

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Annual Report
Years Ended
June 30, 2016 and 2015

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Annual Report
Years Ended
June 30, 2016 and 2015

Table of Contents

	Page
• Independent Auditors' Report	1 – 3
• Management's Discussion and Analysis	4 – 13
• Financial Statements Years Ended June 30, 2016 and 2015	
○ Statements of Net Position	15
○ Statements of Revenues, Expenses and Changes in Net Position	16 - 17
○ Statements of Cash Flows	18 – 19
○ Notes to Financial Statements	20 – 29
• Supplemental Information	31 – 32



Independent Auditors' Report

Board of Directors
University Corporation at Monterey Bay
Seaside, California

Report on the Financial Statements

We have audited the accompanying statements of net position of KAZU 90.3 FM (KAZU), a business-type activity of the University Corporation at Monterey Bay (Corporation), as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise KAZU's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

Board of Directors
University Corporation at Monterey Bay
Seaside, California
Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 1, the financial statements present only KAZU 90.3 FM, a business-type activity of the Corporation, in accordance with the requirements of the Corporation for Public Broadcasting and are not intended to present fairly the financial position of the Corporation and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KAZU 90.3 FM, a business-type activity of the Corporation, as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KAZU's basic financial statements. The accompanying supplementary information on pages 31 through 32 is presented for purposes of additional analysis as required by the Corporation for Public Broadcasting and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain

Board of Directors

University Corporation at Monterey Bay

Seaside, California

Page 3

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation

San Luis Obispo, California

November 1, 2016

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

KAZU 90.3 FM Radio Station (KAZU) is a business-type activity of the University Corporation at Monterey Bay (Corporation). The Corporation is an auxiliary organization in good standing of California State University, Monterey Bay (CSUMB or University). The Corporation is an IRC Section 501(c)(3) not-for-profit public benefit corporation and its primary objective is to support the University. The Corporation manages the University's post-award grants and contracts activities; commercial enterprise sales and services including student and employee housing, dining, bookstore and vending operations, KAZU; and provides accounting services to the philanthropic Foundation of California State University, Monterey Bay (Foundation).

This narrative overview and analysis of the financial activities of KAZU for the fiscal years ended June 30, 2016 and 2015 is presented by management. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the financial statements, which follow this narrative.

Financial Highlights

- At June 30, 2016, KAZU's liabilities exceeded its assets for a net position of \$(519) thousand, a 30.2 percent or \$225 thousand increase from \$(744) thousand in 2014/15.
- Total operating revenues increased by 7.7 percent or \$132 thousand from \$1.72 million to \$1.85 million.
- Operating income increased by 148.2 percent or \$134 thousand from \$91 thousand to \$225 thousand.
- Membership dues, net increased by 14.4 percent or \$106 thousand to \$839 thousand from \$733 thousand in 2014/15.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

Overview of the Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows (on pages 15 through 19) provide information about KAZU's activities and present a longer-term view of KAZU's finances.

One of the most important questions to ask about KAZU's finances is, "Is KAZU better off or worse off as a result of the year's activities?" The Statements of Net position and the Statements of Revenues, Expenses, and Changes in Net Position report information about KAZU and about its activities in a way that helps answer this question. These statements are prepared using the accrual basis of accounting, which recognizes expenses when incurred and revenue when earned rather than when payment is made or received and is widely used by most private sector companies. In addition, they report KAZU's net position and changes to it. You can think of KAZU's net position – the difference between assets and liabilities – as one way to measure KAZU's financial health, or financial position. Over time, increases or decreases in KAZU's net position are one indicator of whether its financial health is improving or deteriorating. Remember that KAZU is one fund within the Corporation and when considering the overall state of KAZU, you must also consider the overall state of the Corporation.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

Condensed Comparative Financial Information

Table 1 below presents a condensed Summary of Net Position for the past three fiscal years. It presents KAZU's assets, liabilities, and net position at the end of each fiscal year. The difference between liabilities and assets, in the case of KAZU, is negative net position, representing a measure of the current financial condition of the radio station.

