

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, 2013 and 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of KVSC Radio 88.1 FM (KVSC), an enterprise fund of St. Cloud State University, which comprise the statements of net position as of June 30, 2013 and 2012 and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

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 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 audits 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 auditors' judgment, 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 KVSC'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 KVSC'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 a basis for our audit opinion.

Opinion

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, 2013 and 2012 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.

Other Matters

Required Supplementary Information

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.

Baker Tilly Vuchow Krause, LLP

Minneapolis, Minnesota
January 17, 2014

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, 2013, 2012 and 2011, 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 approximately 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 three 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, engineering, 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, Native American 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 has expanded its community outreach and engagement events to include Granite City Radio Theatre in collaboration with the Pioneer Place Theatre in St. Cloud. The quarterly live radio program features local musicians, writers and actors performing a 2-hour live audience and live radio broadcast. The series is in its second season it is funded through 2015. Additionally, KVSC underwrites, promotes and programs an annual concert each spring in St. Cloud at local venues and has expanded its remote event participation to include several local parades and appearances at the Summertime by George concert series, a popular community event each summer.

KVSC is a member station of the Association of Minnesota Public Educational Radio Stations (AMPERS), an association of Diverse Radio for Minnesota's Communities. AMPERS 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 2013, Trivia weekend attracted 62 teams, several of which now play via the Internet from various parts of the country. KVSC is expanding its efforts to reach high school and college-based teams. 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 2013, 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 \$284,638 and liabilities of \$199,214 at June 30, 2013, compared to assets of \$260,825 and liabilities of \$175,123 on June 30, 2012. Net position, which represents the residual interest in KVSC's assets after liabilities are deducted, decreased \$278 in fiscal year 2013 to \$85,424.

USING THE FINANCIAL STATEMENTS

KVSC's financial report includes three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, 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 POSITION

The statement of net position 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 position – is one indicator of the current financial condition of KVSC, while the change in net position 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 Position.

A summary of KVSC's assets, liabilities and net position as of June 30, 2013, 2012 and 2011 are as follows:

	As of June 30		
	2013	2012	2011
Current assets	\$ 240,402	\$ 202,964	\$ 151,374
Noncurrent assets			
Capital assets, net	44,236	57,861	71,486
Total assets	<u>284,638</u>	<u>260,825</u>	<u>222,860</u>
Current liabilities	156,966	142,559	87,951
Noncurrent liabilities	42,248	32,564	28,057
Total liabilities	<u>199,214</u>	<u>175,123</u>	<u>116,008</u>
Net position	<u>\$ 85,424</u>	<u>\$ 85,702</u>	<u>\$ 106,852</u>

Total current assets increased by \$37,438 primarily due to the increase in grants receivable of \$34,649 from fiscal year 2012 to fiscal year 2013. Cash increased by \$10,630 to \$151,690 in fiscal year 2013. Accounts receivable and prepaid expense decreased by \$6,058 and \$1,857 in fiscal year 2013.

Liabilities consist primarily of accrued compensation and deferred federal and state grant revenue, which represents amounts received in advance of providing services. Payables decreased \$4,074 to \$18,717 due to normal differences in the timing of payments made, this represents an increase in accounts payable of \$7,569 and a decrease in salaries payable of \$11,643 in fiscal year 2013. Other compensation benefits, consisting of compensated absences, other post-employment benefits and workers compensation, increased by \$11,130 as the faculty advisor/general manager returned from sabbatical for fiscal year 2013. Deferred grant revenue increased \$17,035 in fiscal year 2013.

Net position represents the residual interest in the Station's assets after liabilities are deducted. The Station's net position as of June 30, 2013, 2012 and 2011, respectively, are summarized as follows:

	Net Position at June 30		
	2013	2012	2011
Net investment in capital assets	\$ 44,236	\$ 57,861	\$ 71,486
Unrestricted	41,188	27,841	35,366
Total net position	<u>\$ 85,424</u>	<u>\$ 85,702</u>	<u>\$ 106,852</u>

Net investment 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 position is subject to externally imposed stipulations governing their use. Although unrestricted net position is not subject to externally imposed stipulations, KVSC's unrestricted net position has 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, 2013, totaled \$44,236, a decrease of \$13,625 from fiscal year 2012. The decrease consisting of current year depreciation recognized during fiscal year 2013.

