



Report of Independent Auditors and
Financial Statements

**KCLU-FM California Lutheran University
A Public Telecommunications Division
Operated By California Lutheran University**

May 31, 2023 and 2022

Report of Independent Auditors

The Board of Regents
KCLU-FM California Lutheran University

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KCLU-FM California Lutheran University, which comprise the statement of financial position as of May 31, 2023, 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, 2023, and the change in its 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 Fi

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 assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- x Exercise professional judgment and maintain professional skepticism throughout the audit.
- x Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- x Obtain an understanding of internal control relevant to the audit 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 KCLU-FM California Lutheran University's internal control. Accordingly, no such opinion is expressed.

h t e c n Evaluate the appropriateness of accounting policies used and the reasonableness of significant a



Financial Statements

KCLU-FM California Lutheran University
Statements of Financial Position
May 31, 2023 and 2022

ASSETS		
	2023	2022
Accounts receivable	\$ 95,095	\$ 39,612
Prepaid expenses	43,022	38,849
Due from California Lutheran University, net	2,464,724	1,895,922
Beneficial interest in endowment funds invested by California Lutheran University	1,460,026	1,563,267
Property and equipment, net	2,860,967	2,964,748
Intangible assets	475,000	475,000
Operating lease right-of-use assets	55,944	85,094
Total assets	\$ 7,454,778	\$ 7,062,492
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 13,553	\$ 14,286
Accrued payroll liabilities	91,634	87,997
Operating lease liabilities	57,853	86,467
Total liabilities	163,040	188,750
NET ASSETS		
Without donor restrictions	5,968,806	5,454,480
With donor restrictions	1,322,932	1,419,262
Total net assets	7,291,738	6,873,742
Total liabilities and net assets	\$ 7,454,778	\$ 7,062,492

See accompanying notes.

KCLU-FM California Lutheran University
Statement of Activities
May 31, 2023 and 2022

(With Summarized Comparative Information for the Year Ended May 31, 2022)

	2023		2022	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions				
Donated facilities and administrative support from California Lutheran University	\$ 599,465	\$ -	\$ 599,465	\$ 594,911
Private gifts and grants	1,827,288	1,200	1,828,488	1,791,695
Corporation for Public Broadcasting				
Community service grants	191,547	-	191,547	173,488
Underwriting income	375,487	-	375,487	307,309
Change in beneficial interest	(6,911)	(37,480)	(44,391)	8,045
Gain from PPP Small Business Loan forgiveness	-	-	-	105,514
Net assets released from restriction	60,050	(60,050)	-	-
Total revenues, gains, and other support	<u>3,046,926</u>	<u>(96,330)</u>	<u>2,950,596</u>	<u>2,980,962</u>
EXPENSES				
Program expenses				
Local programming and production	296,980	-	296,980	295,082
Broadcasting	340,688	-	340,688	338,142
Program information and promotion	676,647	-	676,647	640,793
Support expenses				
Management and general	910,768	-	910,768	897,724
Fundraising and membership development	307,517	-	307,517	304,961
Total expenses	<u>2,532,600</u>	<u>-</u>	<u>2,532,600</u>	<u>2,476,702</u>
CHANGE IN NET ASSETS	514,326	(96,330)	417,996	504,260
NET ASSETS, beginning of year	<u>5,454,480</u>	<u>1,419,262</u>	<u>6,873,742</u>	<u>6,369,482</u>
NET ASSETS, end of year	<u>\$ 5,968,806</u>	<u>\$ 1,322,932</u>	<u>\$ 7,291,738</u>	<u>\$ 6,873,742</u>

See accompanying notes.

KCLU-FM California Lutheran University
Statements of Cash Flows
May 31, 2023 and 2022

	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 417,996	\$ 504,260
Adjustments to reconcile change in net assets to net cash flows used in operating activities		
Depreciation	140,781	133,614
Amortization of operating lease right-of-use assets	29,150	18,317
Contributions restricted for long-term investments	(1,200)	(1,300)
Change in beneficial interest	44,390	(8,045)
Forgiveness of PPP Small Business Loan	-	(105,014)
Changes in assets and liabilities		
Accounts receivable	(55,483)	(2,465)
Prepaid expenses	(4,174)	(7,414)
Due from California Lutheran University, net	(568,802)	(554,116)
Accounts payable	(733)	(7,267)
Accrued payroll liabilities	3,637	(5,554)
Operating lease liabilities	(28,614)	(21,386)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(23,052)	(56,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions for long-term investments in beneficial interest	60,050	56,370
Purchases for long-term investments in beneficial interest	(1,200)	(1,300)
Acquisition of property and equipment	(37,000)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	21,850	55,070
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	1,200	1,300
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,200	1,300
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, beginning of year	-	-
CASH AND CASH EQUIVALENTS, end of year	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 73,484	\$ 61,200
Income taxes paid	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ACTIVITIES		
Forgiveness of PPP Small Business Loan	\$ -	\$ (105,014)

See accompanying notes.

