

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Annual Report
Years Ended
June 30, 2015 and 2014

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University Corporation at Monterey Bay
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Table of Contents

| | Page |
|--|---------|
| • Independent Auditors' Report | 1 – 3 |
| • Management's Discussion and Analysis | 4 – 14 |
| • Financial Statements Years Ended June 30, 2015 and 2014 | |
| ○ Statements of Net Position | 16 |
| ○ Statements of Revenues, Expenses and Changes in Net Position | 17 - 18 |
| ○ Statements of Cash Flows | 19 – 20 |
| ○ Notes to Financial Statements | 21 – 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, 2015 and 2014, 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.

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, 2015 and 2014, 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 14 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.

A handwritten signature in blue ink that reads "GLENN BURDETTE ATTEST CORPORATION". The signature is written in a cursive, slightly slanted style.

Glenn Burdette Attest Corporation
San Luis Obispo, California

October 26, 2015

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

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, 2015 and 2014 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, 2015, KAZU's liabilities exceeded its assets for a net position of \$(744) thousand, a 10.8 percent or \$91 thousand decrease from \$(835) thousand in 2013/14.
- Total operating revenues increased by 7.7 percent or \$128 thousand from \$1.66 million to \$1.79 million.
- Total operating expenses increased by 9.1 percent or \$142 thousand from \$1.56 million to \$1.70 million.
- Operating income decreased by 13.1 percent or \$13 thousand from \$104 thousand to \$91 thousand.
- Underwriting income increased by 1.6 percent or \$8 thousand from \$527 thousand to \$535 thousand.
- Community service grants increased by \$12 thousand or 10.5 percent from \$123 thousand to \$135 thousand.
- Salaries and benefits increased by 8.0 percent or \$47 thousand from \$590 thousand to \$637 thousand.
- Contractual services increased from \$338 thousand to \$388 thousand for a 14.7 percent or \$50 thousand increase.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

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 16 through 20) 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, 2015 and 2014

Condensed Comparative Financial Information

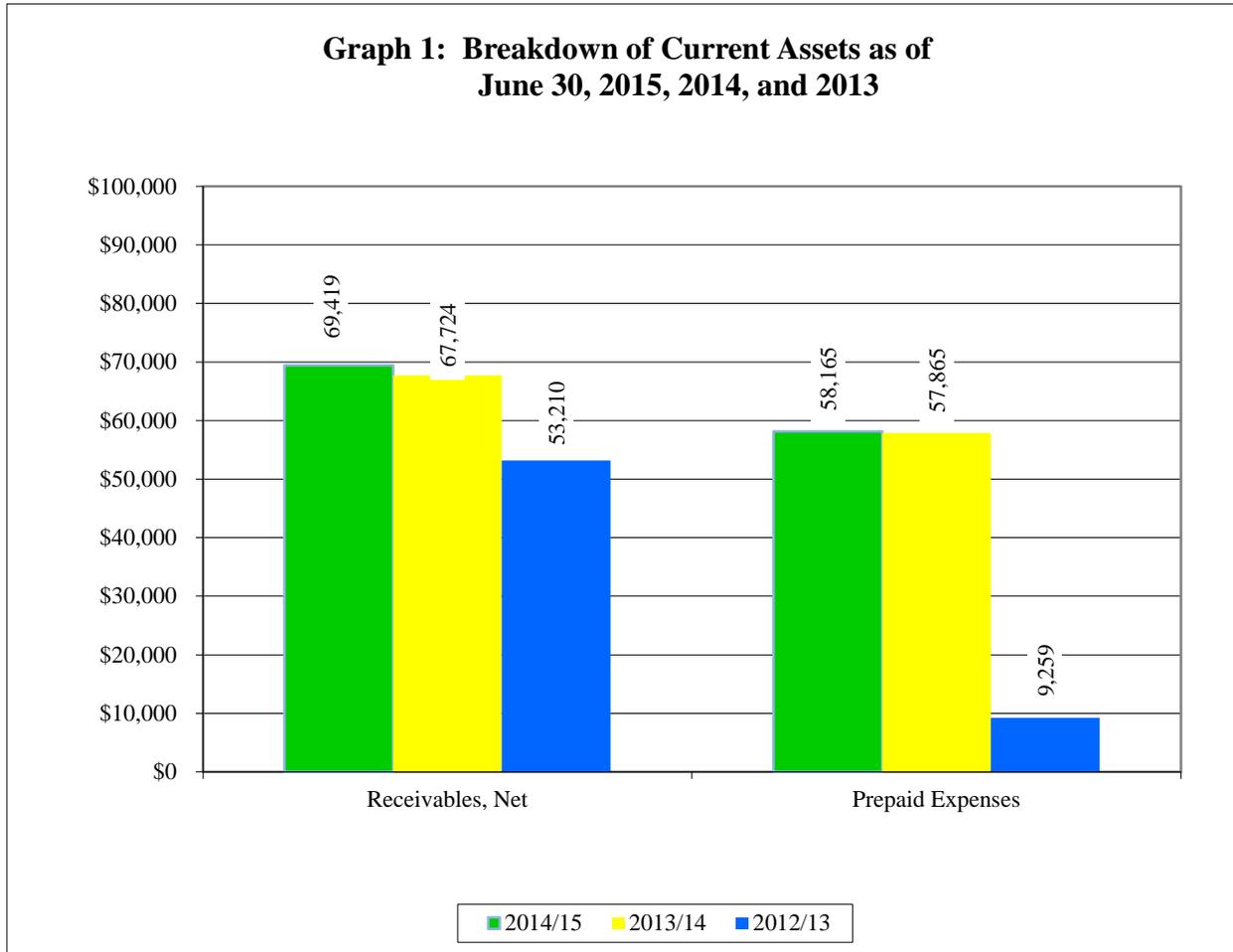
Table 1 below presents a condensed Summary of Net Position for the past three fiscal years. It presents KAZU's assets, liabilities, and net position at the end of each fiscal year. The difference between liabilities and assets, in the case of KAZU, is negative net position, representing a measure of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