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 POSITION

The Statements of Revenues, Expenses and Changes in Net Position 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 position follows:

	For the years ended June 30		
	2013	2012	2011
Operating revenue:			
Student fees	\$ 40,410	\$ 37,843	\$ 38,951
Underwriting	79,902	82,249	77,267
Other income	7,825	8,863	7,084
Total operating revenue	<u>128,137</u>	<u>128,955</u>	<u>123,302</u>
Nonoperating revenue:			
University provided support	375,327	299,033	354,351
Contributions – listener support	35,366	32,161	32,076
Grants from the Corp. for Public Broadcasting	113,898	109,544	67,322
Grants from the State of Minnesota	187,432	93,330	188,983
Total nonoperating revenue	<u>712,023</u>	<u>534,068</u>	<u>642,732</u>
Total revenue	<u>840,160</u>	<u>663,023</u>	<u>766,034</u>
Operating expense:			
Salaries and benefits	357,255	279,199	321,046
Supplies and services	226,949	193,353	215,557
Depreciation	13,625	13,625	11,959
In-kind expenses	212,875	183,480	201,070
Other expenses	29,734	14,516	20,755
Total operating expense	<u>840,438</u>	<u>684,173</u>	<u>770,387</u>
Change in net position	(278)	(21,150)	(4,353)
Net position, beginning of year	85,702	106,852	111,205
Net position, end of year	<u>\$ 85,424</u>	<u>\$ 85,702</u>	<u>\$ 106,852</u>

The University is the primary source of revenue for KVSC, providing 45% of total revenues in fiscal year 2013. The University provides state appropriations to fund a full time station manager, an operations manager, reassigned time for a faculty advisor/general manager and a graduate assistantship. 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.

A sign of the economic recovery of local businesses is their increased willingness to spend on marketing as KVSC cash exchange underwriting revenues increased from \$18,840 in fiscal year 2012 to \$23,985 in fiscal year 2013. However, non-cash/in-kind underwriting revenues decreased from \$63,409 in fiscal year 2012 to \$55,918 in fiscal year 2013 due primarily to the loss of a significant print advertising trading partner. Overall underwriting revenues decreased by \$2,347 during fiscal year 2013.

The Corporation for Public Broadcasting (CPB) Community Service Grant awarded to KVSC decreased from \$140,380 in fiscal year 2012 to \$138,810 in fiscal year 2013. 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, Content Depot, Public Radio International and Native Voice One 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. A consultant has been contracted to work with audience growth as well as increased training for staff at national conferences and membership outreach efforts.

For fiscal year 2012 the Minnesota State Legislature required the Minnesota Department of Administration to enact a two-year competitive process in the allocation of Arts and Cultural Heritage grants. The second year of the competitive grant process resulted in a significant increase in funding compared to fiscal year 2012 due to clarification on the grant criteria and review process by the state granting agency. KVSC secured a grant of \$133,023 for fiscal year 2013 compared to \$93,401 for fiscal year 2012. These funds have been used to fund three half time positions, develop and deploy St. Cloud Somali Radio, a webstreamed radio station, as well as a live radio and theatre production called Granite City Radio Theatre and to support an annual spring concert. Also, regional feature programs called "Untold Stories of Central Minnesota" have been produced 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. In recent years the total appropriation has remained about the same while the number of eligible stations receiving equal distributions from the state has increased. KVSC received combined state operational and equipment grant funding of \$25,853 in fiscal year 2013 compared 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 three years, the University faces a challenge in maintaining adequate state appropriation funding in fiscal years 2014, 2015, and beyond.

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 from year to year. The CPB Radio Community Service Grant awarded to KVSC was \$90,837 for fiscal year 2011, \$140,380 for fiscal year 2012, \$138,810 for fiscal year 2013 and is now \$82,718 for fiscal year 2014. Part of the decrease was also due to an increase in the population density in surrounding areas from 40 to 47 persons per square kilometer, as KVSC lost its rural designation and will no longer receive the rural support bonus. The rural support grant bonus had been in excess of \$20,000 each of the three previous years.