KCLU-FM California Lutheran University

Notes to Financial Statements

Note 1 – Organization

KCLU-FM California Lutheran University (the “Station”) is a noncommercial radio station operated by California Lutheran University (the “University”). The accounts and reports of the Station are maintained as a separate fund in the University’s general accounting system and have been identified and segregated from the books of the University for these financial statements.

Note 2 – Significant Accounting Policies

The significant accounting policies that 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’s resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

Net assets without donor restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. The Board has designated a portion of net assets without donor restrictions to function as endowment. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors’ stipulations results in the release of such restrictions.

Net assets with donor restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional pledges and accumulated appreciation on donor-restricted endowments that have not been appropriated by the Board of Trustees for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the University to use a portion of income earned on the related investments for specific purposes.

Expiration of donor-imposed restrictions – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service.

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Notes to Financial Statements

Revenue recognition – Revenues from sources other than contributions are recognized when a service

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Notes to Financial Statements

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, 2023 and 2022. 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, 2023 and 2022.

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, 2023 and 2022, 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.

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.

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Notes to Financial Statements

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Notes to Financial Statements

The following table presents a reconciliation of the statements 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, 2023 and 2022.

	Balance May 31, 2022	Net Realized and Unrealized Losses Included in Change in Net Assets	Purchases, Issuances, and Settlement, net	Net Transfers in (out) of Level 3	Balance May 31, 2023
Assets					
Beneficial interest in endowment funds invested by California Lutheran University	\$ 1,563,267	\$ (43,191)	\$ (60,050)	\$ -	\$ 1,460,026
	Balance May 31, 2021	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, 2022
Assets					
Beneficial interest in endowment funds invested by California Lutheran University	\$ 1,610,292	\$ 9,345	\$ (56,370)	\$ -	\$ 1,563,267

Note 4 – Property and Equipment

Property and equipment consisted of the following at May 31:

	2023	2022
Property	\$ 4,820,576	\$ 4,820,576
Equipment	591,125	591,125
Vehicles	53,264	45,660
	5,464,965	5,457,361
Less: accumulated depreciation	(2,603,998)	(2,492,613)
Property and equipment, net	\$ 2,860,967	\$ 2,964,748

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.

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Notes to Financial Statements

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

	2023	2022
Due from California Lutheran		

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Notes to Financial Statements

Note 7 – Net Assets

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

	2023	2022
Net assets held in perpetuity		
Endowment funds	\$ 1,038,325	\$ 1,037,125
	1,038,325	1,037,125
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Net assets restricted for time and purpose		
Gifts and other unexpended revenues and gains available for Scholarships, instruction, and other departmental support	108,525	108,526
Accumulated gains on endowment	176,081	273,611
	284,606	382,137
Total net assets with donor restrictions	1,322,9.7(32)ci J-1.495 0 TD-.002 Tc-.0018 T	

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Notes to Financial Statements

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 UPMIFA. In accordance with UPMIFA, the Station considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the University and the donor-restricted endowment fund;
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 University; and
7. The investment policies of the University.

Endowment net asset composition by type of fund consisted of the following as of May 31, 2023:

Without Donor Restrictions	With Donor Restrictions	Total
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Notes to Financial Statements

Changes in endowment net assets for the year ended May 31, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2022	\$ 252,531	\$ 1,310,736	\$ 1,563,267
Investment return			
Investment income, net of fees of \$5,857	2,095	10,385	12,480
Net depreciation – realized and unrealized	(9,006)	(47,865)	(56,871)
Total investment return	(6,911)	(37,480)	(44,391)
Contributions	-	1,200	1,200
Appropriation of endowment assets for expenditure	-	(60,050)	(60,050)
Endowment net assets, May 31, 2023	\$ 245,620	\$ 1,214,406	\$ 1,460,026

Endowment net asset composition by type of fund consists of the following as of May 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,310,736	\$ 1,310,736
Board-designated endowment funds	252,531	-	252,531
Total endowment net assets	\$ 252,531	\$ 1,310,736	\$ 1,563,267

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Notes to Financial Statements

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	-		

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Notes to Financial Statements

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, 2023 and 2022. Future minimum lease payments on leases in effect on May 31, 2023, are as follows:

Years Ending May 31,	
2024	\$ 23,245
2025	15,632
2026	16,414
2027	<u>4,255</u>
Total lease payments	59,546
Less: imputed interest	<u>(1,693)</u>
Operating lease liabilities as of May 31, 2023	<u><u>\$ 57,853</u></u>
Weighted-average remaining lease term	2.87 years
Weighted-average discount rate	1.92%

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