

KHSU-FM RADIO
A Public Broadcasting Entity Operated by
Humboldt State University

**ACCOUNTANTS' REPORT AND
FINANCIAL STATEMENTS**
June 30, 2013 and 2012

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June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Humboldt State University and
KHSU-FM Radio

We have audited the accompanying financial statements of the business-type activities of KHSU-FM Radio, a Public Telecommunications Entity operated by Humboldt State University, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the KHSU-FM Radio's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of KHSU-FM Radio as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, 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 comprise the KHSU-FM Radio's basic financial statements. The statements of functional expenses are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The statements of functional expenses are 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 statements of functional expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Aycock and Edgmon
November 12, 2013

Management's Discussion and Analysis

Year Ended June 30, 2013 and 2012

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of KHSU-FM (the Station) for the year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

This annual report consists of a series of financial statements prepared in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. This standard is applicable to the Station as it is a component unit of Humboldt State University (the University). Consistent with the University, the Station has adopted the business-type activity (BTA) reporting model to represent its activities.

The financial statements include the statements of net position; the statements of revenues, expenses, and changes in net position, and the statements of cash flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the Station.

Statements of Net Position: The statements of net position includes all assets and liabilities. Assets and liabilities are generally reported on an accrual basis, as of the statement date. The statements also identify major categories of restrictions on the net position of the Station.

Statements of Revenues, Expenses, and Changes in Net Position: The statements of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the years on an accrual basis.

Statements of Cash Flows: The statements of cash flows present the inflows and outflows of cash for the years and are summarized by operating, noncapital financing, capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for each year's activities.

Reporting Entity

Note A to financial statements describes the relationships between the University and its auxiliary organizations, the Humboldt State University Sponsored Programs Foundation and Humboldt State University Advancement Foundation, relevant to the operation of the Station.

Analytical Overview

Management is most concerned about revenue and expenses. Combined operating and non-operating revenue decreased \$0.2 million from \$1.5 million in 2011/12 to \$1.3 million in 2012/13. Revenue from grants decreased \$0.2 million from the prior year. This is due to the receipt of one-time grants in the 2011/12 year to replace and upgrade transmission and studio equipment for the Station. These grants were not renewed in the current year.

Management's Discussion and Analysis

Year Ended June 30, 2013 and 2012

Analytical Overview - Continued

Total expenses decreased \$0.2 million due to a decrease in program services expenses that were due to the purchase of equipment during 2011/12. This reflects the acquisition of a significant amount of new equipment acquired with federal grants and local funds raised through a capital campaign in the prior year.

The following discussion highlights management's understanding on the key financial aspects of the Station's financial activities. Included are comparative analysis of current and prior year activities and balances, a discussion of long-term debt, and factors impacting future reporting periods.

Comparative Analysis of Current and Prior Year Activities and Balances

A summary of key financial statement information is used as a basis for reviewing current year results in comparison with the prior year.

	<u>FY 2012/13</u>	<u>FY 2011/12</u>	<u>Change</u>
Assets			
Current assets	\$ 243,183	\$ 196,778	\$ 46,405
Noncurrent assets	<u>262,004</u>	<u>300,160</u>	<u>(38,156)</u>
Total assets	<u>\$ 505,187</u>	<u>\$ 496,938</u>	<u>\$ 8,249</u>
Liabilities			
Current liabilities	\$ 52,895	\$ 111,096	\$ (58,201)
Long-Term liabilities	<u>19,159</u>	<u>37,500</u>	<u>(18,341)</u>
Total liabilities	<u>\$ 72,054</u>	<u>\$ 148,596</u>	<u>\$ (76,542)</u>
Net position			
Net investment in capital assets	\$ 247,638	\$ 284,530	\$ (36,892)
Restricted for capital projects	30,386	27,570	2,816
Unrestricted	<u>155,109</u>	<u>36,242</u>	<u>118,867</u>
Total net position	<u>\$ 433,133</u>	<u>\$ 348,342</u>	<u>\$ 84,791</u>

