

KVSC RADIO 88.1 FM

AN ENTERPRISE FUND OF ST. CLOUD UNIVERSITY

St. Cloud, Minnesota

Financial Statements
Including Independent Auditors' Report

For the years ended June 30, 2012 and 2011

Prepared by:

Business Services
St. Cloud State University
720 4th Avenue South, AS124
St. Cloud, Minnesota 56301

KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
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INDEPENDENT AUDITORS' REPORT

KVSC Radio 88.1 FM
St. Cloud State University
St. Cloud, Minnesota

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

We have audited the accompanying statements of net assets of KVSC Radio 88.1 FM (KVSC), an enterprise fund of St. Cloud State University, as of June 30, 2012 and 2011 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the KVSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the KVSC Radio 88.1 FM enterprise fund and do not purport to, and do not, present fairly the financial position of Saint Cloud State University and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KVSC Radio 88.1 FM, an enterprise fund of St. Cloud State University, as of June 30, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The organization chart is presented for purposes of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on this information.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
January 23, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of KVSC RADIO 88.1 FM (KVSC), an enterprise fund of St. Cloud State University (the University) at June 30, 2012, 2011 and 2010, and for the years then ended. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes, which follow this section.

KVSC is an educational public radio station licensed to St. Cloud State University. The mission of KVSC is three-fold: To provide students and volunteers with practical professional experience in operating an FM radio station, to keep listeners informed with quality, community-based programming with an emphasis on local issues and events coverage, and to provide listeners with musical programming which is a diverse alternative to other music formats in the broadcast market. To that end, KVSC provides an outlet for musical styles not found elsewhere in the community, a forum for discussion of current political trends and social issues, award-winning news, sports and information segments, multi-cultural programming to meet the needs of a more ethnically diverse community and free radio broadcast training.

The station broadcasts with 16,500 watts of power providing a listening radius of about 70 miles. The station is operated by students and community volunteers and is on the air 365 days per year, 24 hours per day. The on air hosts and deejays are entirely staffed by volunteers, roughly 7,300 hours total with another 1,000+ hours volunteered at sports or remote/community event broadcasts. Other than the station's professional employees consisting of a station manager, operations director and two grant funded half-time employees, the station is staffed by student workers in all areas of station operations including programming, production, news, sports, music, marketing, online content management, etc. All of these students and community volunteers gain invaluable experience in the many different aspects of radio broadcasting.

KVSC is *Your Sound Alternative* offering a blend of progressive rock, jazz, folk, reggae, world, blues, local music, and much more. In addition KVSC offers special and expanded features on its web portal, KVSC.org, including additional online news and cultural affairs content, live audio streaming and downloadable podcasts of popular content.

KVSC is a member station of the Association of Minnesota Public Educational Radio Stations (AMPERS) network of Diverse Radio for Minnesota's Communities. The AMPERS network provides stations with fundraising and statewide network underwriting opportunities, production and program sharing, new media/technology updates and advocacy at the state and national levels.

Trivia weekend is KVSC's biggest campus and community event of the year. It was created to alleviate Minnesota's infamous cabin fever and debuted in 1980 with 25 teams participating, consisting mostly of teams of students. The sophistication of the event has grown and in 2012, Trivia weekend attracted 67 teams, several of which now play via the Internet from various parts of the country. Several teams are joining forces to become "super teams" of 25-60 players per team. Trivia weekend is annually scheduled for the second weekend of February and begins on Friday at 5 p.m. Participating teams endure 50 hours of non-stop trivia questions representing a broad range of categories including: movies, pop culture, sports, science and history. Each year, a different theme is chosen to pay homage to a popular movie, novel or pop-culture phenomena. In 2012, there were 36 trivia answer hotlines staffed by volunteers and UTVS-Television provided live video telecast coverage of the entire event. There were more than 200 alumni, students, and community members who volunteered their time and effort to make this event a success. Approximately 60 St. Cloud and Greater Minnesota businesses show their support for the event with funding and/or food donations to provide sustenance for the volunteers.

FINANCIAL HIGHLIGHTS

KVSC's financial position is evolving but remains stable, with assets of \$260,825 and liabilities of \$175,123 at June 30, 2012, compared to assets of \$222,860 and liabilities of \$116,008 on June 30, 2011. Net assets, which represent the residual interest in KVSC's assets after liabilities are deducted, decreased \$21,150 in fiscal year 2012 to \$85,702.

USING THE FINANCIAL STATEMENTS

KVSC's financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These financial statements are prepared in accordance with applicable generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) through authoritative pronouncements.

STATEMENTS OF NET ASSETS

The statement of net assets presents the financial position of the KVSC at the end of the fiscal year and includes all assets and liabilities as measured using the accrual basis of accounting. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of KVSC, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Capital assets are stated at historical cost less an allowance for depreciation, with current year depreciation reflected as a period expense on the Statement of Revenues, Expenses and Changes in Net Assets.

