



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY
A PUBLIC TELECOMMUNICATIONS DIVISION
OPERATED BY CALIFORNIA LUTHERAN UNIVERSITY

May 31, 2022 and 2021

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Report of Independent Auditors

The Board of Regents
California Lutheran University

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KCLU-FM California Lutheran University (the “Station”), which comprise the statements of financial position as of May 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KCLU-FM California Lutheran University as of May 31, 2022, and the change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Station and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

Report on Summarized Comparative Information

We have previously audited KCLU-FM California Lutheran University’s May 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2021, is consistent, in all material respects.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Station’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute

KCLU-FM California Lutheran University
Statements of Financial Position

ASSETS		May 31,	
	2022	2021	
Accounts receivable	\$ 39,612	\$ 37,147	
Prepaid expenses	38,849	31,435	
Due from California Lutheran University, net	1,895,922	1,341,806	
Beneficial interest in endowment funds invested by California Lutheran University	1,563,267	1,610,292	
Property and equipment, net	2,964,748	3,098,362	
Intangible assets	475,000	475,000	
Operating lease right-of-use assets	85,094	103,411	
Total assets	\$ 7,062,492	\$ 6,697,453	
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 14,286	\$ 21,553	
Accrued payroll liabilities	87,997	93,551	
PPP Small Business Loan	-	105,014	
Operating lease liabilities	86,467	107,853	
Total liabilities	188,750	327,971	
NET ASSETS			
Without donor restrictions	5,454,480	4,901,961	
With donor restrictions	1,419,262	1,467,521	
Total net assets	6,873,742	6,369,482	
Total liabilities and net assets	\$ 7,062,492	\$ 6,697,453	

KCLU-FM California Lutheran University

Statement of Activities

(With Summarized Comparative Information for the Year Ended May 31, 2021)

	Years Ended May 31,			2021 Total
	2022		Total	
	Without Donor Restrictions	With Donor Restrictions		
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions				
Donated facilities and administrative support from California Lutheran University	\$ 594,911	\$ -	\$ 594,911	\$ 586,744
Private gifts and grants	1,790,395	1,300	1,791,695	2,054,035
HEERF government grants	-	-	-	166,011
Special events revenue	-	-	-	-
Corporation for Public Broadcasting				
Community service grants	173,488	-	173,488	163,868
Underwriting income	307,309	-	307,309	-
Change in beneficial interest	1,234	6,811	8,045	361,897
Gain from PPP Small Business Loan forgiveness	105,514	-	105,514	-
Net assets released from restriction	56,370	(56,370)	-	-
Total revenues, gains, and other support	<u>3,029,221</u>	<u>(48,259)</u>	<u>2,980,962</u>	<u>3,332,555</u>
EXPENSES				
Program expenses				
Local programming and production	295,082	-	295,082	278,980
Broadcasting	338,142	-	338,142	321,230
Program information and promotion	640,793	-	640,793	602,695
Support expenses				
Management and general	897,724	-	897,724	883,680
Fundraising and membership development	304,961	-	304,961	290,784
Total expenses	<u>2,476,702</u>	<u>-</u>	<u>2,476,702</u>	<u>2,377,369</u>
CHANGE IN NET ASSETS	552,519	(48,259)	504,260	955,186
NET ASSETS, beginning of year	<u>4,901,961</u>	<u>1,467,521</u>	<u>6,369,482</u>	<u>5,414,296</u>
NET ASSETS, end of year	<u>\$ 5,454,480</u>	<u>\$ 1,419,262</u>	<u>\$ 6,873,742</u>	<u>\$ 6,369,482</u>

KCLU-FM California Lutheran University
Statements of Cash Flows

	2022	2021
Change in net assets	\$ 504,260	\$ 955,186
Adjustments to reconcile change in net assets to net cash flows used in operating activities		
Depreciation	133,614	135,984
Amortization of operating lease right-of-use assets	18,317	46,412
Contributions restricted for long-term investments	(1,300)	(6,550)
Change in beneficial interest	(8,045)	(361,897)
Forgiveness of PPP Small Business Loan	(105,014)	-
Changes in assets and liabilities		
Accounts receivable	(2,465)	(7,099)
Prepaid expenses	(7,414)	(1,113)
Due from California Lutheran University, net	(554,116)	(886,666)
Accounts payable	(7,267)	12,783
Accrued payroll liabilities	(5,554)	(3,375)
Operating lease liabilities	(21,386)	(45,199)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(56,370)	(161,534)
CASH FLOWS FROM INVESTING ACTIVITIES		

KCLU-FM California Lutheran University Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition – Revenues from sources other than contributions are recognized when a service has been completed and generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on endowment donor-restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when appropriated for expenditure for their intended purpose.