Management's Discussion and Analysis

Year Ended June 30, 2013 and 2012

Analytical Overview - Continued

	FY 2012/13	FY 2011/12	Change
Operating revenues			
Business and industry	\$ 196,118	\$ 243,545	\$ (47,427)
Underwriting trades	38,052	31,905	6,147
Total operating revenues	\$ 234,170	\$ 275,450	\$ (41,280)
Nonoperating revenues			
General appropriation from Humboldt State University	\$ 299,920	\$ 102,295	\$ 197,625
Donated facilities, equipment and administrative support from Humboldt State University Corporation for Public Broadcasting grant	247,221	348,715	(101,494)
PTFP generator grant	151,508	200,930	(49,422)
PTFP studio equipment grant	-	30,000	(30,000)
Local grants	7,100	67,844	(67,844)
Digital radio conversion and fiscal stabilization grant	-	-	7,100
Listener support	-	46,770	(46,770)
Capital campaign	327,930	344,493	(49,133)
Other income	40,136	94,564	(21,858)
Other income	-	5,483	(5,483)
Total nonoperating revenues	\$ 1,073,815	\$ 1,241,094	\$ (167,279)
Expenses			
Programming and production	\$ 307,827	\$ 402,447	\$ (94,620)
Broadcasting	197,611	242,785	(45,174)
Fund-raising and memberships	282,886	237,459	45,427
Management and general	434,870	494,395	(59,525)
Total expenses	\$ 1,223,194	\$ 1,377,086	\$ (153,892)

Long-term Debt

The Station, as an individual program within the University, has no external long-term debt. Obligations of the University and its auxiliaries are reflected in those organizations' financial statements and are not meaningful with respect to the operation of the Station. The University Vice President of University Advancement advanced \$75,000 to the Station during the 2011/12 fiscal year. These funds were to be used to cover \$75,000 of the Station's expenses, to help the Station leverage additional funds, and to meet time lines related to capital projects due to Federal Communications Commission and grant deadlines. It was the intention of the Vice President of University Advancement for these funds to be repaid within the next two fiscal years without interest. Of this, \$9,375 was repaid in the current year and the unpaid balance of \$65,625 was forgiven as of June 30, 2013. This amount will be included as additional general appropriations to the Station from the University in the fiscal year 2012/13 on the statements of revenues, expenses, and changes in net position.

Management's Discussion and Analysis

Year Ended June 30, 2013 and 2012

Analytical Overview - Continued

Factors Impacting Future Periods

The Station is continuing efforts to increase its listener support and underwriting contributions, which reflect the value that the Station's audience places on the Station's success. Management intends to enhance efforts to increase this support in the next year, as well as reduce expenses to operate within the Station's means.

Commencing in the 2011/12 year, the Station began to replace or upgrade much of its transmission and studio equipment. Grants funded approximately half of these upgrades, including approximately \$0.1 million from the Corporation for Public Broadcasting (CPB) and the California Office of Emergency Services for digital conversion of its main transmitter. In addition, the Station received funding for two grants from the Public Telecommunication Facilities Program of the U.S. Department of Commerce of roughly \$0.1 million. The University has contributed approximately \$0.1 million for the installation of a new emergency generator at the Station's studio. Private fund-raising from local donors and philanthropic foundations have funded the remainder of these upgrades. Renovations will continue into 2013 and 2014, as will additional capital fund-raising.

In the 2012/13 fiscal year, the CPB changed the way it funded rural public radio stations. As a result, the Station can expect an ongoing reduction of approximately \$20,000 per year in its CPB Community Service Grant. The federal government's sequestration of funds has further decreased CPB's support of the Station. This sequestration of funds is expected to continue into future years unless the federal government reconciles its budgetary issues.

KHSU-FM RADIO
A Public Broadcasting Entity Operated by
Humboldt State University

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 107,273	\$ 77,463
Accounts receivable	64,950	59,733
Pledges receivable - Net of allowance of \$16,877 and \$9,457	54,940	47,642
Restricted receivables for capital projects, current	16,020	11,940
Total current assets	243,183	196,778
Noncurrent assets		
Capital assets	545,573	552,588
Accumulated depreciation	(297,935)	(268,058)
Total net capital assets	247,638	284,530
Restricted receivables for capital projects, net of current portion	14,366	15,630
Total noncurrent assets	262,004	300,160
Total assets	\$ 505,187	\$ 496,938
Liabilities and net position		
Current liabilities		
Accounts payable	\$ 33,308	\$ 6,866
Unearned revenue	-	1,315
Accrued compensated balances, current	19,587	11,485
Interfund payable to Humboldt State University	-	67,500
Total current liabilities	52,895	87,166
Long-term liabilities		
Accrued compensated balances, net of current portion	19,159	23,930
Interfund payable to Humboldt State University	-	37,500
Total long-term liabilities	19,159	61,430
Total liabilities	72,054	148,596
Net position		
Net investment in capital assets	247,638	284,530
Restricted for capital projects	30,386	27,570
Unrestricted	155,109	36,242
Total net position	433,133	348,342
Total liabilities and net position	\$ 505,187	\$ 496,938