A summary of KVSC's assets, liabilities and net assets as of June 30, 2012, 2011 and 2010 are as follows:

	As of June 30		
	2012	2011	2010
Current assets	\$ 202,964	\$ 151,374	\$ 171,564
Noncurrent assets			
Capital assets, net	57,861	71,486	58,446
Total assets	<u>260,825</u>	<u>222,860</u>	<u>230,010</u>
Current liabilities	142,559	87,951	88,810
Noncurrent liabilities	32,564	28,057	29,995
Total liabilities	<u>175,123</u>	<u>116,008</u>	<u>118,805</u>
Net assets	<u>\$ 85,702</u>	<u>\$ 106,852</u>	<u>\$ 111,205</u>

Total current assets increased by \$51,590 primarily due to the increase in cash from fiscal year 2011 to fiscal year 2012 and a grant receivable that was not present in fiscal year 2011. Cash and funds held by third party combined increased by \$16,042 from fiscal year 2011 to fiscal year 2012, due in part to changes in State grant guidelines which now require spending of funds in their entirety during the second year of the State's budget biennium. Also, receivables increased by \$32,439 due to the aforementioned grant receivable while prepaid expense increased by \$4,111.

Liabilities consist primarily of accrued compensation and deferred federal and state grant revenue, which represents amounts received in advance of providing services. Payables decreased \$454 to \$22,791 in fiscal year 2012. Compensated absences increased by \$4,354 due in part to the temporary

grant funded positions being reinstated following the state government shutdown in the summer of 2011. Deferred grant revenue increased \$54,782 in fiscal year 2012.

Net assets represent the residual interest in the Station's assets after liabilities are deducted. The Station's net assets as of June 30, 2012, 2011 and 2010, respectively, are summarized as follows:

		Net Assets at June 30		
		2012	2011	2010
Invested in capital assets	\$	57,861	\$ 71,486	\$ 58,446
Unrestricted		27,841	35,366	52,759
Total net assets	\$	<u>85,702</u>	<u>\$ 106,852</u>	<u>\$ 111,205</u>

Invested in capital assets represents KVSC's investments in broadcasting equipment with original cost exceeding the capitalization thresholds as outlined in Note 1, net of accumulated depreciation.

Restricted net assets are subject to externally imposed stipulations governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, KVSC's unrestricted net assets have been designated by management for various programs and initiatives.

CAPITAL ACTIVITIES

With office and studio facilities provided by the University, capital outlays by KVSC are comprised primarily of investments in broadcasting equipment. Capital assets, net of accumulated depreciation, as of June 30, 2012, totaled \$57,861, a decrease of \$13,625 from fiscal year 2011. The decrease consisting of current year depreciation recognized during fiscal year 2012.

Since the University's capitalization threshold increased to \$10,000 on July 1, 2008, management acknowledges that most additions and upgrades will not exceed this threshold and as such will be recognized as operational expenses.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets represent KVSC's results of operations for the year. When reviewing the full statement, users should note that GASB requires classification of federal and state grants, listener donations and contributions, and appropriations from the University as non-operating revenue.

A summary table of the information contained in the statement of revenues, expenses and changes in net assets follows:

	For the years ended June 30		
	2012	2011	2010
Operating revenue:			
Student fees	\$ 37,843	\$ 38,951	\$ 40,397
Underwriting	82,249	77,267	92,147
Other revenue	8,863	7,084	4,931
Total operating revenue	<u>128,955</u>	<u>123,302</u>	<u>137,475</u>
Nonoperating revenue:			
University provided support	299,033	354,351	340,208
Contributions – listener support	32,161	32,076	32,608
Grants from the Corp. for Public Broadcasting	109,544	67,322	93,366
Grants from the State of Minnesota	93,330	188,983	139,394
Total nonoperating revenue	<u>534,068</u>	<u>642,732</u>	<u>605,576</u>
Total revenue	<u>663,023</u>	<u>766,034</u>	<u>743,051</u>
Operating expense:			
Salaries and benefits	279,199	321,046	323,363
Supplies and services	193,353	215,557	228,311
Depreciation	13,625	11,959	11,125
In-kind expenses	183,480	201,070	185,675
Other expenses	14,516	20,755	16,222
Total operating expense	<u>684,173</u>	<u>770,387</u>	<u>764,696</u>
Change in net assets	(21,150)	(4,353)	(21,645)
Net assets, beginning of year, as restated	<u>106,852</u>	<u>111,205</u>	<u>132,850</u>
Net assets, end of year	<u>\$ 85,702</u>	<u>\$ 106,852</u>	<u>\$ 111,205</u>

The University is the primary source of revenue for KVSC, providing 45% of total revenues in fiscal year 2012. The University provides state appropriations to fund a full time station manager and an operations manager and in prior years provided reassigned time for a faculty advisor/general manager and graduate assistantships. The University also provides in-kind contributions consisting of facilities and administration and the utilities for the leased tower and transmitter facility.

Underwriting revenues are received as either cash exchange transactions or as non-cash/in-kind transactions. In-kind underwriting revenues include various types of contributions including prizes and certificates to be awarded to random call-in contest winning listeners or those individuals pledging membership sponsorship, or trivia weekend sponsorships that provide food, prizes and beverage to the many volunteers working that weekend. KVSC has also received other miscellaneous goods and services such as newspaper and bus advertising in exchange for underwriting.

Overall underwriting revenues increased by \$4,982 during fiscal year 2012. Cash exchange underwriting revenues have decreased from \$25,033 in fiscal year 2011 to \$18,840 in fiscal year 2012 as KVSC experienced a mid-year student staff transition in the marketing and underwriting position. However, non-cash/in-kind underwriting revenues increased from \$52,234 in fiscal year 2011 to \$63,409 in fiscal year 2012, as KVSC expanded its trade and promotional contracts with new and existing clients.