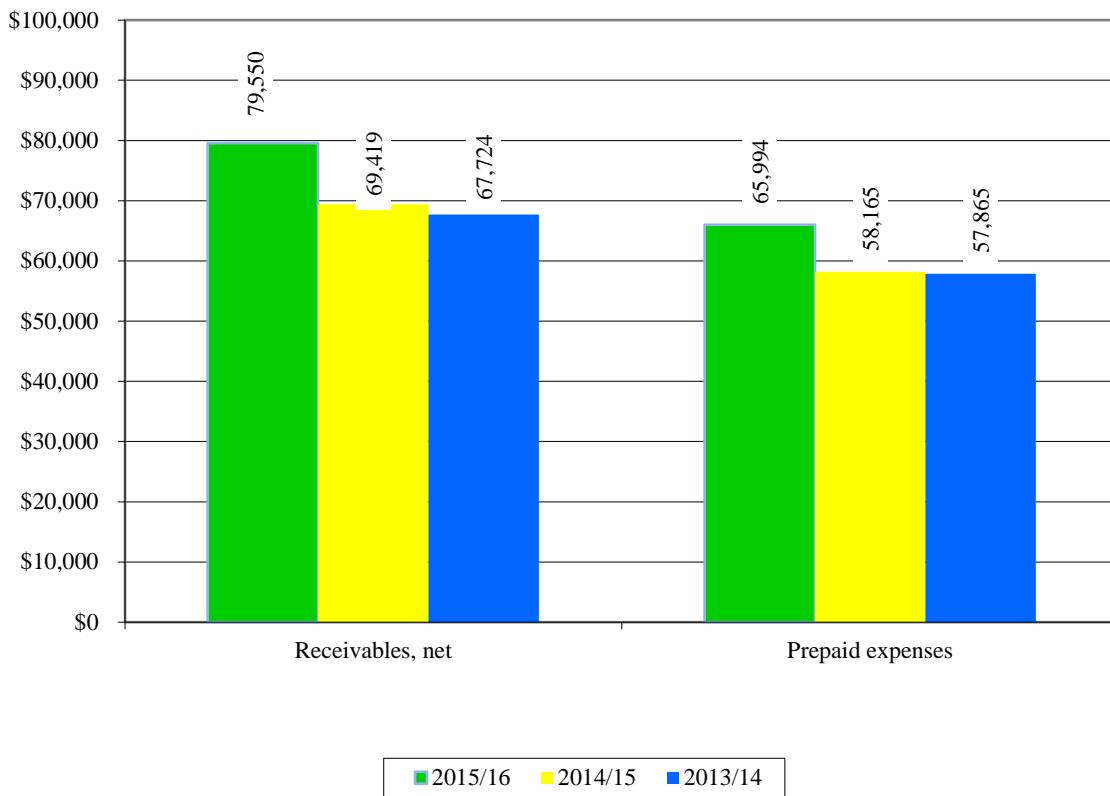
In 2015/16, Total assets increased by \$15 thousand or 5.4 percent to \$297 thousand from \$282 thousand. The change is due to an increase in underwriting contracts and invoices for 2016/17 programming fees paid before the end of 2015/16. Total assets decreased in 2014/15 by 1.8 percent or \$5 thousand from \$287 thousand to \$282 thousand. The decrease is due to a rise in receivables from underwriting income and an increase in prepaid expenses related to annual programming fees, but was offset by depreciation of capital assets and a decrease in receivables for membership. A discussion of current assets follows Graph 1 on the next page.

Table 1: Condensed Summary of Net Position as of June 30, 2016, 2015, and 2014

	2016	2015	2014
Assets			
Current assets	\$ 145,544	\$ 127,584	\$ 125,589
Capital assets, net	<u>151,531</u>	<u>154,356</u>	<u>161,565</u>
Total Assets	<u>297,075</u>	<u>281,940</u>	<u>287,154</u>
Liabilities			
Current liabilities	<u>816,591</u>	<u>1,026,123</u>	<u>1,121,872</u>
Total Liabilities	<u>816,591</u>	<u>1,026,123</u>	<u>1,121,872</u>
Net Position			
Net investment in capital assets	151,531	154,356	161,565
Unrestricted	<u>(671,047)</u>	<u>(898,539)</u>	<u>(996,283)</u>
Total Net Position	<u>\$ (519,516)</u>	<u>\$ (744,183)</u>	<u>\$ (834,718)</u>

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

**Graph 1: Breakdown of Current Assets as of
June 30, 2016, 2015, and 2014**



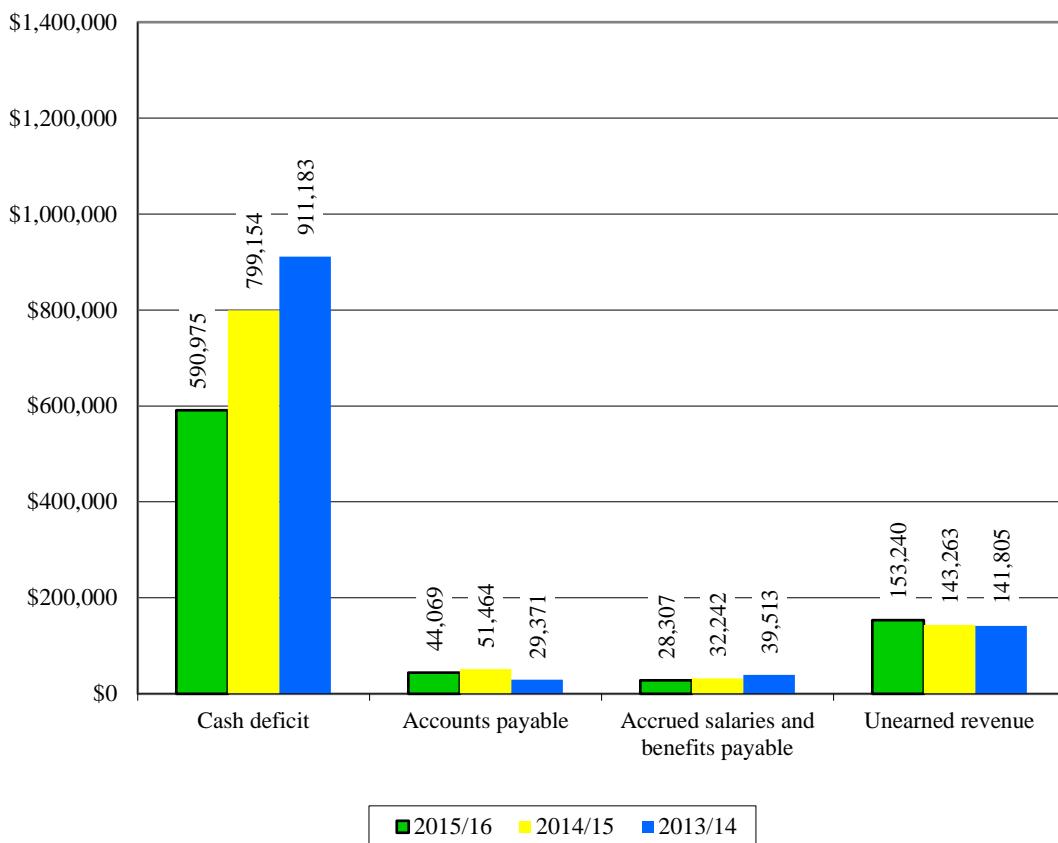
Current assets, or assets that can normally be converted to cash in less than one year, consist of Receivables, net and Prepaid expenses.