The accompanying notes to financial statements are an integral part of this statement.

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Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Operating revenues		
Business and industry	\$ 196,118	\$ 243,545
Underwriting trades	38,052	31,905
Total operating revenues	234,170	275,450
Operating expenses		
Program services		
Programming and production	307,827	402,447
Broadcasting	197,611	242,785
Total program services	505,438	645,232
Support services		
Fund-raising and memberships	282,886	237,459
Management and general	434,870	492,213
Total support services	717,756	729,672
Total operating expenses	1,223,194	1,374,904
Operating loss	(989,024)	(1,099,454)
Nonoperating revenues (expenses)		
General appropriation from Humboldt State University	299,920	102,295
Donated facilities equipment and administrative support from Humboldt State University	247,221	348,715
Corporation for Public Broadcasting grant	151,508	200,930
PTFP generator grant	-	30,000
PTFP studio equipment grant	-	67,844
Local grants	7,100	-
Digital radio conversion grant and fiscal stabilization grant	-	46,770
Listener support	327,930	344,493
Capital campaign	40,136	94,564
Investment losses	-	(2,182)
Other income	-	5,483
Total nonoperating revenues (expenses)	1,073,815	1,238,912
Increase in net position	84,791	139,458
Net position at beginning of year	348,342	208,884
Net position at end of year	\$ 433,133	\$ 348,342

The accompanying notes to financial statements are an integral part of this statement.

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Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from business and industry	\$ 189,586	\$ 189,091
Cash payments to suppliers for goods and services	(330,872)	(520,019)
Cash payments to employees for service	(526,875)	(503,681)
Net cash provided by (used in) operating activities	(668,161)	(834,609)
Cash flows from noncapital financing activities:		
General appropriations from Humboldt State University	234,295	102,295
Grants and contracts received	151,508	290,932
PTFP grants	-	97,844
Local grants	7,100	-
Advances from affiliates	-	(48,785)
Listener support received	320,632	319,994
Capital campaign	37,320	66,994
Other income	-	22
Net cash provided by (used in) noncapital financing activities	750,855	829,296
Cash flows from capital and related financing activities:		
Capital assets acquired	(13,509)	(95,847)
Interfund payable Humboldt State University	(39,375)	75,000
Net cash provided by (used in) capital and related financing activities	(52,884)	(20,847)
Cash flows from investing activities:		
Sale of investments	-	105,805
Investment earnings (losses)	-	(2,182)
Net cash provided by (used in) Investing Activities	-	103,623
Net increase in cash and cash equivalents	29,810	77,463
Cash and cash equivalents at beginning of year	77,463	-
Cash and cash equivalents at end of year	\$ 107,273	\$ 77,463
Supplemental schedule of noncash transactions		
Donated facilities, equipment, and administrative support from Humboldt State University	247,221	348,715
In-kind trades from business and industry	38,052	31,905
Interfund payable to Humboldt State University	65,625	-
Equipment disposed of	20,524	-

The accompanying notes to financial statements are an integral part of this statement.

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating (loss)	\$ (989,024)	\$ (1,099,454)
Adjustments to reconcile operating (loss) to net cash provided by (used) in operating activities:		
Depreciation expense	50,401	32,924
Donated facilities, equipment, and administrative	247,221	279,067
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(5,217)	(51,550)
(Increase) decrease in employee expenses	-	200
Increase (decrease) in accounts payable	26,442	(7,468)
Increase (decrease) in unearned revenue	(1,315)	(2,904)
Increase (decrease) in accrued compensated balances	3,331	14,576
Net cash provided by (used in) operating activities	\$ (668,161)	\$ (834,609)

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

June 30, 2013 and 2012

Note A - Summary of Significant Account Policies

Organization and Nature of Activities

KHSU-FM Radio (the Station) is operated by Humboldt State University (the University) in Arcata, California, under a license granted by the Federal Communications Commission. All amounts contained in this report are included in the audited financial statements of The California State University system. The University is a component unit of The California State University system. The Station is part of the University and as such, is exempt from federal and state income taxes.