Total assets decreased in 2014/15 by 1.8 percent or \$5 thousand from \$287 thousand to \$282 thousand. In 2013/14, total assets increased 20.2 percent or \$48 thousand from \$239 thousand to \$287 thousand. The decrease in 2014/15 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. The increase in 2013/14 was due to a significant increase in receivables from underwriting and the increase in prepaid expenses for programing. A discussion of current assets follows Graph 1 on the next page.

Table 1: Condensed Summary of Net Position as of June 30, 2015, 2014, and 2013

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Current assets | \$ 127,584 | \$ 125,589 | \$ 62,469 |
| Noncurrent assets: | | | |
| Capital assets, net | <u>154,356</u> | <u>161,565</u> | <u>176,455</u> |
| Total Assets | <u>281,940</u> | <u>287,154</u> | <u>238,924</u> |
| Liabilities | | | |
| Current liabilities | <u>1,026,123</u> | <u>1,121,872</u> | <u>1,177,815</u> |
| Net Position | | | |
| Net investment in capital assets | 154,356 | 161,565 | 176,455 |
| Unrestricted | <u>(898,539)</u> | <u>(996,283)</u> | <u>(1,115,346)</u> |
| Total Net Position | <u><u>\$ (744,183)</u></u> | <u><u>\$ (834,718)</u></u> | <u><u>\$ (938,891)</u></u> |

