Report of Independent Auditors
and Financial Statements for

# KCLU-FM California Lutheran University

A Public Telecommunications Entity
Operated by California Lutheran University

May 31, 2016 and 2015

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REPORTOFINDEPENDENTAUDITORS

The Board of Regents
California Lutheran University

## Report on the Financial Statements

We have audited the accompanying financial statements of KCLU-FM California Lutheran University (the “Station”), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

## 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.

## Auditor’s Responsibility

Our responsibility is to express

# KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY
## STATEMENTS OF FINANCIAL POSITION
## AS OF MAY 31, 2016 and 2015

### ASSETS

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Accounts receivable | $ | 34,754 | $ | 21,635 |
| Prepaids | | 27,355 | | 28,329 |
| Beneficial interest in endowment funds invested by California Lutheran University | | 1,183,618 | | 164,671 |
| Transmission, property and equipment, net | | 3,652,047 | | 3,819,823 |
| Other intangible assets | | 475,000 | | 475,000 |
| TOTAL ASSETS | $ | 5,372,774 | $ | 4,509,458 |

### LIABILITIES AND NET ASSETS

| | | 2016 | | 2015 |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Due to California Lutheran University | $ | 1,082,170 | $ | 1,150,923 |
| Accounts payable | | 13,472 | | 12,532 |
| Accrued payroll liabilities | | 67,901 | | 62,133 |
| TOTAL LIABILITIES | | 1,163,543 | | 1,225,588 |
| NET ASSETS | | | | |
| Unrestricted | | 3,081,824 | | 3,185,344 |
| Temporarily restricted | | 117,407 | | 98,526 |
| Permanently restricted | | 1,010,000 | | - |
| TOTAL NET ASSETS | | 4,209,231 | | 3,283,870 |
| TOTAL LIABILITIES AND NET ASSETS | $ | 5,372,774 | $ | 4,509,458 |

See accompanying notes.

# KCLU FM CALIFORNIA LUTHERAN UNIVERSITY
## STATEMENTS OF ACTIVITIES
## FOR THE YEAR ENDED MAY 31, 2016 WITH SUMMARIZED TOTALS FOR 2015

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | 2015 Total |
| REVENUES, GAINS AND OTHER SUPPORT | | | | | |
| Contributions | | | | | |
| General support from California Lutheran University | $ 75,000 | $ - | $ - | $ 75,000 | $ 75,000 |
| Donated facilities and administrative support from California Lutheran University | 197,830 | - | - | 197,830 | 191,660 |
| Private gifts and grants | 1,287,018 | 10,000 | 1,010,000 | 2,307,018 | 1,274,549 |
| Special events revenue | 5,322 | - | - | 5,322 | 2,876 |
| Corporation for public broadcasting Community service grants | 132,413 | - | - | 132,413 | 206,360 |
| Change in beneficial interest | 66 | 8,881 | - | 8,947 | 6,733 |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | 1,697,649 | 18,881 | 1,010,000 | 2,726,530 | 1,757,178 |
| EXPENSES | | | | | |
| Program expenses | | | | | |
| Local programming and production | 239,963 | - | - | 239,963 | 235,872 |
| Broadcasting | 281,847 | - | - | 281,847 | 285,112 |
| Program information and promotion | 512,782 | - | - | 512,782 | 481,341 |
| Support expenses | | | | | |
| Management and general | 507,593 | - | - | 507,593 | 532,787 |
| Fundraising and membership development | 258,984 | - | - | 258,984 | 267,483 |
| TOTAL EXPENSES | 1,801,169 | - | - | 1,801,169 | 1,802,595 |
| CHANGE IN NET ASSETS | (103,520) | 18,881 | 1,010,000 | 925,361 | (45,417) |
| NET ASSETS, beginning of year | 3,185,344 | 98,526 | - | 3,283,870 | 3,329,287 |
| NET ASSETS, end of year | $ 3,081,824 | $ 117,407 | $ 1,010,000 | $ 4,209,231 | $ 3,283,870 |



See accompanying notes.

## KCLU FM CALIFORNIA LUTHERAN UNIVERSITY
### STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED MAY 31, 2016 and 2015

| | | 2016 | | 2015 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Change in net assets | $ | 925,361 | $ | (45,417) |
| Adjustments to reco 5 | | | | |

See accompanying notes.

## Note 1 – Organization

KCLU-FM California Lutheran University (the "Station") is a noncommercial radio station owned and operated by California Lutheran University (the "University"). The accounts and reports of the Station are a part of the University's general accounting system and have been identified and segregated from the books of the University for these financial statements. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America.

## Note 2 – Significant Accounting Policies

The more significant accounting policies which relate to the Station are summarized below:

Basis of presentation – The Station is a department of the University, not a distinct legal entity, and its financial statements have been prepared in the same manner as those of the University. The Station maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Station as a whole. For the purpose of financial reporting, the Station classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Station are classified in the accompanying financial statements in the categories that follow:

> Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Station. Generally, the donors of these assets permit the Station to use all or part of the income earned on related investments for general or specific purposes.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by action of the Station and/or the passage of time.
>
> Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

The 2016 statement of activities is presented with 2015 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles ("GAAP"). Accordingly, such information should be read in conjunction with the Station's financial stat

## Note 2 – Significant Accounting Policies (continued)

Revenue recognition – Revenues from sources other than contributions are recognized when earned and generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor-restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Contributions of general support, facilities and administrative support from the University are recognized as revenue at fair value in the period received and are reported as increases in unrestricted net assets.

Revenues from Community Service Grants are recognized as expenses as used and incurred and are reported as increases in unrestricted net assets.