The Humboldt State University Sponsored Programs Foundation (Sponsored Program Foundation), an auxiliary organization of the University, provided certain functions for the Station under an operating agreement with the University. The functions performed include employing full-time and part-time staff as management of the Station deems necessary to operate, in addition to providing payroll, benefit administration services, and related human resources services. The Humboldt State University Advancement Foundation (Advancement Foundation), an auxiliary organization of the University, maintains the Station's operating funds. The Sponsored Program Foundation and the Advancement Foundation are affiliated organization component units of the University and as such their financial data are included in the financial statements of the University.

These financial statements represent only those of the Station and include the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. The financial statements do not purport to, nor do they present fairly the University's financial position nor the changes in its financial position, nor its cash flows as of June 30, 2013 and 2012.

Basis of Presentation

Pursuant to the requirements established by The California State University system, the Station has adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62). GASB No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, that do no conflict with GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations:
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

GASB No. 62 also supersedes GASB No. 20, thereby eliminating the election provided in GASB No. 20 for enterprise funds and governments engaged in business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do no conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements. Adoption of GASB No. 62 had no impact on the basic financial statements.

Notes to Financial Statements

June 30, 2013 and 2012

Note A - Summary of Significant Account Policies - Continued

Basis of Presentation - Continued

As of July 1, 2012, the Station adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which specifies that the statements of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* and GASB Statement No. 63, include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. The Station is a component unit of the University, a public university under The California State University system. The Station has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the Station prepares its statement of cash flows using the direct method.

Cash and Cash Equivalents

Cash balances of the Station are included in accounts maintained by the Advancement Foundation and the University. In addition, the Station's surplus operating funds are managed by the Advancement Foundation. These funds are available to meet current obligations. The Station considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount billed to underwriters. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Station did not provide an allowance for delinquent accounts receivable, as it believed all amounts were collectible.

Pledges Receivable

Pledges receivable are accrued as of the end of the fiscal year, provided the pledge is verifiable, measurable, and conditions, if present, have been met. Pledges, net of an allowance of \$16,877 and \$9,457, total \$54,940 and \$47,642 as of June 30, 2013 and 2012, respectively. The allowance for uncollectible pledges is calculated based on the Station's past experience with collections.

Unearned revenue

Unearned revenue consists of payments made in advance for underwriting to be performed by the Station at a future date.

Notes to Financial Statements

June 30, 2013 and 2012

Note A - Summary of Significant Account Policies - Continued

Equipment Lien

Two equipment liens were filed on December 21, 2012 on equipment purchased under National Telecommunications and Information Administration (NTIA) Grants. The term of these priority liens shall extend for a period of ten years during which time the Federal Government retains a priority reversionary interest in the equipment. The secured organization is NTIA/PTFP U.S. Department of Commerce.

<u>Grant Number</u>	<u>Start Date</u>	<u>End Date</u>	<u>Capital</u>	<u>Noncapital</u>	<u>Total</u>	<u>Description</u>
06-01-N10158	5/01/2012	4/30/2022	\$ 69,485	\$ -	\$ 69,485	Stand-by Generator
06-01-N10176	8/01/2012	7/31/2022	\$ 23,033	\$ 129,468	\$ 152,501	Production Equipment

Capital Assets

Capital assets include property and equipment stated at cost or, if received as a gift, the fair market value at the date of gift, less accumulated depreciation computed on the straight-line basis over the estimated useful lives of 5-30 years. The capitalization threshold for equipment is \$5,000.

Net Position

Station resources are classified for accounting and financial reporting purposes into the following net position categories:

- Net invested in capital assets - resources resulting from capital acquisition or construction, net of accumulated depreciation
- Restricted for capital projects - resources restricted by donor intent for the purpose of funding capital projects
- Unrestricted - net resources which are available for use of the Station

The Station has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available. Generally, the Station attempts to utilize restricted funds first when practicable.