KVSC received its first federal Radio Community Service Grant from the Corporation for Public Broadcasting (CPB) in fiscal year 2009. Funding levels have varied considerably as the category funding level assigned to KVSC by CPB has changed each year. CPB funding awarded to KVSC increased from \$90,837 in fiscal year 2011 to \$140,380 in fiscal year 2012. While these grants are awarded annually they have overlapping two year expenditure periods. CPB restricts a percentage (approximately 26%) of the funds, requiring that they be expended towards national program acquisition and distribution. KVSC has used these funds to invest in access to the Public Radio Satellite System and Content Depot for programming, increase marketing and audience outreach efforts, digital studio upgrades and increased online and social media presence. An additional 25% of funding received is required to be set aside to improve the listening index and/or the community financial support index.

For fiscal year 2012 the Minnesota State Legislature required the Minnesota Department of Administration to enact a new competitive process in the allocation of Arts and Cultural Heritage grants and significantly reduced overall funding for these awards. KVSC was awarded grant funding from the State of Minnesota Arts and Cultural Heritage Fund in the amount of \$135,000 for fiscal year 2011 and \$93,401 for fiscal year 2012. These funds have been used to fund two half time positions, to host a speaker series and concerts, to overhaul and upgrade a multi-track recording studio for live broadcasts, and produce arts and cultural content for on air broadcast and online podcast access

Biennially, the Minnesota State Legislature appropriates funding for operational and equipment awards to public broadcasting entities, these funds are used by KVSC to pay for equipment, tower rental, student stipends, telephone line fees, supplies and other expenses. Due to continued State of Minnesota budget shortfalls, the combined state operational and equipment grants have decreased from \$32,900 in fiscal 2011 to \$32,363 in fiscal year 2012.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

To meet the challenges of the future, KVSC must take into account many influences outside its control. The health of the national, state and local economy, for example, can have a significant impact on funding available for public radio from a broad range of sources including the Corporation for Public Broadcasting, state grants, private giving and University support. As student enrollment at the University has decreased in the last two years, the University faces a challenge in maintaining adequate state appropriation funding in fiscal year 2013, 2014, and beyond.

A grantee qualifies for a Corporation for Public Broadcasting Community Service Grant in one of two ways, the Listening Index Goal or the Community Financial Support Index. KVSC first qualified for the grant under the Listening Index criteria in 2009, however, the CPB recently notified KVSC that it no longer meets these criteria. Changes in how Arbitron collects research data in metro markets now excludes KVSC's listening audience in the Twin Cities metro area as well as failing to account for the significant audience streaming KVSC online. The transitional plan instituted by CPB includes budget restrictions on fiscal year 2012 and 2013 awards, requiring 25% of the awards to fund special projects designed to return KVSC to compliance by either increasing its listening audience or growing its community financial support. The plan continues with 50% reduction in awards during fiscal years 2014 and 2015, and a complete loss of funding in fiscal year 2016 if listenership or community funding indexes for KVSC are not improved. Noting that the CPB is not changing its policies Management is working toward qualifying for the grant by growing the Community Financial Support Index.

The CPB Radio Community Service Grant awarded to KVSC for fiscal year 2013 is \$134,390, a decrease of \$5,990 from fiscal year 2012. As with all recent awards from the CPB, the fiscal year 2013 award includes a rural support bonus of \$20,981. Due to an increase in the population density in surrounding areas, KVSC has lost its rural designation and will no longer receive the rural support bonus in future years.

The Minnesota Department of Administration has awarded KVSC an Arts and Cultural Heritage grant of \$133,023 for fiscal year 2013, an increase of \$39,622 from fiscal year 2012. Clarified competitive grant guidelines for fiscal year 2013 allowed KVSC to provide a stronger grant narrative to the grant review panel.

The Minnesota State Legislature has allocated operational and equipment grants for the biennium including fiscal year 2012 and fiscal year 2013. In fiscal year 2012 three new Native American stations joined the AMPERS association which resulted in a reallocation of fiscal year 2013 awards. The fiscal year 2013 operational and state grant allocation has been reduced from \$32,363 to \$27,385. In addition, the governor's office has asked all state grant recipients to consider a 5% cut for the fiscal year 2014-2015 biennium funding. AMPERS and KVSC are working with legislators and the Department of Administration in an attempt to at least maintain current funding levels for the 15-member AMPERS association.

In recent years the University has provided 45% release time for a faculty to serve as the general manager of KVSC. In fiscal year 2012 the general manager was on faculty sabbatical, resulting in a loss of salary support for this position for the year. Additionally, the University Administration has reduced the position to 25% release time during fiscal year 2013 and will eliminate funding for it thereafter.

KVSC has enjoyed success with listener membership fundraising campaigns; however, we remain mindful of the fact that revenue that is dependent on the giving ability of its membership will fluctuate with economic conditions. The strength of KVSC's programming, the success of past membership fundraising campaigns and the existence of a solid audience listenership and membership base are important foundations to build on as KVSC looks to maintain and grow the revenue needed to support its operating and capital programs.

Additionally, the outcome of grant support from the Minnesota Arts and Cultural Heritage Fund has been increased community awareness and support at events programmed by KVSC. A wide array of new events including concerts, radio theatre, arts and culture speaker series have advanced KVSC's profile with the campus and off-campus communities.