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

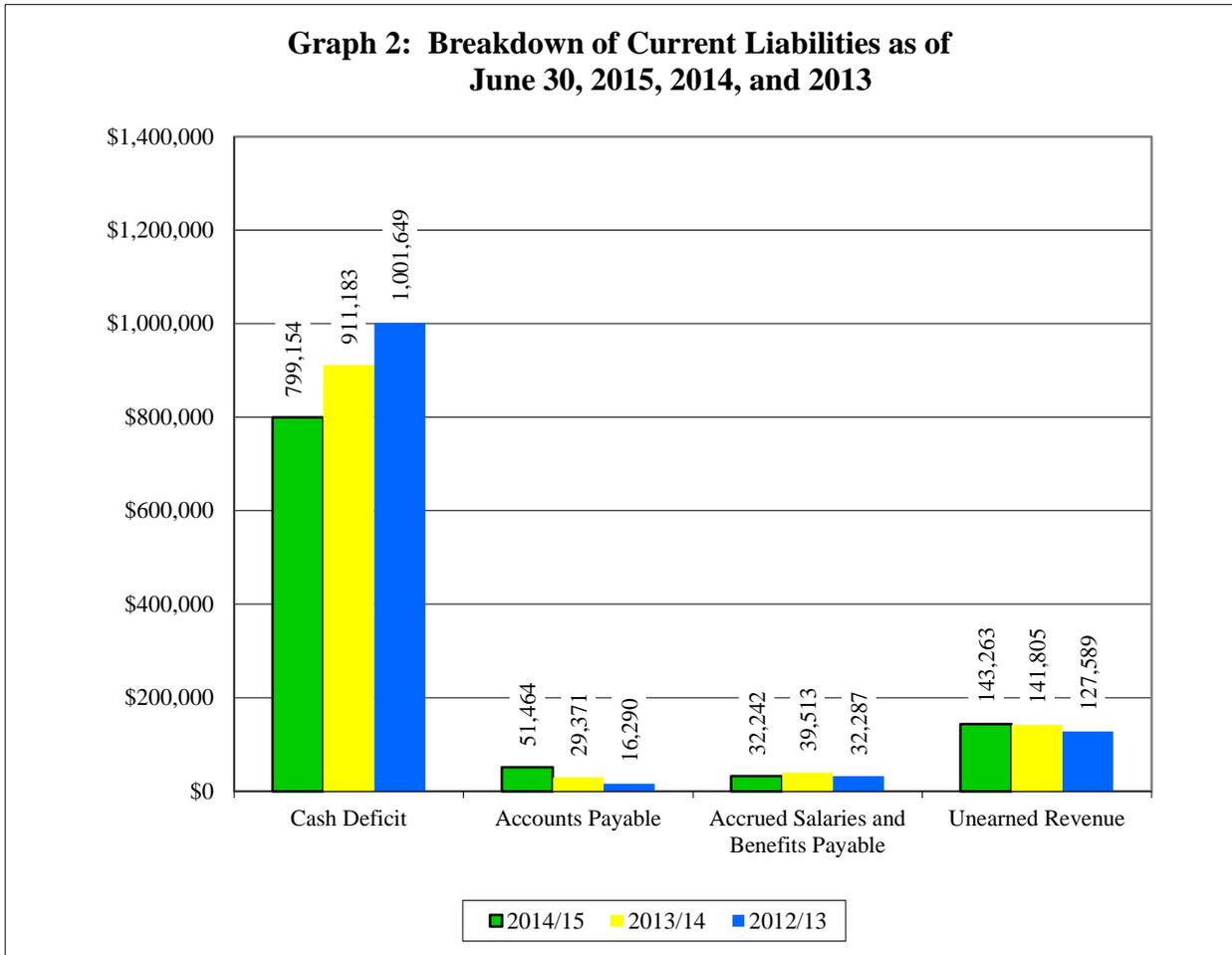


Current assets, or assets that can normally be converted to cash in less than one year, consist of Receivables, net and Prepaid expenses.

Receivables, net include underwriting and membership dues net of allowance for doubtful accounts. 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. In 2013/14, Receivables, net increased \$15 thousand or 27.3 percent from \$53 thousand to \$68 thousand due to an increase in underwriting contracts from the business and non-profit communities.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management’s Discussion and Analysis
June 30, 2015 and 2014

Prepaid expenses consist mainly of programming and interconnect fees, membership dues, travel and transmission tower rent paid in advance of actually incurring the expense. In 2014/15, prepaid expenses increased by 0.5 percent or \$3 hundred from \$57.8 thousand to \$58.1 thousand. Prepaid expenses increased by 525.0 percent or \$49 thousand from \$9 thousand to \$58 thousand in 2013/14 due to the payment of programming services being paid on an annual basis versus historically on a quarterly basis, which allowed KAZU to take advantage of discounts for the prepayment.



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, 2015 and 2014

Accounts payable increased 75.2 percent or \$22 thousand in 2014/15 from \$29 thousand to \$51 thousand as a result of the following: travel arrangements made in June for early 2015/16, repairs and maintenance of studio equipment, monthly carriage fees, and the purchase of promotional gifts for members. Accounts payable increased 80.3 percent or \$13 thousand in 2013/14 from \$16 thousand to \$29 thousand as a result of the same expenses mentioned above.

Unearned revenue in 2014/15 increased by \$1 thousand or 1.0 percent from \$142 thousand to \$143 thousand as a result of a decrease in underwriting prepayments and an increase in the Corporation for Public Broadcasting (CPB) grant. In 2013/14, Unearned revenue increased by \$14 thousand or 11.1 percent from \$128 thousand to \$142 thousand as a result of an increase in underwriting prepayments and an increase in the CPB grant.