Receivables, net includes receivable from CSUMB, underwriting and membership dues net of allowance for doubtful accounts. In 2015/16, Receivables, net increased by 14.6 percent or \$10 thousand from \$69 thousand to \$79 thousand. This change was caused by the sustained growth in underwriting contracts and timing of receipts from underwriters. Receivables, net increased \$1 thousand or 2.5 percent in 2014/15 from \$68 thousand to \$69 thousand, as a result of an increase in underwriting contracts.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

Prepaid expenses consist mainly of subscriptions for programming from National Public Radio (NPR) and Public Radio International (PRI) and transmission tower rent paid in advance of incurring the expense. In 2015/16, prepaid expenses increased \$8 thousand or 13.5% from \$58 thousand to \$66 thousand. The increase is due to invoices from PRI applicable to the first quarter of 2016/17 that were received and paid prior to the end of 2015/16. In 2014/15, prepaid expenses increased only slightly by 0.5 percent or \$3 hundred from \$57.8 thousand to \$58.1 thousand.

**Graph 2: Breakdown of Current Liabilities as of
June 30, 2016, 2015, and 2014**



Current liabilities or amounts owed or due within one year, consist of Cash deficit, Accounts payable, Accrued salaries and benefits payable, and Unearned revenue.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

In 2015/16, Cash deficit decreased by 26.0 percent or \$208 thousand from \$799 thousand to \$591 thousand. Cash deficit in 2014/15 went from \$911 thousand to \$799 thousand for a 12.3 percent or \$112 thousand reduction. The station's continued efforts to decrease operating expenses and improve its membership base is responsible for the decline in both years.

Results of Operations

KAZU's negative net position continues to decrease, showing continued success in management's efforts to steadily increase revenues and control operating expenses.

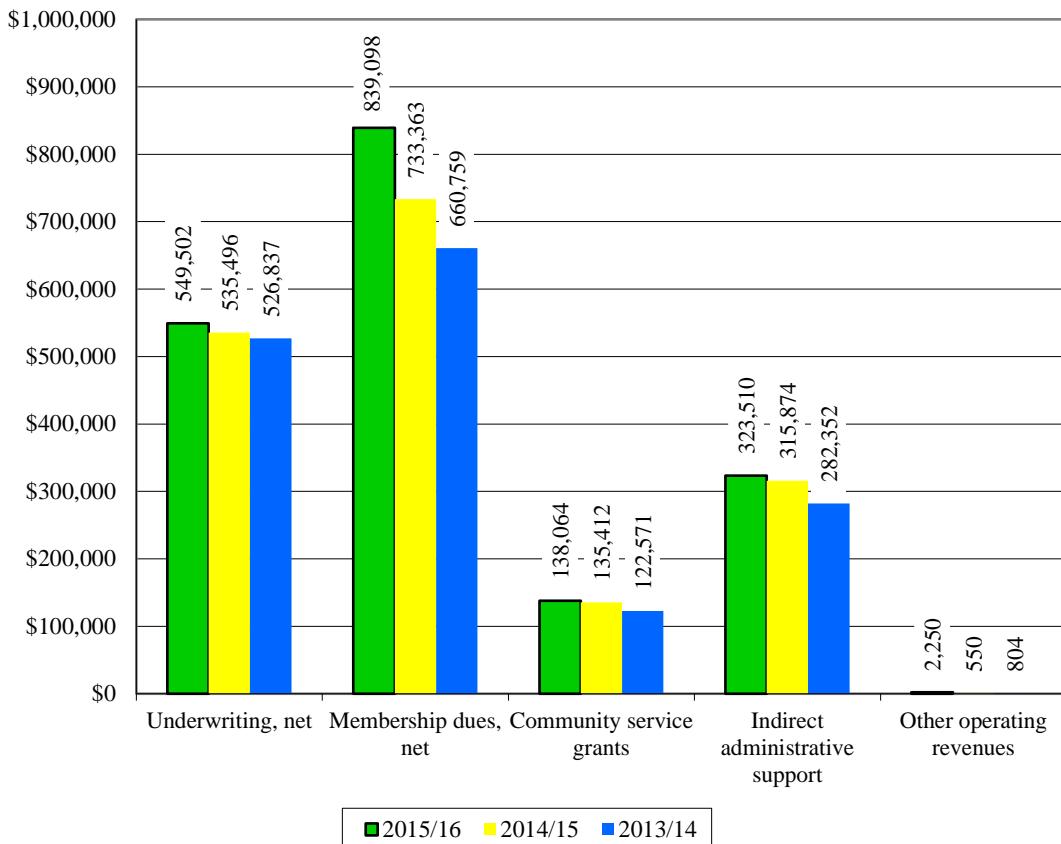
KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