General support from California Lutheran University, private gifts and grants, HEERF Government Grants, and Corporation for Public Broadcasting community service grants – These revenue sources are considered non-reciprocal, meaning the granting agency or contributor has not received a direct benefit in exchange for the resources provided. These revenues, 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 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. There were no conditional promises to give at May 31, 2022 and 2021.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; 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 net assets without donor restrictions.

Special events – Revenue applicable to the Station's special events is deferred and later recognized at the time when such events occur.

Prior year summarized comparative financial information – The financial statements include certain prior year summarized comparative information in total, but not by function. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting

KCLU-FM California Lutheran University

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Accounts receivable – Accounts receivable are 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, 2022 and 2021. Accounts receivable are written off when deemed uncollectible. Receivables are generally unsecured and non-interest bearing.

Beneficial interest in endowment funds invested by California Lutheran University – The University manages the endowment on behalf of the Station. The proceeds of the endowment benefit the radio station's operations and are included in change in beneficial interest in the statement of activities. Therefore, the Station has a beneficial interest in these funds.

Property and equipment and 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 intangible assets consist of a Federal Communications Commission broadcasting license acquired for \$475,000 during the year ended May 31, 2013. The license, 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, 2022 and 2021.

The Station depreciates its purchased assets, with the exception of certain intangible assets, on a 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 property and equipment acquisitions in excess of \$10,000.

Impairment of long-lived assets – The Station reviews long-lived assets, including 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.

Leases – The Station recognizes an operating lease liability and a right-of-use (ROU) asset for all leases, including operating leases with an expected term greater than 12 months on its statements of financial position. Operating lease ROU assets and liabilities are recognized on the statements of financial position at commencement date, which is the date that the Station gains access to the property or underlying asset. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement. The borrowing rate ranged from 1.92%–1.93% for the years ended May 31, 2022 and 2021, respectively. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Operating lease cost is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended.

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Income tax status – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a non-profit organization. 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 or expense has been recognized by the University for uncertain tax positions as of and for the years ended May 31, 2022 and 2021.

Use of estimates – The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications ~~to~~ ~~from~~ ~~assets~~

KCLU-FM California Lutheran University

Note 3 – Fair Value Measurements (continued)

The fair value of the underlying investments that make up the University's endowment funds is based on valuations provided by the external investment managers. The quantitative assumptions used by management in establishing fair value include the Station's share of the endowment portfolio. The University's Investment Committee and management, in conjunction with the external investment advisors, monitor and analyze the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Regents of the University. The valuations consider variables such as financial performance of investments, recent sales price

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 4 – Property and Equipment

Property and equipment consisted of the following at May 31:

	<u>2022</u>	<u>2021</u>
Property	\$ 4,820,576	\$ 4,820,576
Equipment	591,125	591,125
Vehicles	<u>45,660</u>	<u>45,660</u>
	5,457,361	5,457,361
Less: accumulated depreciation	<u>(2,492,613)</u>	<u>(2,358,999)</u>
Property and equipment, net	<u>\$ 2,964,748</u>	<u>\$ 3,098,362</u>

Note 5 – Interfund Transactions and Concentration of Credit Risk

One checking account is used for all of the University’s funds, which is also used as a depository for the Station’s receipts. If the Station has a share of this common checking account at year end, it would be reported in an asset account “Due from California Lutheran University.” The account “Due to California Lutheran University” represents the Station’s balance due to the University for funds used in excess of deposits made into this checking account at year end and includes a portion of long-term debt incurred by the University on the Station’s behalf. The Station pays interest to the University on the allocated portion of debt.

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

	<u>2022</u>	<u>2021</u>
Due from California Lutheran University	\$ 2,930,773	\$ 2,442,291
Due to California Lutheran University for capital improvements	<u>(1,034,851)</u>	<u>(1,100,485)</u>
Due from California Lutheran University, net	<u>\$ 1,895,922</u>	<u>\$ 1,341,806</u>

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.

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 6 – PPP Small Business Loan

In May 2021, the Station qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of approximately \$105,014 (the “PPP Loan”). In August 2021, the Station received notification that the Small Business Administration has authorized full forgiveness of the PPP Loan of \$105,014 and it has been recognized as a gain on the statement of activities for the year ended May 31, 2022.

Note 7 – Net Assets

Net assets with donor restrictions consist of the following at May 31:

	2022	2021
Net assets held in perpetuity		
Endowment funds	\$ 1,037,125	1,035,825

KCLU-FM California Lutheran University

Notes to Financial Statements

Note 8 – 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 U.S. 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 University's governing board has interpreted the California-enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University 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 held in perpetuity is classified as donor-restricted until it is appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPLa0028 Twaining port -1. held ia3wai1U *(3-1.3174m)-3l

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 8 – Endowment (continued)