Results of Operations

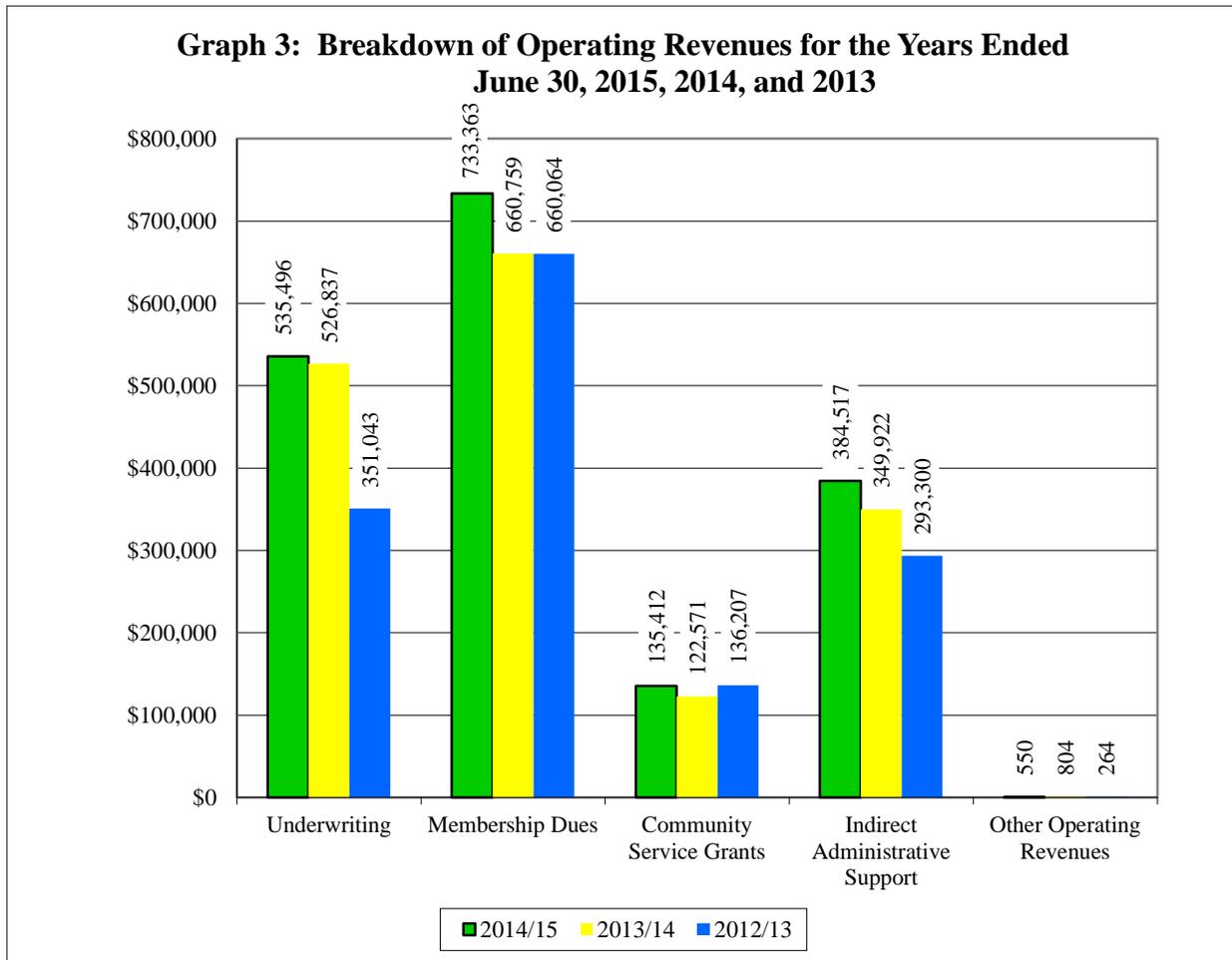
KAZU's negative net position continues to decrease, showing continued success in management's efforts to steadily increase revenues and control operating expenses.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

Table 2: Condensed Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2015, 2014, and 2013

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|---------------------|
| Operating Revenues | | | |
| Operating revenues | \$ 1,269,409 | \$ 1,188,400 | \$ 1,011,371 |
| Community service grants | 135,412 | 122,571 | 136,207 |
| Indirect administrative support | 384,517 | 349,922 | 293,300 |
| Total Operating Revenues | <u>1,789,338</u> | <u>1,660,893</u> | <u>1,440,878</u> |
| Operating Expenses | | | |
| Salaries and benefits | 636,956 | 589,860 | 477,421 |
| Indirect administrative support | 384,517 | 349,922 | 293,300 |
| Contractual services | 387,683 | 337,984 | 302,158 |
| Repairs and maintenance | 41,258 | 33,948 | 32,706 |
| Depreciation and amortization | 7,209 | 14,890 | 24,847 |
| Other operating expenses | 241,183 | 230,127 | 224,033 |
| Total Operating Expenses | <u>1,698,806</u> | <u>1,556,731</u> | <u>1,354,465</u> |
| Operating Income | <u>90,532</u> | <u>104,162</u> | <u>86,413</u> |
| Nonoperating Revenues (Expenses) | | | |
| Other nonoperating revenues (expenses) | <u>3</u> | <u>11</u> | <u>22</u> |
| Total Nonoperating Revenues (Expenses) | <u>3</u> | <u>11</u> | <u>22</u> |
| Increase in Net Position | 90,535 | 104,173 | 86,435 |
| Net Position | | | |
| Net Position - Beginning of Year | <u>(834,718)</u> | <u>(938,891)</u> | <u>(1,025,326)</u> |
| Net Position - End of Year | <u>\$ (744,183)</u> | <u>\$ (834,718)</u> | <u>\$ (938,891)</u> |