Table 2: Condensed Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2016, 2015, and 2014

	2016	2015	2014
Operating Revenues			
Operating revenues	\$ 1,390,850	\$ 1,269,409	\$ 1,188,400
Community service grants	138,064	135,412	122,571
Indirect administrative support	323,510	315,874	282,352
Total Operating Revenues	<u>1,852,424</u>	<u>1,720,695</u>	<u>1,593,323</u>
Operating Expenses			
Salaries and benefits	656,069	636,956	589,860
Indirect administrative support	323,510	315,874	282,352
Contractual services	29,863	26,663	25,670
Repairs and maintenance	49,438	41,258	33,948
Depreciation and amortization	2,825	7,209	14,890
Memberships and subscriptions	356,185	366,276	312,314
Other operating expenses	209,873	235,927	230,127
Total Operating Expenses	<u>1,627,763</u>	<u>1,630,163</u>	<u>1,489,161</u>
Operating Income	<u>224,661</u>	<u>90,532</u>	<u>104,162</u>
Nonoperating Revenues			
Other nonoperating revenues	6	3	11
Total Nonoperating Revenues	<u>6</u>	<u>3</u>	<u>11</u>
Increase in Net Position	224,667	90,535	104,173
Net Position			
Net Position - Beginning of Year	(744,183)	(834,718)	(938,891)
Net Position - End of Year	<u>\$ (519,516)</u>	<u>\$ (744,183)</u>	<u>\$ (834,718)</u>

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

**Graph 3: Breakdown of Operating Revenues for the Years Ended
June 30, 2016, 2015, and 2014**

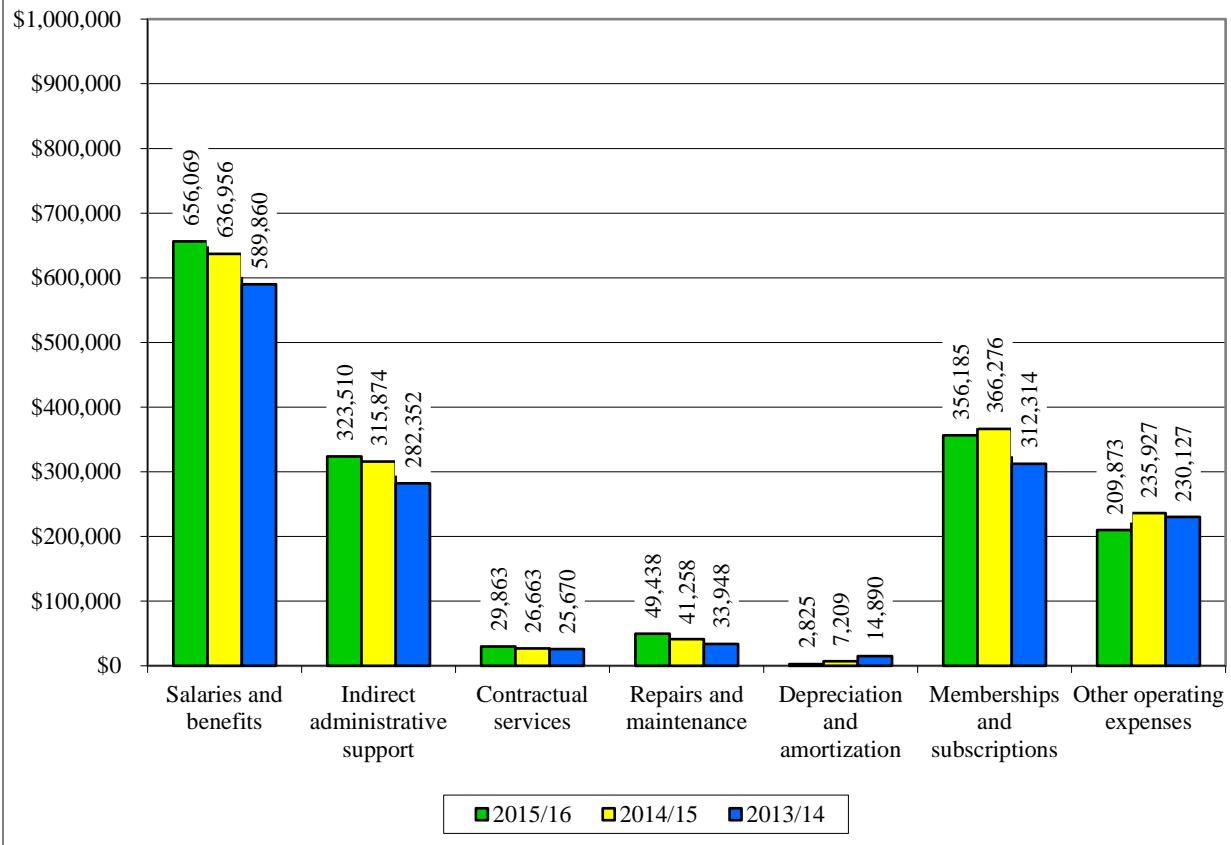


Total operating revenues increased 7.7 percent or \$132 thousand in 2015/16 from \$1.72 million to \$1.85 million. In 2014/15, Total operating revenues increased 8.0 percent or \$127 thousand from \$1.59 million to \$1.72 million. The increases for both years were a result of management's ongoing efforts to grow its membership base by hosting its popular Salon Series, inviting on air talent and guest speakers for fundraising drives, and developing the underwriting portion of their operations.