Revenue Recognition

Unconditional contributions, pledges, and grants are recorded as revenues in the accompanying statements of revenues, expenses, and changes in net position when verifiable, measurable, and probable of collection and eligibility requirements are met. In-kind contributions, other than the contribution from the University, are recognized as revenue at the estimated fair market value at the date of the gift.

The portion of the University's indirect costs attributable to the Station's operations and the value of space provided to the Station by the University are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting.

Notes to Financial Statements

June 30, 2013 and 2012

Note A - Summary of Significant Account Policies - Continued

Operating and Nonoperating Revenues

Revenues are classified as either operating or nonoperating according to standards issued by GASB. Operating revenues for the Station include underwriting. Nonoperating revenues include grants, gifts, University allocations, and investment earnings.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accrued Compensated Absences

The Station's policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as cash payments. The expense and the related liability are recognized as vacation benefits as earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the date of the balance sheet.

Functional Expenses

The Station allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

Reclassifications

Certain items in the 2012 financial statements have been reclassified for comparative purposes to conform to presentation in the current year financial statements. Such reclassifications had no effect on previously reported changes in net position.

Note B - Cash and Cash Equivalents

Cash is pooled with the Advancement Foundation and the University. As of June 30, 2013 and 2012, there were no cash balances on deposit with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) maximums of \$250,000.

Disclosures regarding risks related to cash and cash equivalents including interest rate risk, credit risk, and custodial risk as of June 30, 2013 and 2012 can be found in the Advancement Foundation Notes to Financial Statements. The Station does not believe a material risk of loss exists with respect to its financial position due to these risks.

Notes to Financial Statements

June 30, 2013 and 2012

Note C - Restricted Receivables for Capital Projects

Restricted receivables for capital projects are accrued as of the end of the fiscal year, provided the receivables are verifiable, measurable, and conditions, if present, have been met. These funds are restricted and are to be used to fund the Station's Capital Campaign goals as listed below. The restriction will be removed as the goals are met. The first four goals were met prior to June 30, 2013. An allowance has not been provided and a discount has not been included as management believes that 100% of these receivables are collectable.

KHSU-FM's Capital Campaign Goals

1	Emergency Power at KHSU Studios	\$ 100,000
2	Upgrade Del Norte Signal	80,000
3	Replace Aging and Obsolete Studio Equipment	150,000
4	Protect and preserve KHSU-FM Service in Garberville and Ferndale-Fortuna	90,000
5	Second News and Information Service	140,000
6	Establish Fund for New Initiatives	190,000
		<u>\$ 750,000</u>

Restricted receivables for capital projects are due as follows:

Year Ending June 30	Cash
2014	\$ 16,020
2015	6,020
2016	4,472
2017	2,750
2018	1,124
	<u>\$ 30,386</u>

Notes to Financial Statements

June 30, 2013 and 2012

Note D - Property and Equipment

A summary of the property and equipment at June 30, 2013 and 2012 follows:

	Jul 1, 2012	Adjustments	Adjusted Beginning Balance	Additions	Disposals	Jun 30, 2013
Production and broadcast equipment	\$ 379,843	\$ -	\$ 379,843	\$ 13,509	\$ (20,524)	\$ 372,828
Production and broadcast equipment (Federally funded)	122,681	-	122,681	-	-	122,681
Building and improvements	50,064	-	50,064	-	-	50,064
Total Property and Equipment	552,588	-	552,588	13,509	(20,524)	545,573
Accumulated Depreciation	(268,058)	-	(268,058)	(50,401)	20,524	(297,935)
Net Capital Assets	\$ 284,530	\$ -	\$ 284,530	\$ (36,892)	\$ -	\$ 247,638
	Jul 1, 2011	Adjustments	Adjusted Beginning Balance	Additions	Disposals	Jun 30, 2012
Production and broadcast equipment	\$ 307,029	\$ -	\$ 307,029	\$ 72,814	\$ -	\$ 379,843
Production and broadcast equipment (Federally funded)	-	-	-	122,681	-	122,681
Building and improvements	50,064	-	50,064	-	-	50,064
Total Property and Equipment	357,093	-	357,093	195,495	-	552,588
Accumulated Depreciation	(240,595)	5,461	(235,134)	(32,924)	-	(268,058)
Net Capital Assets	\$ 116,498	\$ 5,461	\$ 121,959	\$ 162,571	\$ -	\$ 284,530