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management’s Discussion and Analysis
June 30, 2015 and 2014

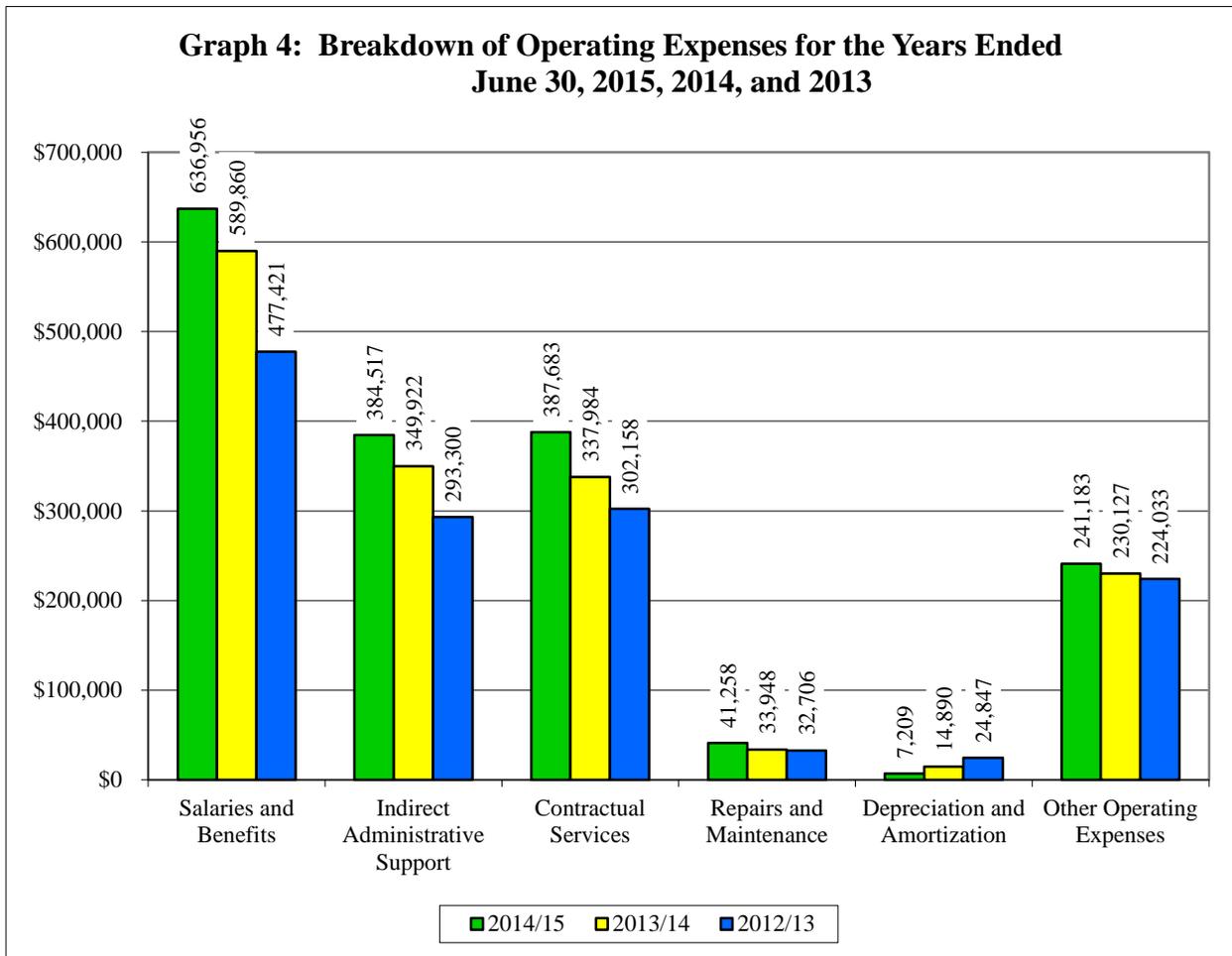


In 2014/15, Total operating revenues increased 7.7 percent or \$128 thousand from \$1.66 million to \$1.79 million. In 2013/14, Total operating revenues increased by 15.3 percent or \$220 thousand from \$1.44 million to \$1.66 million. The increases for both years were a result of management’s efforts to maintain its membership base by continuing with its popular Salon Series, inviting on air talent and guest speakers for fundraising drives, and developing and growing the underwriting portion of their operations.