In 2015/16, Membership dues, net increased by 14.4 percent or \$106 thousand from \$733 thousand to \$839 thousand. Membership dues, net experienced an increase of 11.0 percent or a \$73 thousand change in 2014/15. The effort to automate the processing of pledge payments and the promotion of online giving are the reasons for the increase in both years.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

**Graph 4: Breakdown of Operating Expenses for the Years Ended
June 30, 2016, 2015, and 2014**



Total operating expenses remained relatively flat in 2015/16. A slight decrease of 0.1 percent or \$2 thousand was the change. In 2014/15, Total operating expenses increased by 9.5 percent or \$141 thousand from \$1.49 million to \$1.63 million, primarily from increases in programming fees and salaries and benefits.

In 2015/16, Other operating expenses decreased 11.0 percent or \$26 thousand from \$236 thousand to \$210 thousand. This decrease was a result of no major purchases of office furnishings and equipment, travel to national conferences was minimal, and inventory of thank you gifts was not replenished. In 2014/15, Other operating expenses increased 2.5 percent or \$6 thousand from \$236 thousand to \$236 thousand due to the upgrade and replacement of radio station computer equipment and office furnishings. In addition, two major national conferences were held on or near the west coast and this allowed for more staff to attend.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2016 and 2015

Significant Capital Asset and Long-Term Debt Activity

Capital Assets

In 2015/16 there were no capital additions, however, \$291 thousand in fully depreciated capital assets were retired along with the related accumulated depreciation. In 2014/15, there were no significant capital asset activities aside from the annual depreciation amount. More detailed information about KAZU's capital assets can be found in Note 5 to the financial statements.

Currently Known Facts, Decisions and Conditions

Programming Costs

Management expects that NPR programming costs will continue to increase in 2016/17 as efforts will remain focused on expanding the membership base, developing the underwriting area, and adding programs to maintain local audience interest. As KAZU's revenues and expenses increase, so do the fees for programming based on a progressive fee schedule.

Requests for Information

This report is designed to provide an overview of KAZU's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Controller
University Corporation at Monterey Bay
100 Campus Center
Building 201, Suite 101B
Seaside, CA 93955

**KAZU 90.3 FM
Financial Statements
Years Ended June 30, 2016 and 2015**

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
<u>Current Assets:</u>		
Receivables, net	\$ 79,550	\$ 69,419
Prepaid expenses	65,994	58,165
Total Current Assets	<u>145,544</u>	<u>127,584</u>
<u>Noncurrent Assets:</u>		
Capital assets, net	151,531	154,356
Total Noncurrent Assets	<u>151,531</u>	<u>154,356</u>
Total Assets	<u>297,075</u>	<u>281,940</u>
Liabilities		
<u>Current Liabilities:</u>		
Cash deficit	590,975	799,154
Accounts payable	44,069	51,464
Accrued salaries and benefits payable	28,307	32,242
Unearned revenue	<u>153,240</u>	<u>143,263</u>
Total Current Liabilities	<u>816,591</u>	<u>1,026,123</u>
Net Position		
<u>Net Position:</u>		
Net investment in capital assets	151,531	154,356
Unrestricted	<u>(671,047)</u>	<u>(898,539)</u>
Total Net Position	<u>\$ (519,516)</u>	<u>\$ (744,183)</u>

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

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Underwriting, net	\$ 549,502	\$ 535,496
Membership dues, net	839,098	733,363
Community service grants	138,064	135,412
Indirect administrative support	323,510	315,874
Other operating revenues	2,250	550
Total Operating Revenues	1,852,424	1,720,695
Operating Expenses:		
Salaries and benefits	656,069	636,956
Indirect administrative support	323,510	315,874
Rent	34,800	33,780
Contractual services	29,863	26,663
Utilities	19,001	23,020
Supplies and services	5,015	7,058
Promotion and advertising	49,003	54,848
Postage and delivery	12,164	8,263
Professional services	12,532	15,116
Conferences and meetings	23,290	33,739
Insurance	6,010	5,099
Repairs and maintenance	49,438	41,258
Equipment	15,817	21,509
Depreciation	2,825	7,209
Memberships and subscriptions	356,185	366,276
Other operating expenses	32,241	33,495
Total Operating Expenses	1,627,763	1,630,163
Operating Income	224,661	90,532

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

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Revenues, Expenses and Changes in Net Position, Continued
Years Ended June 30, 2016 and 2015

	2016	2015
Nonoperating Revenues:		
Realized gain on sale of securities	\$ 6	\$ 3
Net Nonoperating Revenues	<u>6</u>	<u>3</u>
 Increase in Net Position	 224,667	90,535
 Net Position:		
Net position - beginning of year	<u>(744,183)</u>	<u>(834,718)</u>
Net Position - end of year	<u>\$ (519,516)</u>	<u>\$ (744,183)</u>