During the year ended June 30, 2013 and 2012, depreciation expense of \$50,401 and \$32,924, respectively, was allocated to the following functional expenses:

Functional Expenses	2013	2012
Program and Production Broadcasting	\$ 18,705	\$ 11,037
	31,696	21,887
	\$ 50,401	\$ 32,924

Notes to Financial Statements

June 30, 2013 and 2012

Note E - Interfund Payable to Humboldt State University

The University Vice President of University Advancement advanced \$75,000 to the Station during the 2011/12 fiscal year. These funds were to be used to cover \$75,000 of the Station's expenses, to help the station leverage additional funds, and to meet timelines related to capital projects due to Federal Communications Commission and grant deadlines. It was the intention of the Vice President of University Advancement for these funds to be repaid within the next two fiscal years without interest. Of this, \$9,375 was repaid in the current year 2012/13 and the unpaid balance of \$65,625 was forgiven as of June 30, 2013. This amount will be included as additional general appropriations to the Station from the University in the fiscal year 2012/13.

In a prior year, the University - Plant Operations entered a joint project with the Station to replace a generator in the building where the Station's broadcasting station is located on the University's campus. The Station's share of this project was \$30,000 and was paid without interest in the fiscal year 2013.

Note F - Retirement Plans and Post Retirement Benefits

Station employees are participants in various retirement programs, including the Federal Insurance Contributions Act (FICA). Certain administrative employees of the Station participate in a defined contribution plan. Regular staff participates in the California Public Employees' Retirement Fund System. All plan disclosures can be found in the California State University Notes to the Financial Statements and the Sponsored Program Foundation Notes to Financial Statements.

Note G - Donated Facilities and Administrative Support

Donated facilities and administrative support from the University is comprised of costs for institutional support and physical plant operations, which are allocated financial costs incurred by the University on behalf of the Station. These amounts are recorded in the accompanying statements of revenues, expenses, and changes in net position as revenue and offsetting expenses and were calculated based on Corporation for Public Broadcasting guidelines using the basic method. Costs for institutional support and physical plant operations are as follows:

	2013	2012
Institutional support	\$ 222,111	\$ 248,361
Physical plant operations	25,110	30,706
Facilities and administrative support	247,221	279,067
Matching support - generator and installation	-	69,648
Total donated facilities and administrative support	\$ 247,221	\$ 348,715

Notes to Financial Statements

June 30, 2013 and 2012

Note H - Leases

The Station entered into operating leases during the 2011/12 and 2012/13 fiscal years for tower antennas and buildings. During the year ended June 30, 2013 and 2012 the lease expense was \$26,140 and \$24,350, respectively.

Future minimum lease payments under noncancellable operating lease agreements are as follows:

<u>Year Ending June 30</u>	<u>Due</u>
2014	27,047
2015	27,047
2016	27,047
2017	13,858
2018	9,600
After 5 years	<u>174,768</u>
	<u>\$ 279,367</u>

Note I - Taxes

The Internal Revenue Service has ruled that the units of the University, which include the Station, are exempt under Code Sections 115 (a). Therefore, no provision for income taxes has been made.

Note J - Subsequent Events

The Station's management has evaluated its subsequent events through November 12, 2013, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Statement of Functional Expenses

For the Year Ended June 30, 2013

	Program services		
	Program and production	Broadcasting	Total program services
Salaries, payroll taxes, and employee benefits	\$ 126,562	\$ 80,905	\$ 207,467
Supplies and other services			
Advertising	-	-	-
Audit expense	-	-	-
Bank charges	-	-	-
Communications	2,109	538	2,647
Computer networks	656	2,269	2,925
Contractual services	-	13,107	13,107
Equipment	-	13,135	13,135
Hospitality expense	-	-	-
Indirect cost expense	5,524	1,311	6,835
Investment services fee	-	-	-
Memberships	-	-	-
Postage and freight	-	-	-
Printing	-	-	-
Programming costs and other fees	138,058	-	138,058
Space rental	-	30,879	30,879
Subscriptions	750	-	750
Supplies and services	15,463	16,846	32,309
Telephone - Usage charges	-	5,367	5,367
Travel in state	-	1,558	1,558
Travel out of state	-	-	-
	162,560	85,010	247,570
Total supplies and other services			
Depreciation	18,705	31,696	50,401
Donated facilities, equipment, and administrative support from Humboldt State University	-	-	-
Total expenses	\$ 307,827	\$ 197,611	\$ 505,438