For fiscal year 2012 and fiscal year 2013 CPB Community Service award years KVSC was placed into a transitional plan which included budget restrictions on those awards. The CPB recently notified KVSC management that this restriction is no longer in place for fiscal year 2014. This is due in part to an increase in reported listenership as well as certain changes the CPB made in Listening Index Goals required for non-news radio stations.

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 allowed KVSC to provide a stronger grant narrative to the grant review panel for fiscal year 2013.

Strong lobbying efforts by the AMPERS Association have contributed to an increased appropriation by the Minnesota State Legislature for operational and equipment grants during the biennium including fiscal year 2014 and fiscal year 2015. The combined state of Minnesota community service and equipment grant funding awarded to KVSC increased approximately 25% to \$36,357 for fiscal year 2014 and fiscal year 2015.

In recent years the University has provided 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. The University Administration has reduced the position to 25% release time during fiscal year 2013 and has eliminated 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. Management intends to continue building on these successful new events including concerts, radio theatre, arts and culture speaker series have advanced KVSC's profile with the campus and off-campus communities. For example, in fiscal year 2014 KVSC is applying to the Federal Communications Commission to help support two new Low Power FM licenses to increase its audience reach. If the licenses are granted by the FCC, KVSC would support St. Cloud Somali Radio to become a low power FM station versus its current online station status only. KVSC will supply studio space, technical and programming support in a letter of agreement with the St. Cloud Area Somali Salvation Organization (SASSO), who will ultimately hold the license. If a second LPFM license is granted to KVSC the station would be developed into a student only station with the potential of new programming time for increased Husky sports and campus event coverage.

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 88.1 FM Organizational Flow Chart

ST. CLOUD STATE
UNIVERSITY

SCSU University Communications



Community Advisory Board

Station Manager
Jo McMullen-Boyer

COLA/Mass Comm via
Liaison (Roya Akhavan)

Project Coordinator
Alex Hartman

Director of Operations
Jim Gray

ACHF Producer
Jeff Carmack

Somali Radio Coordinator
Ben Prchal

Somali Radio Producers

Online Services & Social
Media Dir.
Dana Johnson (GA)

Marketing Directors
Conrad Magalis
Andy Tuchowski

Workstudy Students

Chief Engineer
Pat St. John

Sports Director
Gina Carlson
Dave Overlund

Sports Announcers

News Director
Amelia Rowland

Asst. News Director
Justus Sanchez

Music Director
James Tollefson

Music Assistants
Stephen Leggate
Derek Ehlert

Program Asst.
Matt O'Neill

Program Director
Cheyenne Malcolm

Prod & Traffic Dir.
Nick Hendrickson

Production Asst.
Alan Gall

Training Director
Aaron Kieffer

Asst. Training Dir.
Trevor Klopp

Monday Night Live
JamesTollefson (Booking)
Conrad Magalis (Host/Book)
Nick Hendrickson (Producer)

