KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Annual Report
Years Ended
June 30, 2018 and 2017

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GLENN BURDETTE
CÉRTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
University Corporation at Monterey Bay
Seaside, California

We have audited the accompanying financial statements of the business-type activities of KAZU 90.3 FM, as of and for the years ended June 30, 2018 and 2017, and the related notes to the 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of KAZU 90.3 FM, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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 11 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 90.3 FM's basic financial statements. The accompanying supplementary information on pages 30 through 31 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 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of KAZU 90.3 FM, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the University Corporation at Monterey Bay that is attributable to KAZU 90.3 FM. They do not purport to, and do not present fairly the financial position of the University Corporation at Monterey Bay as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

November 1, 2018

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Management's Discussion and Analysis
June 30, 2018 and 2017

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, 2018 and 2017 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, 2018, KAZU's net position increased 368.1 percent from $88,000 to $413,000 for a $325,000 increase.
- Underwriting, net increased by 14.6 percent or $89,000 from $605,000 to $694,000.
- Membership dues, net increased by 12.0 percent or $130,000 to $1.22 million from $1.09 million.
- Total operating revenues increased by 4.1 percent or $90,000 from $2.19 million to $2.28 million.
- Operating income increased by 20.9 percent or $88,000 from $422,000 to $510,000.
- Gifts and donations, noncapital decreased 100.0 percent or $186,000.
- Contribution to auxiliary increased 100.0 percent or $186,000.

KAZU 90.3 FM
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University Corporation at Monterey Bay
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Overview of the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with principles issued by the Governmental Accounting Standards Board ("GASB"). The financial statements include the Statements of Net Position, Statements of Changes in Net Position, and the Statements of Cash Flow (on pages 13 through 17). All provide information about KAZU's activities and present a longer-term view of KAZU's finances.

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 in it resulting from the current year's activity. 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.

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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. Historically, the difference between assets and liabilities, in the case of KAZU, has been negative net position, representing a measure of the current financial condition of the radio station. However, in 2016/17 and 2017/18, it ended both years with a positive total net position of $88,000 and $413,000, respectively.

In 2017/18, Total assets increased from $524,000 to $680,000 for an increase of 29.7 percent or $156,000. The improvement in the Cash deficit to Cash is the primary reason for this increase. Total assets in 2016/17 increased by 76.5 percent or $227,000 from $297,000 to $524,000. This was mainly due to a receivable from a donor's estate at June 30, 2017 of $186,000.

Table 1: Condensed Summary of Net Position as of June 30, 2018, 2017, and 2016

	2018	2017	2016
Assets			
Current assets	$ 520,742	$ 375,227	$ 145,544
Noncurrent assets:			
Capital assets, net	159,373	149,234	151,531
Total Assets	680,115	524,461	297,075
Liabilities			
Current liabilities	267,600	436,342	816,591
Total Liabilities	267,600	436,342	816,591
Net Position			
Net investment in capital assets	159,373	149,234	151,531
Restricted: Net gifts and donations	-	185,640	-
Unrestricted	253,143	(246,755)	(671,047)
Total Net Position	$ 412,516	$ 88,119	$ (519,516)

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

Receivables, net includes receivables from Corporation or Foundation, Underwriting and Membership dues net of allowance for doubtful accounts and Other. In 2017/18, Receivables, net decreased by 68.5 percent or $206,000 from $301,000 to $95,000 mainly due to the receipt of a significant donor gift. Receivables, net increased in 2016/17 from $79,000 to $301,000 for a 278.3 percent or $222,000 increase. A receivable from a donor's estate of $186,000 and the continued growth in underwriting were the reasons for this change.

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

Cash deficit in 2017/18 was further reduced and improved from $184,000 to Cash of $359,000 for a 295.7 percent or $543,000 increase, as a result of conservative spending practices and an increase in memberships and underwriting receipts. In 2016/17, KAZU continued to reduce its Cash deficit by 67.7 percent or $384,000 from $568,000 to $184,000. The station's continued efforts to decrease operating expenses and improve its membership base was responsible for the decline.

