and support include physical plant operations, office space and related utilities. This indirect administrative support is recognized in the accompanying financial statements as revenue and expense totaling \$24,560 and \$20,394 in 2009 and 2008, respectively.

KACU-FM also participates in ACU's defined contribution retirement plan and employee health insurance plan. Employer contributions to the retirement plan for **KACU-FM's** employees totaled \$14,993 and \$13,215 for the years ended May 31, 2009 and 2008, respectively, and are recorded in benefits expense in the accompanying financial statements.