KVSC Announcers & Volunteers

Fall Semester 2012
As of 8/22/12

KVSC RADIO 88.1 FM
AN ENTERPRISE FUND OF ST. CLOUD STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 151,690	\$ 141,060
Accounts and grants receivable	76,763	48,172
Pledges receivable, net	2,082	2,008
Prepaid asset	9,867	11,724
Total current assets	<u>240,402</u>	<u>202,964</u>
Noncurrent Assets		
Capital assets, net	<u>44,236</u>	<u>57,861</u>
Total Assets	<u>284,638</u>	<u>260,825</u>
Liabilities		
Current Liabilities		
Accounts payable	9,844	2,275
Salaries payable	8,873	20,516
Other compensation benefits	5,031	3,585
Unearned grant revenue	133,218	116,183
Total current liabilities	<u>156,966</u>	<u>142,559</u>
Noncurrent Liabilities		
Other compensation benefits	<u>42,248</u>	<u>32,564</u>
Total Liabilities	<u>199,214</u>	<u>175,123</u>
Net Position		
Net investment in capital assets	44,236	57,861
Unrestricted	41,188	27,841
Total Net Position	<u>\$ 85,424</u>	<u>\$ 85,702</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Student service fees	\$ 40,410	\$ 37,843
Underwriting	79,902	82,249
Other income	7,825	8,863
Total operating revenues	<u>128,137</u>	<u>128,955</u>
Operating Expenses		
Program Services		
Programming and production	239,649	205,801
Broadcasting and engineering	191,166	157,611
Program information and promotion	64,383	42,136
Total program services	<u>495,198</u>	<u>405,548</u>
Support Services		
Fundraising and membership development	46,878	35,291
Underwriting and grant solicitation	27,263	31,970
Management and general	271,099	211,364
Total support services	<u>345,240</u>	<u>278,625</u>
Total operating expenses	<u>840,438</u>	<u>684,173</u>
Operating loss	<u>(712,301)</u>	<u>(555,218)</u>
Nonoperating Revenues (Expenses)		
Appropriation from St. Cloud State University	218,370	178,961
Donated facilities and administrative from St. Cloud State University	150,488	114,584
Other St. Cloud State University support	6,469	5,488
Contributions - listener support	35,366	32,161
Grants from the Corporation for Public Broadcasting	113,898	109,544
Grants from the State of Minnesota	187,432	93,330
Total nonoperating revenue (expenses)	<u>712,023</u>	<u>534,068</u>
Change in net position	(278)	(21,150)
Net Position, Beginning of Year	<u>85,702</u>	<u>106,852</u>
Net Position, End of Year	<u>\$ 85,424</u>	<u>\$ 85,702</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Student service fees received	\$ 39,202	\$ 37,843
Cash received for underwriting	25,242	21,345
Other revenue received	7,825	8,862
Cash payments for employees	(357,768)	(269,152)
Cash paid to suppliers for goods or services	<u>(243,191)</u>	<u>(213,823)</u>
Net cash flows used in operating activities	<u>(528,690)</u>	<u>(414,925)</u>
Cash Flows from Noncapital and Related Financing Activities		
General appropriation from St. Cloud State University	222,236	179,660
Contributions received - listener support	33,225	27,293
Grants from the Corporation for Public Broadcasting	138,810	161,342
Grants from the State of Minnesota	<u>145,049</u>	<u>62,672</u>
Net cash flows from noncapital and related financing activities	<u>539,320</u>	<u>430,967</u>
Net Change in Cash and Cash Equivalents	10,630	16,042
Cash and Cash Equivalents, Beginning of Year	<u>141,060</u>	<u>125,018</u>
Cash and Cash Equivalents, End of Year	<u>\$ 151,690</u>	<u>\$ 141,060</u>
Reconciliation of net operating loss to net cash used by operating activities		
Operating loss	<u>\$ (712,301)</u>	<u>\$ (555,218)</u>
Adjustments to Reconcile Operating Loss to		
Net Cash Flows used in Operating Activities		
Depreciation	13,625	13,625
Donated facilities and administrative	150,488	114,584
Other donated University support	6,469	5,488
Write off uncollectible pledges	4,065	3,871
Change in assets and liabilities		
Accounts receivable	49	2,504
Prepaid asset	1,857	(4,112)
Accounts payable	7,570	(5,714)
Salaries payable	(11,642)	5,260
Other compensation benefits	<u>11,130</u>	<u>4,787</u>
Net reconciling items to be added to operating income	<u>183,611</u>	<u>140,293</u>
Net cash flow used in operating activities	<u>\$ (528,690)</u>	<u>\$ (414,925)</u>

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, 2013 AND 2012**

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 position 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, 2014.

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. The Foundation provides banking services by receiving and investing contributions and making disbursements at the direction of KVSC management.

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 position, 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.

In June 2011, the GASB issued statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. KVSC made the decision to implement this standard effective July 1, 2012.

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.

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.

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 \$212,875 and \$183,481 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, 2013 and 2012, respectively.

For fiscal year ended June 30		
Non-cash/In-Kind Revenues	2013	2012
University facilities and administration	\$ 150,488	\$ 114,584
Tower and transmitter utilities	6,469	5,488
Underwriting	55,918	63,409
Total non-cash/in-kind revenues/expenses	\$ <u>212,875</u>	\$ <u>183,481</u>

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.