In 2014/15, Underwriting revenues increased slightly by \$8 thousand or 1.6 percent to \$535 thousand from \$527 thousand. Underwriting revenues increased significantly in 2013/14 by \$176 thousand or 50.1 percent to \$527 thousand from \$351 thousand. The significant increase in Underwriting revenue was due to the addition of a second, full-time underwriter.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management’s Discussion and Analysis
June 30, 2015 and 2014

In 2014/15, Community service grant revenues from the CPB increased 10.5 percent or \$12 thousand from \$123 thousand to \$135 thousand a result of increased membership and underwriting revenue. In 2013/14, Community service grant revenues decreased 10.0 percent or \$13 thousand from \$136 thousand to \$123 thousand. The decrease was from being awarded less funds by the CPB to use in 2013/14. In 2014/15, Indirect administrative support increased to \$385 thousand from \$350 thousand, a \$35 thousand or 9.9 percent increase. In 2013/14, Indirect administrative support increased 19.3 percent or \$57 thousand from \$293 thousand to \$350 thousand. The increases for both years were due to an increase in non-federal financial support. More detailed information on Community service grants and Indirect administrative support can be found in Note 1 to the financial statements.



KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

In 2014/15, Total operating expenses increased by 9.1 percent or \$142 thousand from \$1.56 million to \$1.70 million, primarily from increases in programming fees, indirect administrative support, and salaries and benefits. In 2013/14, Total operating expenses increased by 14.9 percent or \$202 thousand from \$1.35 million to \$1.56 million as a result of the same expenses mentioned above.

In 2014/15, Salaries and benefits increased by \$47 thousand or 8.0 percent from \$590 thousand to \$637 thousand as a result of a small salary adjustment and increased health and benefit costs. Salaries and benefits increased by \$113 thousand or 23.6 percent from \$477 thousand to \$590 thousand in 2013/14 as a result of the addition of another underwriter and additional student interns.

Indirect administrative support, the portion of a licensee's general and administrative costs and facilities costs attributable to station operations, increased in 2014/15 by 9.9 percent or \$35 thousand from \$350 thousand to \$385 thousand. In 2013/14, there was an increase of 19.3 percent or \$57 thousand from \$293 thousand to \$350 thousand. The increases for both years were due to an increase in direct expenses.

Contractual services include costs such as programming and interconnect fees, membership dues, radio research services, and technical support. Contractual services increased by 14.7 percent or \$50 thousand in 2014/15 from \$338 thousand to \$388 thousand due to rising programming fees that are influenced by audience size and the station's expenses and income. In 2013/14, the rising fees resulted in an 11.9 percent or \$36 thousand increase from \$302 thousand to \$338 thousand.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2015 and 2014

Significant Capital Asset and Long-Term Debt Activity

Capital Assets

In both years 2014/15 and 2013/14, 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 2015/16 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 111
Seaside, CA 93955

KAZU 90.3 FM
Financial Statements
Years Ended June 30, 2015 and 2014

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Net Position
June 30, 2015 and 2014

| | 2015 | 2014 |
|---------------------------------------|--------------|--------------|
| Assets | | |
| <u>Current Assets:</u> | | |
| Receivables, net | \$ 69,419 | \$ 67,724 |
| Prepaid expenses | 58,165 | 57,865 |
| Total Current Assets | 127,584 | 125,589 |
| <u>Noncurrent Assets:</u> | | |
| Capital assets, net | 154,356 | 161,565 |
| Total Assets | 281,940 | 287,154 |
| Liabilities | | |
| <u>Current Liabilities:</u> | | |
| Cash deficit | 799,154 | 911,183 |
| Accounts payable | 51,464 | 29,371 |
| Accrued salaries and benefits payable | 32,242 | 39,513 |
| Unearned revenue | 143,263 | 141,805 |
| Total Current Liabilities | 1,026,123 | 1,121,872 |
| Net Position | | |
| <u>Net Position:</u> | | |
| Net investment in capital assets | 154,356 | 161,565 |
| Unrestricted | (898,539) | (996,283) |
| Total Net Position | \$ (744,183) | \$ (834,718) |

