

KACU-FM

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

**Years Ended
May 31, 2010 and 2009**

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, 2010 and 2009, 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, 2010 and 2009, 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
September 30, 2010

KACU-FM
Statements of Financial Position
May 31, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
Current assets		
Cash	\$ -	\$ 13,726
Prepaid programming	19,996	10,828
Prepaid software maintenance	-	815
Total current assets	<u>19,996</u>	<u>25,369</u>
Property, plant and equipment, net	<u>118,668</u>	<u>10,510</u>
Total assets	<u><u>\$ 138,664</u></u>	<u><u>\$ 35,879</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ -	\$ 3,471
Total current liabilities	-	3,471
Net assets		
Unrestricted	138,664	17,835
Temporarily restricted	-	14,573
Total net assets	<u>138,664</u>	<u>32,408</u>
Total liabilities and net assets	<u><u>\$ 138,664</u></u>	<u><u>\$ 35,879</u></u>

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

KACU-FM
Statements of Activities
Years Ended May 31, 2010 and 2009

	<u>2010</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Pledge drive contributions	\$ 94,466	\$	\$ 94,466
Contributions for digital project			-
CPB grant		210,144	210,144
Underwriting	91,028		91,028
Underwriting- barter/trade	39,000		39,000
Rental income	22,211		22,211
Other revenue	14		14
Support from institutional licensee	127,958		127,958
Concert ticket sales	699		699
Contributed facilities and utilities	22,554		22,554
Net assets released from restrictions:			
Satisfaction of donor restrictions	224,717	(224,717)	-
Total revenues	<u>622,647</u>	<u>(14,573)</u>	<u>608,074</u>
Expenses			
Program services			
Programming and production	128,773		128,773
Broadcasting	166,190		166,190
Program information and promotion	9,908		9,908
Support services			
Management and general	65,928		65,928
Fundraising and membership development	64,210		64,210
Underwriting	66,809		66,809
Total expenses	<u>501,818</u>	<u>-</u>	<u>501,818</u>
Change in net assets	120,829	(14,573)	106,256
Net assets at beginning of year	<u>17,835</u>	<u>14,573</u>	<u>32,408</u>
Net assets at end of year	<u>\$ 138,664</u>	<u>\$ -</u>	<u>\$ 138,664</u>

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

2009

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 101,428	\$	\$ 101,428
	1,000	1,000
	109,805	109,805
102,076		102,076
64,100		64,100
23,600		23,600
5,337		5,337
117,023		117,023
67,467		67,467
24,560		24,560
<u>113,404</u>	<u>(113,404)</u>	<u>-</u>
<u>618,995</u>	<u>(2,599)</u>	<u>616,396</u>
159,892		159,892
206,881		206,881
24,934		24,934
68,006		68,006
88,772		88,772
<u>77,961</u>		<u>77,961</u>
<u>626,446</u>	<u>-</u>	<u>626,446</u>
(7,451)	(2,599)	(10,050)
<u>25,286</u>	<u>17,172</u>	<u>42,458</u>
<u>\$ 17,835</u>	<u>\$ 14,573</u>	<u>\$ 32,408</u>

KACU-FM
Statement of Functional Expenses
Year Ended May 31, 2010

	Program Services		
	Programming & Production	Broadcasting	Program Information & Promotion
EXPENSES:			
Salaries	\$ 34,922	\$ 97,769	\$
Employee benefits and taxes	10,168	15,414	
Bartered services received			
Contributed facilities and utilities		11,277	
Depreciation		11,753	
Advertising			1,155
Audit			
Community programs			8,753
Dues	1,892		
Office supplies			
Postage and shipping			
Printing			
Promotional materials			
Repairs and maintenance		681	
Purchased programming	79,291	5,061	
Seminars and conferences			
Subscriptions			
Pager/ cell/ telephone			
Travel	2,500		
Utilities		24,235	
Other			
	\$ 128,773	\$ 166,190	\$ 9,908
Total expenses	\$ 128,773	\$ 166,190	\$ 9,908