In 2017/18, Accrued salaries and benefits increased from $46,000 to $64,000 for a 38.2 percent or $18,000 increase due to cost of living increases and the hiring of an underwriter to replace a vacant position from 2016/17. Accrued salaries and benefits in 2016/17 decreased by $5,000 or 9.6 percent as a result of a vacant position.

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Table 2: Condensed Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2018, 2017, and 2016

	2018	2017	2016
Operating Revenues			
Operating revenues	$ 1,912,726	$ 1,693,720	$ 1,390,850
Community service grants	147,534	146,429	138,064
Indirect administrative support	222,283	353,257	323,510
Total Operating Revenues	2,282,543	2,193,406	1,852,424
Operating Expenses			
Salaries and benefits	779,384	706,132	656,069
Indirect administrative support	222,283	353,257	323,510
Contractual services	123,942	89,784	79,301
Depreciation and amortization	2,109	2,297	2,825
Memberships and subscriptions	392,268	375,641	356,185
Other operating expenses	252,542	244,309	209,873
Total Operating Expenses	1,772,528	1,771,420	1,627,763
Operating Income	510,015	421,986	224,661
Nonoperating Revenues (Expenses)			
Other nonoperating revenues (expenses)	(185,618)	185,649	6
Total Nonoperating Revenues (Expenses)	(185,618)	185,649	6
Increase in Net Position	324,397	607,635	224,667
Net Position			
Net Position - Beginning of Year	88,119	(519,516)	(744,183)
Net Position - End of Year	$ 412,516	$ 88,119	$ (519,516)

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Total operating revenues in 2017/18 increased to $2.28 million from $2.19 million for a 4.1 percent or $89,000 increase. In 2016/17, Total operating revenues increased from $1.85 million to $2.19 million for a $341,000 or 18.4 percent change. 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, developing the underwriting portion of their operations, and making improvements to its online donation page. In 2017/18, however, the overall increase was offset by a decline in indirect administrative support.

In 2017/18, Underwriting, net continued to increase from $605,000 to $694,000 for a 14.6 percent or $89,000 increase. Underwriting, net increased in 2016/17 by 10.2 percent or $55,000 from $550,000 to $605,000 due to the two full-time underwriters employed the entire year. The increase for both years can also be attributed to management's ongoing efforts to continue the development of the underwriting operations of the station.

In 2017/18, Membership dues, net increased by 12.0 percent or $130,000 from $1.09 million to $1.22 million. Membership dues, net increased in 2016/17 to $1.09 million from $839,000 for a 29.5 percent or $247,000 increase. The radio station's continued effort to automate the pledge payment process, the promotion of online giving, and being the exclusive National Public Radio (NPR) affiliate in the Monterey Bay area, are the reasons for the increases.

Total operating expenses in 2017/18 remained relatively flat with a minimal increase of $1,000 or 0.1 percent change. The station's commitment to improving its net position and reducing its cash deficit are the reasons for the minimal change. In 2016/17, Total operating expenses increased 8.8 percent or $144,000 from $1.63 million to $1.77 million primarily from increases in salaries and benefits, indirect administrative support, memberships and subscriptions, and other operating expenses.

In 2017/18, Salaries and benefits increased to $779,000 from $706,000 for a 10.4 percent or $73,000 change, mostly due to cost of living increases and underwriting commissions. Salaries and benefits increased 7.6 percent or $50,000 from $656,000 to $706,000 in 2016/17, as a result of previously vacant positions being filled the entire year and cost of living increases.

Indirect administrative support, the portion of a licensee's general and administrative costs and facilities costs attributable to station operations, decreased in 2017/18 to $222,000 from $353,000 for a $131,000 or 37.1 percent decrease. This is a result of additional direct expenses being excluded from the Indirect administrative support calculation and a decrease in the Corporation's overall facilities and administration rate. In 2016/17, Indirect administrative support, increased 9.2 percent or $29,000 from $324,000 to $353,000. An increase in non-federal financial support was the reason for the increase. More detailed information on Indirect administrative support can be found in Note 1 to the financial statements.