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

- *Net investment 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 position subject to externally imposed stipulations.
- *Unrestricted:* Net position that is not subject to externally imposed stipulations. Although unrestricted net position is not subject to externally imposed stipulations, KVSC's unrestricted net position has been designated by management for various programs and initiatives, as well as capital projects.

Reclassifications — Certain prior year amounts have been reclassified to conform with the June 30, 2013 financial statement presentation. These reclassifications, however, had no effect on total net position or change in net position or total cash flows.

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	2013	2012	
University held in state treasury	\$ 76,257	\$ 91,070	
University held in local account	18,928	8,872	
Foundation held in local account	56,505	41,118	
Total cash and cash equivalents	\$ 151,690	\$ 141,060	

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, 2013 and 2012, 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

	2013	2012
University appropriation	\$ 5,838	\$ 8,495
Underwriting income	2,450	3,850
Grants Receivable	68,475	33,827
Due from Foundation	—	2,000
Accounts receivable	<u>\$ 76,763</u>	<u>\$ 48,172</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

	2013	2012
Spring 2013 membership drive	\$ 2,701	\$ —
Fall 2012 membership drive	1,441	—
Spring 2012 membership drive	—	3,090
Fall 2011 membership drive	—	2,050
Foundation held pledges	515	155
Total pledges receivable	4,657	5,295
Allowance for uncollectible pledges	(2,575)	(3,287)
Net pledges receivable	<u>\$ 2,082</u>	<u>\$ 2,008</u>

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

Fiscal Year 2013			Fiscal Year 2012		
Membership Drive	Allowance Amount	Allowance Percentage	Membership Drive	Allowance Amount	Allowance Percentage
Spring 2013	\$ 1,350	50%	Spring 2012	\$ 1,545	50%
Fall 2012	1,225	85%	Fall 2011	1,742	85%
Total	<u>\$ 2,575</u>		Total	<u>\$ 3,287</u>	

5. CAPITAL ASSETS

Summaries of changes in capital assets for fiscal years 2013 and 2012 follow:

Year Ended June 30, 2013				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets				
Equipment	\$ 173,796	\$ —	\$ 6,109	\$ 167,687
Less accumulated depreciation	115,935	13,625	6,109	123,451
Total capital assets, net	\$ 57,861	\$ (13,625)	\$ —	\$ 44,236

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	\$ 71,486	\$ (13,625)	\$ —	\$ 57,861

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		
	2013	2012
Purchased services	\$ 2,895	\$ 923
Supplies	5,741	1,352
Other Expense	1,208	—
Total	\$ 9,844	\$ 2,275

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
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, 2013 and 2012 were \$7,875 and \$7,572, 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 2013 and 2012 follow:

Summary of Other Compensation Benefits at June 30, 2013					
	Beginning Balance	Increases	Decreases	Ending Balance	Current
Liabilities for:					
Compensated absences	\$ 30,668	\$ 11,259	\$ 3,287	\$ 38,640	\$ 4,364
Net other postemployment benefits	4,818	2,432	—	7,250	—
Workers' compensation	663	1,024	298	1,389	667
Total	<u>\$ 36,149</u>	<u>\$ 14,715</u>	<u>\$ 3,585</u>	<u>\$ 47,279</u>	<u>\$ 5,031</u>

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>

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 the Minnesota State Retirement System at 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 years 2011, 2012, and 2013 the funding requirement was 5 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Actual contributions were 100 percent of required contributions.

Required contributions for KVSC were:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 2,514
2012	1,297
2011	2,052

Minnesota State Colleges and Universities Defined Contribution Retirement Fund

General Information — The Minnesota State Colleges and Universities Defined Contribution Retirement Fund include 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 Minnesota State Colleges and Universities 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 and 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 — Every 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>
2013	\$ 5,512	\$ 7,349
2012	4,400	5,867
2011	6,312	8,416

Supplemental Retirement Plan (SRP)

Participation — Every unclassified 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>
2013	\$ 4,056
2012	3,410
2011	4,820

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.