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

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Underwriting, net	\$ 539,015	\$ 541,307
Membership dues, net	841,066	724,663
Community service grants	146,429	138,064
Payments to vendors	(660,583)	(648,331)
Payments to employees	(660,004)	(644,227)
Other receipts	2,250	550
Net Cash Provided by Operating Activities	<u>208,173</u>	<u>112,026</u>
Cash Flows from Noncapital Financing Activities:		
Reduction in cash deficit	(208,179)	(112,029)
Net Cash Used by Noncapital Financing Activities	<u>(208,179)</u>	<u>(112,029)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	5	3
Net Cash Provided by Investing Activities	<u>5</u>	<u>3</u>
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents - Beginning of Year	-	-
Cash and Cash Equivalents - End of Year	<u>\$ -</u>	<u>\$ -</u>

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

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Cash Flows, Continued
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Net Cash and Cash Equivalents		
Provided by Operating Activities:		
Operating income	\$ 224,661	\$ 90,532
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,825	7,209
Changes in assets and liabilities:		
Receivables, net	(10,131)	(1,695)
Prepaid expenses	(7,829)	(300)
Accounts payable	(7,395)	22,093
Accrued salaries and benefits payable	(3,935)	(7,271)
Unearned revenue	9,977	1,458
Net Cash Provided by Operating Activities	\$ 208,173	\$ 112,026

**Supplemental Schedule of Noncash Financing and Investing
Activities:**

Contributions of investments	\$ 532	\$ 940
------------------------------	--------	--------

The accompanying notes are an integral part of these financial statements

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity – KAZU 90.3 FM (KAZU) is a business-type activity of the University Corporation at Monterey Bay (Corporation), however, it must issue separate financial statements as required by the Corporation for Public Broadcasting (CPB). The Corporation is a nonprofit 501(c)(3) public benefit corporation organized in July 1994 to support the academic mission of the California State University, Monterey Bay (CSUMB or University). The Corporation is an auxiliary organization of the University and is presented in the University's financial statements as a component unit. The financial statements of KAZU are not intended to present fairly the financial position of the Corporation and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

Liquidity – KAZU has experienced positive cash flows from operations in recent years. The cash deficit on the Statements of Net Position has decreased and management anticipates that operations will continue to generate operating income or at least break even in future years. To date, KAZU's budget deficits have been funded by the Corporation's other operating activities and, if necessary, will continue to be covered in the future.

Basis of Presentation – The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, gifts, and similar items are recognized as soon as all eligibility requirements have been met.

Cash and Cash Equivalents – Cash and cash equivalents include all highly liquid investments purchased with original maturities of three months or less. KAZU currently has no cash and cash equivalents, only cash deficits.

Receivables – Receivables include underwriting fees due from customers and pledges due from members. The receivables are shown net of the allowance for doubtful accounts. The Corporation uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on prior experience and management's analysis of possible bad debts.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets, consisting of leasehold improvements, intangible assets and equipment, are recorded at cost (or estimated historical cost) at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital assets with a value of less than \$5,000 are expensed to operations. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend its useful life, are expensed to operations. Related depreciation expense is shown in the Statements of Revenues, Expenses and Changes in Net Position.

Depreciation is calculated using the straight-line method using the half-year convention over the estimated useful life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter life of the applicable lease or the economic life of the asset.

Estimated useful lives are generally as follows:

Leasehold improvements	10 – 30 years
Equipment	3 – 10 years
Computer software	5 years

Inexhaustible capital assets, such as the FCC license held by KAZU, are not depreciated.

Compensated Absences – Compensated absences accrued are included in accrued salaries and benefits. The Corporation accrues annual leave for employees at rates based upon length of service and job classification.

Unearned Revenue – Unearned revenue includes revenue collected in advance of when it is earned on the CPB grants and underwriting. The CPB awards two installments during the grant cycle and any unearned balance is classified as unearned revenue.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position – The Corporation's net position is required to be classified for accounting and reporting purposes into the following net position categories:

Net investment in capital assets includes capital assets, net of accumulated depreciation, less the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets (if any). At June 30, 2016 and 2015, there was no related debt.

Unrestricted consists of all other categories of KAZU's net position. Unrestricted net position may be designated for use by management of the Corporation. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas.

The Corporation has adopted a policy of utilizing restricted-expendable funds, when available, prior to unrestricted funds.

Classification of Current and Noncurrent Assets and Liabilities – The Corporation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the Statements of Net Position date. Liabilities that can reasonably be expected, as part of normal business operations, to be liquidated within twelve months of the Statements of Net Position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

Classification of Revenues and Expenses – The Corporation considers operating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to KAZU's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. The Corporation also considers non-exchange transactions from membership dues and community service grants to constitute part of KAZU's principal ongoing operations, and has accordingly classified them as operating revenues.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant and Contract Revenue – Grant and contract revenue is received by the Corporation from governmental and private sources.

Community Service Grants – The CPB is a private, nonprofit grant-making organization responsible for supporting more than 1,000 television and radio stations.

The CPB distributes annual Community Service Grants to qualified public telecommunications entities. Community Service Grants are used to augment the financial resources of public broadcasting stations in order to enhance the quality of the programming of the station and expand the scope of public broadcasting services. Each Community Service Grant may be expended over one or two federal fiscal years as described in the Communications Act, 47 USC, Section 396(k)(7), 1993 Supplement (Act). Each grant must be expended within two years of the initial grant authorization.