In 2017/18, Contractual services increased by $34,000 or 38.0 percent from $90,000 to $124,000. Contractual services in 2016/17 increased to $90,000 from $79,000 for an $11,000 or 13.2 percent change as a result of an increase in engineering services needed for the installation of new equipment which began in late 2016/17 and continued into 2017/18.

Significant Capital Asset and Long-Term Debt Activity

Capital Assets

In 2017/18, the purchase of a server in the amount of $12,249 and the annual depreciation for existing assets were the only changes to capital assets. In 2016/17, there were no capital asset additions. The sole change in capital assets was 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 2018/19 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.

Equipment Purchases

Management expects to spend approximately $70,000 for a transmitter, in the next one to two years.

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, 2018 and 2017

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets:		
Cash	$ 359,327	$ -
Receivables:		
Underwriting, net	94,740	113,599
Membership dues, net	-	1,238
Foundation	-	500
Other	-	185,640
Prepaid expenses	66,675	74,250
Total Current Assets	520,742	375,227
Noncurrent Assets:		
Capital assets, net	159,373	149,234
Total Noncurrent Assets	159,373	149,234
Total Assets	680,115	524,461
Liabilities		
Current Liabilities:		
Cash deficit	-	183,566
Accounts payable	28,428	43,667
Accrued salaries and benefits payable	63,590	46,004
Unearned revenue	175,582	163,105
Total Current Liabilities	267,600	436,342
Net Position		
Net Position:		
Net investment in capital assets	159,373	149,234
Restricted for:		
Expendable:		
Net gifts and donations	-	185,640
Unrestricted	253,143	(246,755)
Total Net Position	$ 412,516	$ 88,119

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, 2018 and 2017

	2018	2017
Operating Revenues:		
Underwriting, net	$ 693,773	$ 605,440
Membership dues, net	1,216,367	1,086,380
Community service grants	147,534	146,429
Indirect administrative support	222,283	353,257
Other operating revenues	2,586	1,900
Total Operating Revenues	2,282,543	2,193,406
Operating Expenses:		
Salaries and benefits	779,384	706,132
Indirect administrative support	222,283	353,257
Rent	40,170	35,940
Contractual services	123,942	89,784
Utilities	15,795	22,719
Services and supplies	12,843	6,547
Promotion and advertising	54,808	54,835
Postage and delivery	11,510	9,600
Professional services	16,130	21,526
Conferences and meetings	26,699	19,400
Insurance	5,998	6,192
Equipment	20,139	26,769
Depreciation and amortization	2,109	2,297
Memberships and subscriptions	392,268	375,641
Other operating expenses	48,450	40,781
Total Operating Expenses	1,772,528	1,771,420
Operating Income	510,015	421,986

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, 2018 and 2017

	2018	2017
Nonoperating Revenues (Expenses):		
Gifts and donations, noncapital	$ -	$ 185,649
Contribution to Foundation	(185,640)	-
Realized gain on sale of securities	22	-
Net Nonoperating Revenues (Expenses)	(185,618)	185,649
Increase in Net Position	324,397	607,635
Net Position:		
Net position - beginning of year	88,119	(519,516)
Net Position - end of year	$ 412,516	$ 88,119

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Underwriting, net	$ 724,538	$ 577,700
Membership dues, net	1,217,606	1,085,268
Community service grants	148,104	147,534
Payments to vendors	(776,416)	(718,392)
Payments to employees	(761,798)	(711,016)
Other receipts	3,086	3,725
Net Cash Provided by Operating Activities	555,120	384,819
Cash Flows from Noncapital Financing Activities:		
Reduction in cash deficit	(183,566)	(384,819)
Net Cash Used by Noncapital Financing Activities	(183,566)	(384,819)
Cash Flows from Capital Related Financing Activities:		
Acquisition of capital assets	(12,249)	-
Net Cash Used by Capital Related Financing Activities	(12,249)	-
Cash Flows from Investing Activities:		
Proceeds from sale of investments	22	-
Net Cash Provided by Investing Activities	22	-
Net Change in Cash and Cash Equivalents	359,327	-
Cash and Cash Equivalents - Beginning of Year	-	-
Cash and Cash Equivalents - End of Year	$ 359,327	$ -