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

Support Services

<u>Management & General</u>	<u>Fundraising/ Member Development</u>	<u>Underwriting</u>	<u>Total</u>
\$ 8,170	\$ 30,218	\$ 36,640	\$ 207,719
2,379	8,798	10,669	47,428
	19,500	19,500	39,000
11,277			22,554
490			12,243
			1,155
4,600			4,600
			8,753
1,892	30		3,814
13,743	855		14,598
1,918	1,591		3,509
1,920	1,016		2,936
	2,202		2,202
			681
			84,352
649			649
2,059			2,059
1,777			1,777
			2,500
			24,235
<u>15,054</u>	<u> </u>	<u> </u>	<u>15,054</u>
\$ <u>65,928</u>	\$ <u>64,210</u>	\$ <u>66,809</u>	\$ <u>501,818</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		648	
Repairs and maintenance		5,857	
Purchased programming	91,757		
Subscriptions			
Pager/ cell/ telephone			
Travel	4,845		
Utilities		24,291	
Other		29,550	
Total expenses	\$ 159,892	\$ 206,881	\$ 24,934

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			10,162
				5,857
5,789				97,546
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
Statements of Cash Flows
Years Ended May 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 106,256	\$ (10,050)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	12,243	7,324
(Increase) decrease in:		
Prepaid expenses	(8,353)	2,986
(Decrease) in:		
Accounts payable	<u>(3,471)</u>	<u>(3,923)</u>
Net cash (used) provided by operating activities	106,675	(3,663)
 Cash flows from investing activities		
Acquisition of property, plant and equipment	<u>(120,401)</u>	-
Net cash used by investing activities	<u>(120,401)</u>	-
 Net change in cash and cash equivalents	(13,726)	(3,663)
 Cash and cash equivalents at beginning of year	<u>13,726</u>	<u>17,389</u>
 Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 13,726</u>

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

KACU-FM
Notes to Financial Statements
May 31, 2010 and 2009

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. The University is a tax-exempt institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("IRC") and is not a "private foundation" under Section 501(a) of the IRC; accordingly, no provision for taxes has been made in the financial statements.

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, 2010 and 2009

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 \$1,155 and \$16,854 for the years ended May 31, 2010 and 2009, respectively.

Functional Allocation of Expenses

Certain joint expenses, such as employee benefits and payroll, are allocated between the program and support services to which they relate. The basis of allocation is based on employees' time incurred or other appropriate usage factors.

KACU-FM
Notes to Financial Statements
May 31, 2010 and 2009

NOTE 2: Property, Plant and Equipment

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

	2010	2009
Transmitter and tower	\$ 102,132	\$ 29,980
Studio and technical equipment	91,605	91,605
Office equipment	11,444	5,060
Total cost	<u>205,181</u>	<u>126,645</u>
Less: Accumulated Depreciation	(86,513)	(116,135)
Net Property and equipment	<u>\$ 118,668</u>	<u>\$ 10,510</u>

Depreciation expense for the years ended May 31, 2010 and 2009 was \$12,243 and \$7,324, respectively.

NOTE 3: Restricted Net Assets

Temporarily restricted net assets of \$0 and \$14,573 at May 31, 2010 and 2009, respectively, represent unexpended CPB grants and funds restricted for the digital radio project. Net assets were released from restrictions in the amounts of \$224,717 and \$113,404 for the years ended May 31, 2010 and 2009, 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, 2010 and 2009

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 \$22,554 and \$24,560 in 2010 and 2009, 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 \$12,902 and \$14,993 for the years ended May 31, 2010 and 2009, respectively, and are recorded in benefits expense in the accompanying financial statements.

NOTE 6: Subsequent Events

The public broadcaster has evaluated subsequent events through September 30, 2010, the date the financial statements were available to be issued.