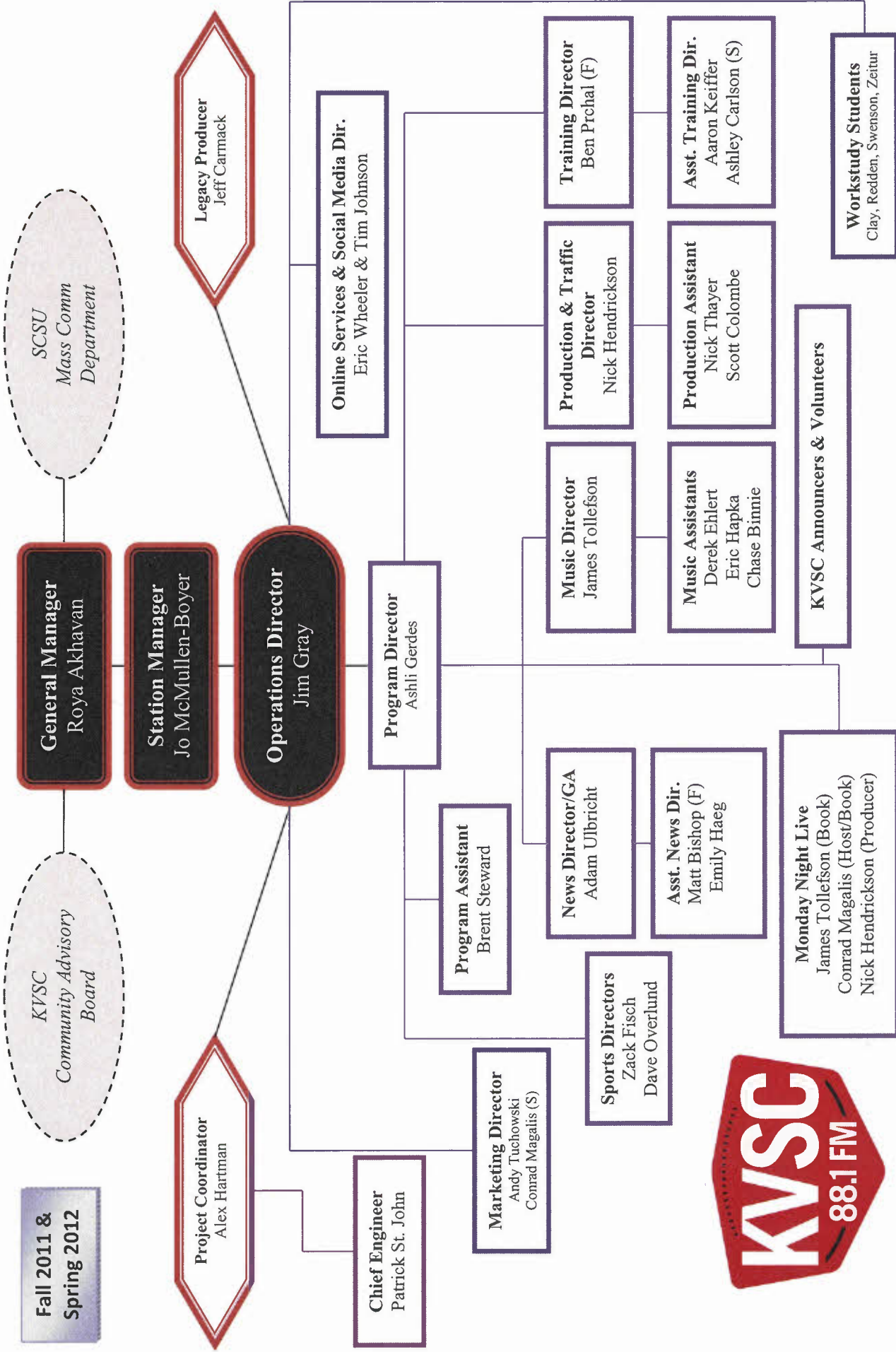
While it is not possible to predict the ultimate results, management believes that KVSC's financial condition will remain strong.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of KVSC's finances for all those with an interest in the stations finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Station Manager
KVSC Radio
720 Fourth Avenue South, SH27
St. Cloud, MN 56301-4498

KVSC 88.1FM Organizational Flow Chart



KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011

Assets	2012	2011
Current Assets		
Cash and cash equivalents	\$ 99,942	\$ 80,016
Funds held by third party - St. Cloud State University Foundation	41,118	45,002
Accounts and grants receivable	48,172	15,733
Pledges receivable, net	2,008	3,010
Prepaid asset	11,724	7,613
Total current assets	202,964	151,374
Noncurrent Assets		
Capital assets, net	57,861	71,486
Total Assets	260,825	222,860
Liabilities		
Current Liabilities		
Accounts payable	2,275	7,989
Salaries payable	20,516	15,256
Other compensation benefits	3,585	3,305
Deferred grant revenue	116,183	61,401
Total current liabilities	142,559	87,951
Non-Current Liabilities		
Other compensation benefits	32,564	28,057
Total Liabilities	175,123	116,008
Net Assets		
Invested in capital assets	57,861	71,486
Unrestricted	27,841	35,366
Total Net Assets	\$ 85,702	\$ 106,852

The notes are an integral part of the financial statements.

KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Student service fees	\$ 37,843	\$ 38,951
Underwriting	82,249	77,267
Other income	8,863	7,084
Total operating revenues	<u>128,955</u>	<u>123,302</u>
Operating Expenses		
Program Services		
Programming and production	205,801	201,187
Broadcasting and engineering	157,611	162,034
Program information and promotion	42,136	77,077
Total program services	<u>405,548</u>	<u>440,298</u>
Support Services		
Fundraising and membership development	35,291	32,815
Underwriting and grant solicitation	31,970	40,413
Management and general	211,364	256,861
Total support services	<u>278,625</u>	<u>330,089</u>
Total operating expenses	<u>684,173</u>	<u>770,387</u>
Operating loss	<u>(555,218)</u>	<u>(647,085)</u>
Nonoperating Revenues (Expenses)		
Appropriation from St. Cloud State University	178,961	205,515
Donated facilities and administrative from St. Cloud State University	114,584	129,261
Other St. Cloud State University support	5,488	19,575
Contributions - listener support	32,161	32,076
Grants from the Corporation for Public Broadcasting	109,544	67,322
Grants from the State of Minnesota	93,330	188,983
Total nonoperating revenue (expenses)	<u>534,068</u>	<u>642,732</u>
Change in net assets	(21,150)	(4,353)
Net Assets, Beginning of Year	<u>106,852</u>	<u>111,205</u>
Net Assets, End of Year	<u>\$ 85,702</u>	<u>\$ 106,852</u>

The notes are an integral part of the financial statements.

KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Student service fees received	\$ 37,843	\$ 38,951
Cash received for underwriting	21,345	24,791
Other revenue received	8,862	7,083
Cash payments for employees	(269,152)	(321,894)
Cash paid to suppliers for goods or services	(213,823)	(233,962)
Net cash flows used in operating activities	<u>(414,925)</u>	<u>(485,031)</u>
Cash Flows from Noncapital and Related Financing Activities		
General appropriation from St. Cloud State University	179,660	205,981
Contributions received - listener support	31,177	36,877
Grants from the Corporation for Public Broadcasting	161,342	86,255
Grants from the State of Minnesota	62,672	167,900
Net cash flows from noncapital and related financing activities	<u>434,851</u>	<u>497,013</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	-	(24,999)
Net cash flows used in capital and related financing activities	<u>-</u>	<u>(24,999)</u>
Net Change in Cash and Cash Equivalents	19,926	(13,017)
Cash and Cash Equivalents, Beginning of Year	80,016	93,033
Cash and Cash Equivalents, End of Year	<u>\$ 99,942</u>	<u>\$ 80,016</u>
Reconciliation of net operating loss to net cash used by operating activities		
Operating loss	\$ (555,218)	\$ (647,085)
Adjustments to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	13,625	11,959
Donated facilities and administrative	114,584	129,261
Other donated University support	5,488	19,575
Write off uncollectible pledges	3,871	2,221
Change in assets and liabilities		
Accounts receivable	2,504	(242)
Prepaid asset	(4,112)	780
Accounts payable	(5,714)	(652)
Salaries payable	5,260	1,130
Other compensation benefits	4,787	(1,978)
Net reconciling items to be added to operating income	<u>140,293</u>	<u>162,054</u>
Net cash flow used in operating activities	<u>\$ (414,925)</u>	<u>\$ (485,031)</u>
Supplemental disclosure of noncash noncapital and related financing activities		
Change in funds held by St. Cloud State University Foundation	\$ (3,884)	\$ (8,045)

The notes are an integral part of the financial statements.

**KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Financial Reporting Entity — KVSC RADIO 88.1 FM (KVSC) is an enterprise fund of the St. Cloud State University (the University) and is located in Stewart Hall on the University campus in St. Cloud, Minnesota. KVSC operates under control of the University through the Office of University Communications and utilizes assets, the title to which is vested in the University. The assets, liabilities, revenues, expenses, and changes in net assets of KVSC are included in the consolidated financial statements of the University and have been identified and segregated from the books of the University for these financial statements. KVSC reports annually to the Corporation for Public Broadcasting.

Minnesota State Colleges and Universities (MnSCU) is an agency of the state of Minnesota and receives appropriations from the state legislature. The University receives a portion of MnSCU's state appropriation. Economic support for KVSC from the University is committed on a year-to-year basis for salaries and operating expenses not provided through other sources. General appropriation support has been approved through June 30, 2013.

KVSC also has an ongoing relationship with the St. Cloud State University Foundation (the Foundation). Membership pledges and other contribution revenues are managed through the Foundation.

Basis of Presentation — The reporting policies of KVSC conform to generally accepted accounting principles (GAAP) in the United States, as prescribed by the Governmental Accounting Standards Board (GASB). The statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows include financial activities of KVSC and do not extend to the University as a whole or any other University organization or department.

Basis of Accounting — The basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. The accompanying financial statements have been prepared as a special purpose government entity engaged in business type activities. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Eliminations have been made to minimize the double-counting of internal activities.

The University and KVSC apply all applicable Financial Accounting Standards Board statements issued prior to November 30, 1989, and GASB statements issued since that date.

Tax Status — As part of the University, KVSC is exempt from income taxes under Section 115 of the Internal Revenue code although certain activities may be subject to federal unrelated business income tax.