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, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:		
Operating income	$ 510,015	$ 421,986
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,109	2,297
Changes in assets and liabilities:		
Receivables, net	20,597	(35,787)
Prepaid expenses	7,575	(8,256)
Accounts payable	(15,239)	(402)
Accrued salaries and benefits payable	17,586	(4,884)
Unearned revenue	12,477	9,865
Net Cash Provided by Operating Activities	$ 555,120	$ 384,819

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, 2018 and 2017

NOTE 1. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

***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 in future years. In prior years, KAZU's budget deficits have been funded by the Corporation's other operating activities.

***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. In prior years, KAZU had cash deficits.

***Receivables* –** Receivables include underwriting fees due from customers, pledges due from members, receivables from Foundation and other. The underwriting and pledge 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. Pledges due from members are no longer recorded since all donors are now on a sustaining plan or make one-time donations.

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 Federal Communications Commission (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.

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, 2018 and 2017, there was no related debt.
>
> ***Restricted, expendable*** consists of net position subject to externally imposed restrictions that can be fulfilled by the actions of KAZU pursuant to those restrictions or that expire by the passage of time.
>
> ***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.

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 exclusively 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 FCC.

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, 2018 and 2017, 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, rent, general and administrative and fundraising costs per CPB instructions.

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 membership 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. In 2017/18, pledges receivable were phased out and replaced with sustaining membership plans. Contributions and collected membership receipts 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.

***Use of Estimates* –** Events subsequent to June 30, 2018 have been evaluated through November 1, 2018, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

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:

	2018	2017
Underwriting	$ 97,670	$ 117,113
Membership dues	-	1,276
Foundation	-	500
Other	-	185,640
Allowance for doubtful accounts	(2,930)	(3,552)
Receivables, net	$ 94,740	$ 300,977

NOTE 4. PREPAID EXPENSES

Prepaid expenses at June 30, were as follows:

	2018	2017
Programming and broadcasting	$ 62,252	$ 67,569
Fundraising and underwriting	4,423	6,681
Total prepaid expenses	$ 66,675	$ 74,250

NOTE 5. CAPITAL ASSETS

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

	2018			
	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	111,267	12,249	-	123,516
Leasehold improvements	18,696	-	-	18,696
Total Depreciable Capital Assets	129,963	12,249	-	142,212
Less Accumulated Depreciation and Amortization:				
Equipment	(110,382)	(2,110)	-	(112,492)
Leasehold improvements	(18,696)	-	-	(18,696)
Total Accumulated Depreciation and Amortization	(129,078)	(2,110)	-	(131,188)
Capital assets, net	$ 149,234	$ 10,139	$ -	$ 159,373

NOTE 5. CAPITAL ASSETS (Continued)

	2017			
	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	111,267	-	-	111,267
Leasehold improvements	18,696	-	-	18,696
Total Depreciable Capital Assets	129,963	-	-	129,963
Less Accumulated Depreciation and Amortization:				
Equipment	(108,085)	(2,297)	-	(110,382)
Leasehold improvements	(18,696)	-	-	(18,696)
Total Accumulated Depreciation and Amortization	(126,781)	(2,297)	-	(129,078)
Capital assets, net	$ 151,531	$ (2,297)	$ -	$ 149,234

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 employee's salary to the plan in 2017/18 and 2016/17. 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, 2018 and 2017 amounted to $49,070 and $49,395, respectively. Employee contributions for the years ended June 30, 2018 and 2017 were $85,238 and $44,923, 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, 2018 and 2017.

NOTE 7. LEASE COMMITMENTS

KAZU Tower Facilities

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.

NOTE 7. LEASE COMMITMENTS (Continued)

At June 30, 2018, the future minimum lease payments for the tower facilities were as follows:

For the Years Ending June 30,		
2019	$	38,220
2020		19,380
Total	$	57,600

The payments remitted to HH Tower were $46,757 and $44,822 for the years ended June 30, 2018 and 2017, respectively. Of these amounts, $37,230 and $35,940 were for tower lease payments for the years ended June 30, 2018 and 2017, respectively, and the balance of the payments were for utility expenses.