Changes in endowment net assets for the year ended May 31, 2022, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, May 31, 2021	\$ 251,297	\$ 1,358,995	\$ 1,610,292
Investment return			
Investment income, net of fees of \$5,857	795	4,138	4,933
Net appreciation—realized and unrealized	439	2,673	3,112
Total investment return	1,234	6,811	8,045
Contributions	-	1,300	1,300
Appropriation of endowment assets for expenditure	-	(56,370)	(56,370)
Endowment net assets, May 31, 2022	<u>\$ 252,531</u>	<u>\$ 1,310,736</u>	<u>\$ 1,563,267</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,358,995	\$ 1,358,995
Board-designated endowment funds	251,297	-	251,297
Total endowment net assets	<u>\$ 251,297</u>	<u>\$ 1,358,995</u>	<u>\$ 1,610,292</u>

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 8 – Endowment (continued)

Changes in endowment net assets for the year ended May 31, 2021, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	Total
Endowment net assets, May 31, 2020	\$ 194,759	\$ 1,103,606	\$ 1,298,365
Investment return			
Investment income, net of fees of \$5,394	913	4,927	5,840
Net appreciation—realized and unrealized	<u>55,625</u>	<u>300,432</u>	356,057
Total investment return	<u>56,538</u>	<u>305,359</u>	361,897
Contributions	<u>-</u>	6,550	6,550
Appropriation of endowment assets for expenditure	-	(56,520)	(56,520)
Endowment net assets, May 31, 2021	\$ 251,297	\$ 1,358,995	\$ 1,610,292

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 8 – Endowment (continued)

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year 5.00% of its endowment fund's average fair value for the twelve quarters prior to and including December 31 of the preceding fiscal year end. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 4.00% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 9 – Commitments and Contingencies

The Station has operating lease commitments for offsite transmitter towers through August 2026. Rental expense associated with these leases totaled approximately \$48,000 for each of the years ended May 31, 2022 and 2021. Future minimum lease payments on leases in effect on May 31, 2022, are as follows:

Years Ending May 31,		
2023	\$	30,025
2024		23,245
2025		15,632
2026		16,414
2027		<u>4,255</u>
Total lease payments		89,571
Less: imputed interest		<u>(3,104)</u>
Operating lease liabilities as of May 31, 2022	\$	<u><u>86,467</u></u>

Weighted average remaining lease term	2.81 years
Weighted average discount rate	1.97%

Coronavirus COVID-19 pandemic – In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the University and Station's operations.

On March 27, 2020, the CARES Act was signed into law. Among other things, the CARES Act allocated \$14 billion to higher education through the creation of the Education Stabilization Fund. The Station received \$0 and \$166,011 in emergency funds for the years ended May 31, 2022 and 2021, respectively.

KCLU-FM California Lutheran University

Notes to Financial Statements

Note 10 – Liquidity and Availability

The following table reflects the Station's financial assets as of May 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	<u>2022</u>	<u>2021</u>
Financial assets		
Accounts receivable	\$ 39,612	\$ 37,147
Due from California Lutheran University	2,930,773	2,442,291
Beneficial interest in endowment funds invested by California Lutheran University	<u>1,563,267</u>	<u>1,610,292</u>
Total financial assets	4,533,652	4,089,730
Less: those unavailable for general expenditure within one year		
Board-designated endowments	(252,530)	(251,297)
Perpetual and term endowments subject to appropriation beyond one year	<u>(1,310,736)</u>	<u>(1,358,995)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,970,386</u>	<u>\$ 2,479,438</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Board as the quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Income from Board-designated endowment has been internally designated for special projects. The Station does not intend to spend from the Board-designated endowment other than for special projects and has deducted the funds from financial assets available in the table above. However, these amounts could be made available if necessary. As part of the Station's liquidity plan, it structures its financial assets to be available as obligations become due. Cash is held in interest-bearing bank accounts and is invested in short-term fixed-income accounts.

KCLU-FM California Lutheran University
Notes to Financial Statements

Note 11 – Functional Allocation of Expenses

Expenses by function and nature consist of the following for the year ended May 31, 2022:

	Local Programming and Production	Broadcasting	Program Information and Promotion	Management and General	Fundraising and Membership Development	Total
Salaries and wages	\$ 167,461	\$ 167,461	\$ 120,572	\$ 80,381	\$ 133,969	\$ 669,844
Employee benefits	41,501	41,501	29,881	19,921	33,201	166,005
Services, supplies, and other	51,006	76,509	486,829	635,716	81,609	1,331,669
Occupancy and utilities	22,874	34,311	2,287	18,300	36,598	114,370
Depreciation	-	-	-	133,614	-	133,614
Interest	12,240	18,360	1,224	9,792	19,584	61,200
Total operating expenses	<u>\$ 295,082</u>	<u>\$ 338,142</u>	<u>\$ 640,793</u>	<u>\$ 897,724</u>	<u>\$ 304,961</u>	<u>\$ 2,476,702</u>

Expenses by function a.2 b28ure 0 07y9.84 5(se)5.7 (fui) (0)]s2s bd M b7