Cash and Cash Equivalents — The cash balance represents cash in the state treasury and demand deposits in local bank accounts as well as cash equivalents. Cash equivalents are short-term, highly liquid investments having original maturities (remaining time to maturity at acquisition) of three months or less. Cash and cash equivalents may include amounts in demand deposits, savings accounts, cash management pools, repurchase agreements, and money market funds.

Funds held by third party – St. Cloud State University Foundation — This represents cash balances held by St. Cloud State University Foundation for the benefit of KVSC. This balance is related to listener memberships and donations that are held by the St. Cloud State University Foundation in a local bank account.

Receivables — Receivables are shown net of an allowance for uncollectible amounts.

Capital Assets — Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. Such assets are depreciated or amortized on a straight-line basis over the useful life of the assets. The estimated useful life of KVSC equipment ranges from five years to ten years.

Equipment includes all items with an original cost of \$10,000 and over for items purchased since July 1, 2008; \$5,000 and over for items purchased between July 1, 2003 and June 30, 2008; and \$2,000 and over for items purchased prior to July 1, 2003.

Long-Term Liabilities — Long-term liabilities include compensated absences, net other postemployment benefits, and workers' compensation claims.

Compensated Absences — Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Revenue Classifications — KVSC has classified revenues as operating and non-operating based upon the following criteria:

Operating Revenues — Operating revenues as reported in the statements of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. KVSC considers student service fees, underwriting and other revenue to be exchange transactions.

Non-Operating Revenues — Non-operating revenues represent non-exchange activities. The primary sources of non-operating revenues are appropriations from St. Cloud State University, contributions, Corporation for Public Broadcasting (CPB) grants and other non-exchange grants and contracts. Although KVSC relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms.

Unearned Revenue — Unearned revenue consists primarily of amounts received from grants and underwriting sponsors that have not yet been earned.

Pledges and Contributions — KVSC receives pledges and bequests of financial support from corporations, foundations and primarily individuals. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollectible pledges are not enforceable against contributors. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history and type of collection.

Underwriting Revenues — Underwriting revenue is received from corporate sponsors, non-profit organizations, and University departments and units for on-air credit announcements. KVSC recognizes underwriting revenue as those credits are aired, deferring any revenue related to unaired credits.

In-Kind Contributions — Donated goods and in-kind trade activity are recorded as revenues and expenses at fair market value at the date of donation or activity. Donated goods and in-kind trade activity of \$183,481 and \$201,070 are included in operating revenues and operating expenses in the statement of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011, respectively.

For fiscal year ended June 30		
Non-cash/In-Kind Revenues	2012	2011
University facilities and administration	\$ 114,584	\$ 129,261
Workstudy students	—	8,305
Graduate assistant	—	5,513
Tower and transmitter utilities	5,488	5,757
Underwriting	63,409	52,234
Total non-cash/in-kind revenues/expenses	\$ 183,481	\$ 201,070

Donated facilities from the University consist of office and studio space, together with related occupancy costs and are recorded as revenues and expenses at estimated fair rental values. Administrative support from the University consists of allocated finance, human resources, technology, student development, and certain other expenses incurred by the University on behalf of KVSC. The University also provides in-kind support in the form of utilities used to operate the tower and transmitter facility leased by KVSC and in prior years provided student workstudy employees and partial graduate assistantships.

KVSC receives numerous donations of miscellaneous goods and services from area businesses in exchange for underwriting.

Use of Estimates — To prepare the basic financial statements in conformity with generally accepted accounting principles management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses — Expenses by function have been allocated among program and supporting service classifications on the basis of estimates made by management.

Net Assets — The difference between assets and liabilities is net assets. Net assets are further classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, if any, construction or improvement of those assets.
- *Restricted expendable:* Net assets subject to externally imposed stipulations.
- *Unrestricted:* Net assets that are not subject to externally imposed stipulations. Although unrestricted net assets are not subject to externally imposed stipulations, KVSC's unrestricted net assets have been designated by management for various programs and initiatives, as well as capital projects.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents — All balances related to the state appropriation and all state or federal grants funds received by KVSC are held by the University in the state treasury. Balances related to student service fees and underwriting or other miscellaneous sales are held by the University in a local bank.

Minnesota Statute, Section 118A.03, requires that University held deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. This statute further requires that such insurance and collateral shall be at least 10 percent greater than the amount on deposit.

Cash and Cash Equivalents at June 30		
Carrying Amount	2012	2011
University held in state treasury	\$ 91,070	\$ 73,740
University held in local account	8,872	6,276
Total cash and cash equivalents	\$ 99,942	\$ 80,016

Investments — Through comingled investment pools, excess cash balances are invested in short-term, liquid, high quality debt securities. These assets are all reported as cash equivalents.

The University's balance in the state treasury is invested by the Minnesota State Board of Investment (SBI) as part of the state investment pool. All investments managed by SBI are governed by Minnesota Statutes, Chapters 11A and 356A. Interest income earned on pooled investments is retained by the MnSCU Office of the Chancellor and allocated to the colleges and universities as part of the appropriation allocation process.

The University's excess cash in the local bank is swept nightly to purchase interest bearing cash equivalents. Interest income on these pooled investments is retained by the University and allocated at University discretion.