KAZU Radio Transmitters
In June 2017, KAZU entered into an agreement with Lloyd Jones with the intent to lease antenna space for a radio transmitter. The initial term of the lease covers the period from July 1, 2017 to July 1, 2020, with an option to renew for two additional three-year terms. The monthly payment of $200 will include the cost of electricity to operate the equipment and will be renegotiated at the end of each three-year period.

In October 2017, KAZU entered into a lease with the City of Santa Cruz for an area located on the Santa Cruz Municipal Wharf. The lease was for placement and operation of a second radio transmitter. The initial term of the lease is October 1, 2017 to October 1, 2022, with an option to renew for another five-year term. The yearly payment of $700 will increase at the end of the five-year period. KAZU will be responsible for all utilities.

NOTE 7. LEASE COMMITMENTS (Continued)

At June 30, 2018, the future minimum lease payments were as follows:

For the Years Ending June 30,		
2019	$	3,100
2020		3,100
2021		700
2022		700
Total	$	7,600

The lease payments were $3,530 for the year ended June 30, 2018.

Supplemental Information

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Supplemental Information
Years Ended June 30, 2018 and 2017

Schedule of Functional Expenses for the Year Ended June 30, 2018

	Program Services	Support Services		
	Production & Broadcasting	**General & Administrative**	**Fund Raising & Underwriting**	**Total**
Operating Expenses:				
Salaries and benefits	$ 276,921	$ 122,971	$ 379,492	$ 779,384
Indirect administrative support	-	222,283	-	222,283
Rent	40,170	-	-	40,170
Contractual services	83,792	742	39,408	123,942
Utilities	14,998	797	-	15,795
Services and supplies	6,425	2,332	4,086	12,843
Promotion and advertising	1,069	155	53,584	54,808
Postage and delivery	7	4,041	7,462	11,510
Professional services	8,330	7,800	-	16,130
Conferences and meetings	9,660	638	16,401	26,699
Insurance	-	5,998	-	5,998
Equipment	15,523	4,616	-	20,139
Depreciation and amortization	2,109	-	-	2,109
Memberships and subscriptions	385,476	424	6,368	392,268
Other operating expenses	3,008	7,348	38,094	48,450
Total Operating Expenses	$ 847,488	$ 380,145	$ 544,895	$ 1,772,528

See independent auditors' report.

KAZU 90.3 FM
A Business-Type Activity of the
University Corporation at Monterey Bay
Supplemental Information, Continued
Years Ended June 30, 2018 and 2017

Schedule of Functional Expenses for the Year Ended June 30, 2017

	Program Services	Support Services		
	Production & Broadcasting	General & Administrative	Fund Raising & Underwriting	Total
Operating Expenses:				
Salaries and benefits	$ 246,110	$ 115,492	$ 344,530	$ 706,132
Indirect administrative support	-	353,257	-	353,257
Rent	35,940	-	-	35,940
Contractual services	61,722	-	28,062	89,784
Utilities	19,893	1,352	1,474	22,719
Services and supplies	2,938	2,263	1,346	6,547
Promotion and advertising	34	236	54,565	54,835
Postage and delivery	50	1,343	8,207	9,600
Professional services	11,526	10,000	-	21,526
Conferences and meetings	8,611	1,098	9,691	19,400
Insurance	-	6,192	-	6,192
Equipment	24,186	2,583	-	26,769
Depreciation and amortization	2,297	-	-	2,297
Memberships and subscriptions	355,261	423	19,957	375,641
Other operating expenses	1,454	17	39,310	40,781
Total Operating Expenses	$ 770,022	$ 494,256	$ 507,142	$ 1,771,420

Note to Supplemental Information:

The Schedules of Functional Expenses for the years ended June 30, 2018 and 2017 are presented in a format prescribed by the Corporation for Public Broadcasting.

See independent auditors’ report.