<u>Support services</u>			
<u>Fund-raising and membership</u>	<u>Management and general</u>	<u>Total support services</u>	<u>2013 Totals</u>
\$ 173,405	\$ 149,334	\$ 322,739	\$ 530,206
27,079	-	27,079	27,079
-	13,250	13,250	13,250
5,635	-	5,635	5,635
3,195	297	3,492	6,139
1,607	128	1,735	4,660
-	-	-	13,107
-	-	-	13,135
2,134	2,104	4,238	4,238
6,866	1,650	8,516	15,351
-	-	-	-
2,777	184	2,961	2,961
452	8,086	8,538	8,538
14,557	-	14,557	14,557
-	-	-	138,058
255	-	255	31,134
595	904	1,499	2,249
38,271	7,157	45,428	77,737
388	1,660	2,048	7,415
1,790	535	2,325	3,883
3,880	2,360	6,240	6,240
109,481	38,315	147,796	395,366
-	-	-	50,401
-	247,221	247,221	247,221
<u>\$ 282,886</u>	<u>\$ 434,870</u>	<u>\$ 717,756</u>	<u>\$ 1,223,194</u>

The accompanying notes to financial statements are an integral part of this statement.

Statement of Functional Expenses

For the Year Ended June 30, 2012

	Program services		
	Program and production	Broadcasting	Total program services
Salaries, payroll taxes, and employee benefits	\$ 97,214	\$ 93,476	\$ 190,690
Supplies and other services			
Advertising	-	-	-
Audit expense	-	-	-
Bank charges	-	-	-
Communications	4,916	1,881	6,797
Computer networks	365	14,758	15,123
Contractual services	-	19,606	19,606
Equipment	110,147	41,507	151,654
Hospitality expense	26	22	48
Indirect cost expense	7,762	751	8,513
Investment services fee	-	-	-
Memberships	100	-	100
Postage and freight	1,629	2,665	4,294
Printing	442	386	828
Programming costs and other fees	164,217	207	164,424
Space rental	-	28,510	28,510
Subscriptions	1,185	-	1,185
Supplies and services	1,619	9,749	11,368
Telephone - Usage charges	169	5,405	5,574
Travel in state	1,619	1,975	3,594
Travel out of state	-	-	-
Total supplies and other services	294,196	127,422	421,618
Depreciation	11,037	21,887	32,924
Donated facilities, equipment, and administrative support from Humboldt State University	-	-	-
Total expenses	<u>\$ 402,447</u>	<u>\$ 242,785</u>	<u>\$ 645,232</u>

<u>Support services</u>			
<u>Fund-raising and membership</u>	<u>Management and general</u>	<u>Total support services</u>	<u>2012 Totals</u>
\$ 162,515	\$ 165,052	\$ 327,567	\$ 518,257
22,367	-	22,367	22,367
-	12,500	12,500	12,500
-	4,190	4,190	4,190
1,881	2,165	4,046	10,843
714	545	1,259	16,382
-	1,032	1,032	20,638
-	1,850	1,850	153,504
4,400	597	4,997	5,045
13,020	3,505	16,525	25,038
-	464	464	464
1,611	184	1,795	1,895
2,468	2,470	4,938	9,232
7,540	4,677	12,217	13,045
335	355	690	165,114
-	-	-	28,510
-	936	936	2,121
17,684	8,978	26,662	38,030
239	1,401	1,640	7,214
221	1,078	1,299	4,893
<u>2,464</u>	<u>1,167</u>	<u>3,631</u>	<u>3,631</u>
74,944	48,094	123,038	544,656
-	-	-	32,924
<u>-</u>	<u>279,067</u>	<u>279,067</u>	<u>279,067</u>
<u>\$ 237,459</u>	<u>\$ 492,213</u>	<u>\$ 729,672</u>	<u>\$ 1,374,904</u>

The accompanying notes to financial statements are an integral part of this statement.