Custodial Credit Risk — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, KVSC will not be able to recover the value of the investments that are in the possession of an outside party. Board procedure 7.5.1 requires University compliance with Minnesota Statutes, Section 118A.03 and further excludes the use of FDIC insurance when meeting collateral requirements.

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with Minnesota Statutes, Section 118A.04 which limits investments to the top quality rating categories of a nationally recognized rating agency. At June 30, 2012 and 2011, the University's debt securities were rated equivalent to Standard and Poor's AA or higher.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with Board procedure 7.5.1 which recommends investments be diversified by type and issuer.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University complies with Board procedure 7.5.1 that recommends considering fluctuation interest rates and cash flow needs when purchasing short-term and long-term investments.

3. ACCOUNTS RECEIVABLE

The accounts receivable balances are made up primarily of appropriations and student fees due from the University and grants receivable. As such, an allowance for uncollectible receivables is considered to be negligible.

Summary of Accounts Receivable at June 30		
	2012	2011
University appropriation	\$ 8,495	\$ 9,194
Underwriting income	3,850	6,539
Grants Receivable	33,827	—
Due from Foundation	2,000	—
Accounts receivable	<u>\$ 48,172</u>	<u>\$ 15,733</u>

4. PLEDGES RECEIVABLE

The pledges receivable balances are made up primarily of pledges received directly by KVSC from individuals during the annual Fall and Spring membership drives. Membership drive pledges are generally collected within a month or two following the drive. Membership pledges remaining receivable in excess of one year are deemed uncollectible by management.

The Foundation also collects pledges directly from donors, primarily from individuals, on behalf of KVSC. Pledges received by the Foundation are minimal and the percentage deemed uncollectible is negligible.

Summary of Pledges Receivable at June 30		
	2012	2011
Spring 2012 membership drive	\$ 3,090	\$ —
Fall 2011 membership drive	2,050	—
Spring 2011 membership drive	—	3,875
Fall 2010 membership drive	—	1,520
Foundation held pledges	155	845
Total pledges receivable	5,295	6,240
Allowance for uncollectible pledges	(3,287)	(3,230)
Net pledges receivable	<u>\$ 2,008</u>	<u>\$ 3,010</u>

The allowance for uncollectible pledges has been computed based on the following schedule:

Fiscal Year 2012			Fiscal Year 2011		
Membership Drive	Allowance Amount	Allowance Percentage	Membership Drive	Allowance Amount	Allowance Percentage
Spring 2012	\$ 1,545	50%	Spring 2011	\$ 1,938	50%
Fall 2011	1,742	85%	Fall 2010	1,292	85%
Total	<u>\$ 3,287</u>		Total	<u>\$ 3,230</u>	

5. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2012 and 2011 follow:

Year Ended June 30, 2012				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets				
Equipment	\$ 173,796	\$ —	\$ —	\$ 173,796
Less accumulated depreciation	102,310	13,625	—	115,935
Total capital assets, net	<u>\$ 71,486</u>	<u>\$ (13,625)</u>	<u>\$ —</u>	<u>\$ 57,861</u>

Year Ended June 30, 2011				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets				
Equipment	\$ 175,058	\$ 24,999	\$ 26,261	\$ 173,796
Less accumulated depreciation	116,612	11,959	26,261	102,310
Total capital assets, net	<u>\$ 58,446</u>	<u>\$ 13,040</u>	<u>\$ —</u>	<u>\$ 71,486</u>

6. ACCOUNTS PAYABLE

Accounts payable represent amounts due for goods and services received prior to the end of the fiscal year.

Summary of Accounts Payables at June 30		
	2011	2011
Purchased services	\$ 923	\$ 443
Supplies	1,352	6,426
University indirect costs	—	1,120
Total	<u>\$ 2,275</u>	<u>\$ 7,989</u>

7. LEASE AGREEMENTS

Operating Lease — KVSC has leased antenna tower and transmitter facility space from TJ Communications, Inc. since 1992. KVSC renewed an operating lease agreement for a term of five years, commencing July 1, 2012. Future minimum lease payments for this agreement are:

Year Ended June 30	
Fiscal Year	Amount
2013	7,875
2014	8,190
2015	8,518
2016	8,859
2017	9,213

Total rent expense under the operating lease for the years ended June 30, 2012 and 2011 were \$7,572 and \$7,280, respectively.

8. OTHER COMPENSATION BENEFITS

Summaries of amounts due within one year are reported in the current liability section of the statement of net assets. Summaries of other compensation benefits for fiscal years 2012 and 2011 follow:

Summary of Other Compensation Benefits at June 30, 2012					
	Beginning Balance	Increases	Decreases	Ending Balance	Current
Liabilities for:					
Compensated absences	\$ 26,314	\$ 7,248	\$ 2,894	\$ 30,668	\$ 3,287
Net other postemployment benefits	4,114	704	—	4,818	—
Workers' compensation	934	140	411	663	298
Total	<u>\$ 31,362</u>	<u>\$ 8,092</u>	<u>\$ 3,305</u>	<u>\$ 36,149</u>	<u>\$ 3,585</u>

Summary of Other Compensation Benefits at June 30, 2011					
	Beginning Balance	Increases	Decreases	Ending Balance	Current
Liabilities for:					
Compensated absences	\$ 29,689	\$ —	\$ 3,375	\$ 26,314	\$ 2,894
Net other postemployment benefits	2,505	1,609	—	4,114	—
Workers' compensation	1,146	269	481	934	411
Total	<u>\$ 33,340</u>	<u>\$ 1,878</u>	<u>\$ 3,856</u>	<u>\$ 31,362</u>	<u>\$ 3,305</u>

Compensated Absences — University employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in the collective bargaining agreements. The liability for compensated absences is payable as severance pay under specific conditions. This leave is liquidated only at the time of termination from state employment.