According to the Act, funds may be used at the discretion of the recipient. The grants may also be used to sustain activities begun with Community Service Grants awarded in prior years. KAZU uses these funds primarily for broadcasting fees and the acquisition of programming.

Remaining unexpended portions of Community Service Grants are reported on the accompanying financial statements as unearned revenue. Certain guidelines must be satisfied to maintain grant eligibility and meet compliance requirements. These guidelines relate to the use of grant funds, record keeping, audits, financial reporting and licensee status with the Federal Communications Commission.

Indirect Administrative Support – Indirect administrative support consists of allocated institutional support incurred by the Corporation for which KAZU receives benefits. The fair value of this support is recognized in the Statements of Revenues, Expenses, and Changes in Net Position as indirect administrative support revenue and also as an operating expense. For the years ended June 30, 2016 and 2015, indirect administrative support was calculated using the Corporation's Sponsored Activities on-campus indirect cost rate negotiated with the U.S. Department of Health and Human Services. The approved on-campus rate was modified to exclude certain cost components, and then applied to total expenses excluding non-cash expenses, equipment, and rent per CPB instructions.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges and Contributions – KAZU engages in special fundraising events where part of the price of the ticket is a donation and part is for direct benefits received. KAZU also holds on-air and mail pledge drives, where, as an incentive to pledge, premiums (such as mugs, t-shirts, etc.) are given away. The costs of these premiums or direct benefits are not considered fundraising costs that should be applied against gross proceeds received from the person receiving such direct benefits or premiums. Because the amounts involved are not considered material, management has recorded the cost of premiums and direct benefits as fundraising costs and the proceeds at their gross amounts.

Contributions including unconditional pledges to give and membership receipts are recognized as revenue in the period received or given. Uncollectible pledges are not enforceable against the contributors, therefore an allowance for uncollectible contributions is provided based upon KAZU management analysis of prior collection history and type of contribution. All member pledges receivable are promises to give within one year as of June 30, 2016 and 2015. Contributions and collected pledges are unrestricted as their usage is not limited to specific activities of the radio station.

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 liabilities as of 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Income Taxes – The Corporation is qualified as a tax-exempt organization under the provision of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Subsequent Events – Events subsequent to June 30, 2016 have been evaluated through November 1, 2016, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 2. DEPOSITS AND INVESTMENTS

The activities of KAZU are conducted through the checking account of the Corporation. The Corporation's audit report contains the required GASB disclosures for deposits and investments.

NOTE 3. RECEIVABLES

Receivables and allowance for doubtful accounts at June 30, were as follows:

	2016	2015
Underwriting	\$ 81,808	\$ 69,453
Membership dues	130	2,098
Allowance for doubtful accounts	<u>(2,388)</u>	<u>(2,132)</u>
 Receivables, net	 <u>\$ 79,550</u>	 <u>\$ 69,419</u>

NOTE 4. PREPAID EXPENSES

Prepaid expenses at June 30, were as follows:

	2016	2015
Programming and broadcasting	\$ 64,697	\$ 57,221
Fundraising and underwriting	<u>1,297</u>	<u>944</u>
 Total prepaid expenses	 <u>\$ 65,994</u>	 <u>\$ 58,165</u>

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 5. CAPITAL ASSETS

Capital asset activity was as follows for the years ended June 30:

	2016			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Nondepreciable Capital Assets:				
Intangible assets	\$ 148,349	\$ -	\$ -	\$ 148,349
Total Nondepreciable Capital Assets	<u>148,349</u>	<u>-</u>	<u>-</u>	<u>148,349</u>
Depreciable Capital Assets:				
Equipment	402,744	-	(291,477)	111,267
Leasehold improvements	18,696	-	-	18,696
Total Depreciable Capital Assets	<u>421,440</u>	<u>-</u>	<u>(291,477)</u>	<u>129,963</u>
Less Accumulated Depreciation and Amortization:				
Equipment	(396,737)	(2,825)	291,477	(108,085)
Leasehold improvements	(18,696)	-	-	(18,696)
Total Accumulated Depreciation and Amortization	<u>(415,433)</u>	<u>(2,825)</u>	<u>291,477</u>	<u>(126,781)</u>
Capital assets, net	<u>\$ 154,356</u>	<u>\$ (2,825)</u>	<u>\$ -</u>	<u>\$ 151,531</u>

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 5. CAPITAL ASSETS (Continued)

	2015			
	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance
Nondepreciable Capital Assets:				
Intangible assets	\$ 148,349	\$ -	\$ -	\$ 148,349
Total Nondepreciable Capital Assets	<u>148,349</u>	<u>-</u>	<u>-</u>	<u>148,349</u>
Depreciable Capital Assets:				
Equipment	402,744	-	-	402,744
Leasehold improvements	18,696	-	-	18,696
Total Depreciable Capital Assets	<u>421,440</u>	<u>-</u>	<u>-</u>	<u>421,440</u>
Less Accumulated Depreciation and Amortization:				
Equipment	(389,528)	(7,209)	-	(396,737)
Leasehold improvements	(18,696)	-	-	(18,696)
Total Accumulated Depreciation and Amortization	<u>(408,224)</u>	<u>(7,209)</u>	<u>-</u>	<u>(415,433)</u>
Capital assets, net	<u>\$ 161,565</u>	<u>\$ (7,209)</u>	<u>\$ -</u>	<u>\$ 154,356</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$2,825 and \$7,209, respectively.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 6. PENSION PLAN