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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---------------------------------|------------------|------------------|
| Operating Revenues: | | |
| Underwriting | \$ 535,496 | \$ 526,837 |
| Membership dues | 733,363 | 660,759 |
| Community service grants | 135,412 | 122,571 |
| Indirect administrative support | 384,517 | 349,922 |
| Other operating revenues | 550 | 804 |
| Total Operating Revenues | <u>1,789,338</u> | <u>1,660,893</u> |
| Operating Expenses: | | |
| Salaries and benefits | 636,956 | 589,860 |
| Indirect administrative support | 384,517 | 349,922 |
| Rent | 33,780 | 33,840 |
| Contractual services | 387,683 | 337,984 |
| Utilities | 23,020 | 17,734 |
| Services and supplies | 7,058 | 4,918 |
| Promotion and advertising | 54,848 | 72,449 |
| Postage and delivery | 8,263 | 9,503 |
| Professional services | 15,116 | 13,593 |
| Conferences and meetings | 33,739 | 26,590 |
| Insurance | 5,099 | 5,986 |
| Repairs and maintenance | 41,258 | 33,948 |
| Equipment | 21,509 | 16,191 |
| Depreciation and amortization | 7,209 | 14,890 |
| Other operating expenses | 38,751 | 29,323 |
| Total Operating Expenses | <u>1,698,806</u> | <u>1,556,731</u> |
| Operating Income | <u>90,532</u> | <u>104,162</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, Continued
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|--------------|--------------|
| Nonoperating Revenues (Expenses): | | |
| Realized gain on sale of securities | \$ 3 | \$ 11 |
| Net Nonoperating Revenues (Expenses) | 3 | 11 |
| Increase in Net Position | 90,535 | 104,173 |
| Net Position: | | |
| Net position - beginning of year | (834,718) | (938,891) |
| Net Position - end of year | \$ (744,183) | \$ (834,718) |

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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|------------------|-----------------|
| Cash Flows from Operating Activities: | | |
| Underwriting | \$ 541,307 | \$ 512,955 |
| Membership dues | 724,663 | 661,502 |
| Community service grants | 138,064 | 135,412 |
| Payments to vendors | (648,331) | (637,584) |
| Payments to employees | (644,227) | (582,634) |
| Other receipts | 550 | 804 |
| Net Cash Provided by Operating Activities | <u>112,026</u> | <u>90,455</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Reduction in cash deficit | (112,029) | (90,466) |
| Net Cash Used by Noncapital Financing Activities | <u>(112,029)</u> | <u>(90,466)</u> |
| Cash Flows from Capital Related Financing Activities: | | |
| Acquisition/Disposition of capital assets | - | - |
| Net Cash Used by Capital Related Financing Activities | <u>-</u> | <u>-</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale of investments | 3 | 11 |
| Net Cash Provided by Investing Activities | <u>3</u> | <u>11</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>-</u> | <u>-</u> |
| Cash and Cash Equivalents - Beginning of Year | <u>-</u> | <u>-</u> |
| 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, 2015 and 2014

| | 2015 | 2014 |
|---|-------------------|------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Operating income | \$ 90,532 | \$ 104,162 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,209 | 14,890 |
| Changes in assets and liabilities: | | |
| Receivables, net | (1,695) | (14,514) |
| Prepaid expenses | (300) | (48,606) |
| Accounts payable | 22,093 | 13,081 |
| Accrued salaries and benefits payable | (7,271) | 7,226 |
| Unearned revenue | 1,458 | 14,216 |
| Net Cash Provided by Operating Activities | \$ 112,026 | \$ 90,455 |
| Supplemental Schedule of Noncash Financing and Investing Activities: | | |
| Contributions of investments | \$ 940 | \$ 540 |

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, 2015 and 2014

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, 2015 and 2014

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 and amortization 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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014. 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, 2015 have been evaluated through October 26, 2015, 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, 2015 and 2014

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:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------|------------------|------------------|
| Underwriting | \$ 69,453 | \$ 59,518 |
| Membership dues | 2,098 | 10,301 |
| Allowance for doubtful accounts | <u>(2,132)</u> | <u>(2,095)</u> |
| Receivables, net | <u>\$ 69,419</u> | <u>\$ 67,724</u> |

NOTE 4. PREPAID EXPENSES

Prepaid expenses at June 30, were as follows:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|------------------|------------------|
| Programming and broadcasting | \$ 57,221 | \$ 52,512 |
| General and administrative | - | 1,848 |
| Fundraising and underwriting | <u>944</u> | <u>3,505</u> |
| Total prepaid expenses | <u>\$ 58,165</u> | <u>\$ 57,865</u> |