Net Other Postemployment Benefit — Other postemployment benefits are health insurance benefits for certain retired employees under a single employer fully insured plan. Under the health benefits program retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. KVSC liability has been estimated by calculating a percentage of KVSC employees vs. University employees as a pro-rata share of the total University other postemployment benefits liability.

Workers' Compensation — The state of Minnesota Department of Employee Relations manages the self insured workers' compensation claims activities. The reported liability for workers' compensation is based on claims filed for injuries to state employees occurring prior to the fiscal year end, and is an undiscounted estimate of future payments. KVSC liability has been estimated by calculating a percentage of KVSC employees vs. University employees as a pro-rata share of the total University workers compensation liability.

9. EMPLOYEE PENSION PLANS

KVSC participates in the State Employees Retirement Fund and the Minnesota State Colleges and Universities Defined Contribution Retirement Plan.

State Employees Retirement Fund (SERF)

Pension fund information is provided by the Minnesota State Retirement System, which prepares and publishes its own stand alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103-3000.

The SERF is a cost sharing, multiple employer defined benefit plan. All classified employees are covered by this plan. A classified employee is one who serves in a civil service position. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of the members' average salary, which is defined as the highest salary paid in five successive years of service. Minnesota State Colleges and Universities, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The statutory authority for SERF is Minnesota Statutes, Chapter 352. For fiscal year 2010 the funding requirement for both employer and employee was 4.75 percent. For fiscal years 2011 and 2012 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions.

Required contributions for KVSC were:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 1,297
2011	2,052
2010	1,237

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund includes two plans, an Individual Retirement Account Plan and a Supplemental Retirement Plan. Both plans are mandatory, tax deferred, single employer defined contribution plans authorized by Minnesota Statutes, Chapters 354B and 354C. The plans are designed to provide retirement benefits to unclassified employees. An unclassified employee is one who belongs to Minnesota State Colleges and Universities specific bargaining units. The plans cover unclassified teachers, librarians, administrators and certain other staff. The plans are mandatory for qualified employees. Vesting occurs immediately. The administrative agent of the two plans is Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Separately issued financial statements can be obtained from TIAA-CREF, Normandale Lake Office Park, 8000 Norman Center Drive, Suite 1100, Bloomington, MN 55437.

Individual Retirement Account Plan (IRAP)

Participation — Each employee who is in unclassified service is required to participate in TRF or IRAP upon achieving eligibility. An unclassified employee is one who serves in a position deemed unclassified according to Minnesota Statutes. This includes presidents, vice presidents, deans, administrative or service faculty, teachers, and other managers and professionals in academic and academic support programs. Eligibility begins with the employment contract for the first year of unclassified service in which the employee is hired for more than 25 percent of a full academic year, excluding summer session. An employee remains a participant of the plan, even if employed for less than 25 percent of a full academic year, in subsequent years.

Contributions — There are two member groups participating in the IRAP, a faculty group and an administrators group. For both faculty and administrators, the employer and employee statutory contribution rates are 6 percent and 4.5 percent, respectively. The contributions are made under the authority of Minnesota Statutes, Chapter 354B.

Required contributions for KVSC were:

<u>Fiscal Year</u>	<u>Employee</u>	<u>Employer</u>
2012	\$ 4,400	\$ 5,867
2011	6,312	8,416
2010	6,133	8,177

Supplemental Retirement Plan (SRP)

Participation — Every employee who has completed two full time years of unclassified service with Minnesota State Colleges and Universities must participate upon achieving eligibility. The eligible employee is enrolled on the first day of the fiscal year following completion of two full time years. Vesting occurs immediately and normal retirement age is 55.

Contributions — Participants contribute 5 percent of the eligible compensation up to a defined maximum annual contribution as specified in the following table.

<u>Member Group</u>	<u>Eligible Compensation</u>	<u>Annual Maximum</u>
Inter Faculty Organization	\$ 6,000 to \$ 51,000	\$ 2,250
Minnesota State University Assn of Admin. & Service Faculty	6,000 to 50,000	2,200

KVSC matches amounts equal to the contributions made by participants. The contributions are made under the authority of Minnesota Statutes, Chapter 354C.

Required contributions for KVSC were as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 3,410
2011	4,820
2010	4,368

10. RISK MANAGEMENT

The University, and KVSC, is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; error or omissions; and employer obligations. Property and casualty coverage is required by MnSCU policy, the University manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund and through purchased insurance coverage. Automobile liability coverage is required by the state and is also provided by the Minnesota Risk Management Fund. The University participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

MnSCU self-insures for workers' compensation, assessing premiums to institutions based on salary dollars and claims history to provide a pool from which all workers' compensation claims are paid to the state Workers' Compensation Fund. In addition, catastrophic claims are covered through state participation in the Workers' Compensation Reinsurance Association.