KAZU, through the Corporation, participates in a defined contribution multi-employer pension plan for employees. The Corporation contributed 10% of an eligible employees' salary to the plan in 2015/16 and 2014/15. Eligible employees are defined as all regular full-time and regular part-time employees who have reached 21 years of age and completed six months of service. There is immediate vesting upon eligibility. Contributions are invested in the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), at the option of the covered employee. Contributions to the plan directly attributable to KAZU personnel for the years ended June 30, 2016 and 2015 amounted to \$38,870 and \$37,571, respectively. Employee contributions for the years ended June 30, 2016 and 2015 were \$38,664 and \$39,133, respectively.

In 2014/15, KAZU, through the Corporation, added a 457 Vacation Conversion Plan. The Plan is administered by Public Agency Retirement Services (PARS). Eligible employees can defer a portion of their unused vacation into the Plan and contributions are then invested in investment options through John Hancock Retirement Services. Eligible employees are defined as all regular full-time and regular part-time employees having completed four years of service who have in excess of 160 vacation hours and have taken 40 vacation hours over the previous twelve months. There were no employee contributions for the years ended June 30, 2016 and 2015.

NOTE 7. LEASE COMMITMENTS

In April of 2005, KAZU entered into a tower facilities lease with HH tower. The initial term of the lease covered the period from January 1, 2005 to December 31, 2009 and was extended through December 31, 2014 and then again through December 31, 2019.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 7. LEASE COMMITMENTS (Continued)

At June 30, 2016, the future minimum lease payments for the tower facilities were as follows:

<u>For the Years Ending June 30,</u>	Transmission	Tower
2017	\$ 35,760	
2018		36,720
2019		37,740
2020		<u>19,140</u>
Total		<u>\$ 129,360</u>

The payments remitted to HH Tower were \$43,415 and \$44,226 for the years ended June 30, 2016 and 2015, respectively. Of these amounts, \$34,800 and \$33,780 were for tower lease payments for the years ended June 30, 2016 and 2015, respectively, and the balance of the payments were for utility expenses.

Supplemental Information

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Supplemental Information
Years Ended June 30, 2016 and 2015

Schedule of Functional Expenses for the Year Ended June 30, 2016

	Program Services		Support Services		Total
	Production & Broadcasting	General & Administrative	Fund Raising & Underwriting		
Operating Expenses:					
Salaries and benefits	\$ 206,208	\$ 89,625	\$ 360,236	\$ 656,069	
Indirect administrative support	-	323,510	-	323,510	
Rent	34,800	-	-	34,800	
Contractual services	8,300	-	21,563	29,863	
Utilities	16,600	2,401	-	19,001	
Services and supplies	1,928	1,830	1,257	5,015	
Promotion and advertising	495	-	48,508	49,003	
Postage and delivery	40	47	12,077	12,164	
Professional services	2,532	10,000	-	12,532	
Conferences and meetings	8,102	1,013	14,175	23,290	
Insurance	-	6,010	-	6,010	
Repairs and maintenance	49,370	-	68	49,438	
Equipment	14,411	-	1,406	15,817	
Depreciation and amortization	2,825	-	-	2,825	
Memberships and subscriptions	335,208	179	20,798	356,185	
Other operating expenses	2,360	50	29,831	32,241	
 Total Operating Expenses	 <u>\$ 683,179</u>	 <u>\$ 434,665</u>	 <u>\$ 509,919</u>	 <u>\$ 1,627,763</u>	

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Supplemental Information, Continued
Years Ended June 30, 2016 and 2015

Schedule of Functional Expenses for the Year Ended June 30, 2015

	Program Services		Support Services			Total
	Production & Broadcasting	General & Administrative	Fund Raising & Underwriting			
Operating Expenses:						
Salaries and benefits	\$ 202,910	\$ 88,051	\$ 345,995			\$ 636,956
Indirect administrative support	-	315,874	-			315,874
Rent	33,780	-	-			33,780
Contractual services	-	3,000	23,663			26,663
Utilities	18,204	4,816	-			23,020
Services and supplies	1,262	2,999	2,797			7,058
Promotion and advertising	203	248	55,406			55,857
Postage and delivery	14	439	7,810			8,263
Professional services	2,946	12,170	-			15,116
Conferences and meetings	5,825	3,039	24,875			33,739
Insurance	-	5,099	-			5,099
Repairs and maintenance	41,258	-	-			41,258
Equipment	16,214	5,295	-			21,509
Depreciation and amortization	7,209	-	-			7,209
Memberships and Subscriptions	340,600		20,420			361,020
Other operating expenses	6,746	2,254	28,742			37,742
Total Operating Expenses	<u>\$ 677,171</u>	<u>\$ 443,284</u>	<u>\$ 509,708</u>			<u>\$ 1,630,163</u>

Note to Supplemental Information:

The Schedules of Functional Expenses for the years ended June 30, 2016 and 2015 are presented in a format prescribed by the Corporation for Public Broadcasting.