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 5. CAPITAL ASSETS

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

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

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2015 and 2014

NOTE 5. CAPITAL ASSETS (Continued)

| | 2014 | | | |
|--|------------------------------|------------------|----------------------------------|---------------------------|
| | Beginning Balance | Additions | Reductions/ Transfers | Ending Balance |
| Nondepreciable Capital Assets: | | | | |
| Intangible assets | \$ 148,349 | \$ - | \$ - | \$ 148,349 |
| Total Nondepreciable Capital Assets | 148,349 | - | - | 148,349 |
| Depreciable Capital Assets: | | | | |
| Equipment | 402,744 | - | - | 402,744 |
| Leasehold improvements | 18,696 | - | - | 18,696 |
| Total Depreciable Capital Assets | 421,440 | - | - | 421,440 |
| Less Accumulated Depreciation and Amortization: | | | | |
| Equipment | (374,638) | (14,890) | - | (389,528) |
| Leasehold improvements | (18,696) | - | - | (18,696) |
| Total Accumulated Depreciation and Amortization | (393,334) | (14,890) | - | (408,224) |
| Capital assets, net | \$ 176,455 | \$ (14,890) | \$ - | \$ 161,565 |

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 was \$7,209 and \$14,890, respectively.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Notes to Financial Statements
June 30, 2015 and 2014

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 2014/15 and 2013/14. 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, 2015 and 2014 amounted to \$37,571 and \$32,382, respectively. Employee contributions for the years ended June 30, 2015 and 2014 were \$39,133 and \$34,174 respectively.

NOTE 7. LEASE COMMITMENTS

In April of 2005, KAZU entered into a tower facilities lease. 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.

At June 30, 2015, the future minimum lease payments for the tower facilities were as follows:

| <u>For the Years Ending June 30,</u> | <u>Transmission Tower</u> |
|---|--------------------------------------|
| 2016 | \$ 34,878 |
| 2017 | 36,012 |
| 2018 | 37,182 |
| 2019 | 38,388 |
| 2020 | <u>19,500</u> |
| Total | <u>\$ 165,960</u> |

The payments remitted to HH Tower were \$44,226 and \$41,382 for the years ended June 30, 2015 and 2014, respectively. Of these amounts, \$33,780 and \$32,940 were for tower lease payments for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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

| | <u>Program Services</u> | | <u>Support Services</u> | | <u>Total</u> |
|---------------------------------|--------------------------------------|-------------------------------------|--|---------------------|--------------|
| | <u>Production & Broadcasting</u> | <u>General & Administrative</u> | <u>Fund Raising & Underwriting</u> | | |
| Operating Expenses: | | | | | |
| Salaries and benefits | \$ 202,910 | \$ 88,051 | \$ 345,995 | \$ 636,956 | |
| Indirect administrative support | - | 384,517 | - | 384,517 | |
| Rent | 33,780 | - | - | 33,780 | |
| Contractual services | 340,600 | 3,000 | 44,083 | 387,683 | |
| 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 | |
| Other operating expenses | 6,746 | 2,254 | 28,742 | 37,742 | |
| Total Operating Expenses | \$ 677,171 | \$ 511,927 | \$ 509,708 | \$ 1,698,806 | |

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Supplemental Information, Continued
Years Ended June 30, 2015 and 2014

Schedule of Functional Expenses for the Year Ended June 30, 2014

| | <u>Program Services</u> | | <u>Support Services</u> | | <u>Total</u> |
|---------------------------------|--------------------------------------|-------------------------------------|--|---------------------|--------------|
| | <u>Production & Broadcasting</u> | <u>General & Administrative</u> | <u>Fund Raising & Underwriting</u> | | |
| Operating Expenses: | | | | | |
| Salaries and benefits | \$ 175,124 | \$ 81,717 | \$ 333,019 | \$ 589,860 | |
| Indirect administrative support | - | 349,922 | - | 349,922 | |
| Rent | 32,940 | - | 900 | 33,840 | |
| Contractual services | 295,091 | - | 42,893 | 337,984 | |
| Utilities | 13,786 | 3,868 | 80 | 17,734 | |
| Services and supplies | 602 | 2,612 | 1,704 | 4,918 | |
| Promotion and advertising | - | - | 72,449 | 72,449 | |
| Postage and delivery | - | - | 9,503 | 9,503 | |
| Professional services | 2,593 | 11,000 | - | 13,593 | |
| Conferences and meetings | 5,737 | 1,853 | 19,000 | 26,590 | |
| Insurance | - | 5,986 | - | 5,986 | |
| Repairs and maintenance | 31,209 | 2,265 | 474 | 33,948 | |
| Equipment | 11,609 | 4,561 | 21 | 16,191 | |
| Depreciation and amortization | 14,890 | - | - | 14,890 | |
| Other operating expenses | 7,635 | 854 | 20,834 | 29,323 | |
| Total Operating Expenses | \$ 591,216 | \$ 464,638 | \$ 500,877 | \$ 1,556,731 | |

Note to Supplemental Information:

The Schedules of Functional Expenses for the years ended June 30, 2015 and 2014 are presented in a format prescribed by the Corporation for Public Broadcasting.