Accounts receivable – Accounts receivable is carried at the unpaid balance on the original amount billed, less an estimate made for doubtful accounts, if deemed necessary. Management determines whether an allowance for doubtful accounts is necessary by identifying past due accounts and considering historical experience. There was no allowance for doubtful accounts at May 31, 2016 and 2015. Accounts receivable are written-off when deemed uncollectible. Receivables are generally unsecured.

Transmission, property and equipment and other intangible assets – Purchased assets are recorded at cost. Donated assets are recorded at fair value or appraised value on the date of donation. Intangible assets are non-monetary assets without physical substance. The Station's other intangible assets consist of a FCC broadcasting license acquired for $475,000 during the fiscal year ended May 31, 2013. The other intangible asset, determined to have an indefinite useful life, is not amortized, but instead is tested for impairment at least annually. There were no impairment charges recorded during the years ended May 31, 2016 and 2015.

Note 2 – Significant Accounting Policies (continued)

The Station depreciates its assets, with the exception of certain intangible assets, on the straight-line basis over the estimated useful life of the vehicle (5 years), equipment (3 – 10 years) and property (10 – 40 years). Normal repair and maintenance expenses are charged to operations as incurred. The Station capitalizes fixed assets acquisitions in excess of $10,000.

Impairment of long lived assets – The Station reviews long-lived assets, including transmission, property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Income tax status – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501c(3) of the Internal Revenue Code as non-profit organizations. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University, of which the Station is a department, follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2016.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the repor ... d losure of ... assers
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## Note 3 – Fair Value Measurements

Accounting Standards Codification ("ASC") 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for

Note 3 – Fair Value Measurements (continued)

Beneficial interest in endowment funds invested by California Lutheran University – The Station's endowment funds are held by the University. The beneficial interest in endowment funds invested by the University consists of cash equivalents, equities, fixed income, partnerships and other funds with both observable and unobservable inputs. The beneficial interest in endowment funds follow the investment strategy of the University and do not require advance notice for redemption. The objective of the investments held by the University is to provide a predictable funding stream for its programs while protecting the purchase power of the endowment fund. The fair value of certain partnerships and hedge funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" for estimating the fair value of alternative investments. NAV reported by each partnership and hedge fund is used as a practical expedient to estimate the fair value of the Station's interest in each fund. Investments are categorized as
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## Note 3 – Fair Value Measurements (continued)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2016 and 2015:

| | Balance May 31, 2015 | Net realized and unrealized gains included in change in net assets | Purchases, issuances and settlement, net | Net transfers in (out) of Level 3 | Balance May 31, 2016 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Beneficial interest in endowment funds invested by California Lutheran University | 164,671 | | | | |

## Note 4 – Restriction and Limitation on Net Asset Balances (continued)

Unrestricted net assets consist of the following on May 31:

| | 2016 | 2015 |
|---|---|---|
| Operations | $ 602,912 | $ 572,440 |
| Long-term investment | 173,618 | 164,671 |
| Investment in transmission, property and equipment and other intangible assets, net | 2,305,294 | 2,448,233 |
| | $ 3,081,824 | $ 3,185,344 |

Net investment in property has been reduced by liabilities of $1,346,753 and $1,371,590 for the years ended May 31, 2016 and 2015, respectively, which are included in the liability account “Due to California Lutheran University” on the statements of financial position.

## Note 5 – Transmission, Property and Equipment

Transmission, property and equipment consisted of the following at May 31:

## Note 6 – Interfund Transactions and Concentration of Credit Risk (continued)

Due from California Lutheran University and Due to California Lutheran University are as follows at May 31:

| | 2016 | 2015 |
|---|---|---|
| Due from California Lutheran University | $ 264,583 | $ 220,667 |
| Debt owed to California Lutheran University on capital | ( 1,346,753 ) | ( 1,371,590 ) |
| Due to California Lutheran University, net | $ (1,082,170) | $ (1,150,923) |

Cash and cash equivalents held by the University in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Investments held by the University are diversified in order to limit credit risk and are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk.

## Note 7 – Endowment

The Station’s endowment consists of the beneficial interest in endowment funds invested by the University which consist of approximately 300 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Station’s governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as allowing the Station to appropriate for expenditure or accumulate so much of an endowment fund as the Station determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 2 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted [illegible] at [illegible] is [illegible]

Note 7 – Endowment (continued)

3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Station
7. The investment policies of the Station

Endowment net asset composition by type of fund consists of the following as of May 31, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ - | $ 1,010,000 | $ 1,010,000 |
| Board-designated endowment funds* | 66 | 8,881 | - | 8,947 |
| Total endowment net assets | $ 66 | $ 8,881 | $ 1,010,000 | $ 1,018,947 |

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, May 31, 2015 | $ - | $ - | $ - | $ - |
| Investment return | | | | |
| Investment income, net of fees of $2,446 | 4,207 | (3,177) | - | 1,030 |
| Net (depreciation) appreciation - realized and unrealized | (4,141) | 12,058 | - | 7,917 |
| Total investment return | 66 | 8,881 | - | 8,947 |
| Contributions | - | - | 1,010,000 | 1,010,000 |
| Endowment net assets, May 31, 2016 | $ 66 | $ 8,881 | $ 1,010,000 | $ 1,018,947 |

Funds with deficiencies0 Tc <0003>Tj 9 0 TD .0055 Tc 382 332.9<000300030003>6.8<000300030003>6.8<00030

Note 7 – Endowment (continued)

Return objectives and risk parameters – The Station has adopted investment and spending policies that attempt to be prudent and provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Station must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The Station has a policy of appropriating for distribution each year 5.00% of its