



Report of Independent Auditors  
and Financial Statements for

**KCLU-FM California  
Lutheran University**

A Public Telecommunications Entity  
Operated by California Lutheran University

May 31, 2016 and 2015

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## REPORT OF INDEPENDENT AUDITORS

The Board of Regents  
California Lutheran University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of KCLU-FM California Lutheran University (the "Station"), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the Station's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Station'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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

**MOSS ADAMS<sub>LLP</sub>**

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KCLU-FM California Lutheran University as of May 31, 2016 and the change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited KCLU-FM California Lutheran University's May 31, 2015 financial statements, and our report dated September 14, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss Adams LLP*

Los Angeles, California  
September 12, 2016

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF MAY 31, 2016 and 2015**

ASSETS	2016	2015
Accounts receivable	\$ 34,754	\$ 21,635
Prepays	27,355	28,329
Beneficial interest in endowment funds invested by California Lutheran University	1,183,618	164,671
Transmission, property and equipment, net	3,652,047	3,819,823
Other intangible assets	475,000	475,000
TOTAL ASSETS	<u>\$ 5,372,774</u>	<u>\$ 4,509,458</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Due to California Lutheran University	\$ 1,082,170	\$ 1,150,923
Accounts payable	13,472	12,532
Accrued payroll liabilities	67,901	62,133
TOTAL LIABILITIES	<u>1,163,543</u>	<u>1,225,588</u>
NET ASSETS		
Unrestricted	3,081,824	3,185,344
Temporarily restricted	117,407	98,526
Permanently restricted	1,010,000	-
TOTAL NET ASSETS	<u>4,209,231</u>	<u>3,283,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,372,774</u>	<u>\$ 4,509,458</u>

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED MAY 31, 2016 WITH SUMMARIZED TOTALS FOR 2015**

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions					
General support from California Lutheran University	\$ 75,000	\$ -	\$ -	\$ 75,000	\$ 75,000
Donated facilities and administrative support from California Lutheran University	197,830	-	-	197,830	191,660
Private gifts and grants	1,287,018	10,000	1,010,000	2,307,018	1,274,549
Special events revenue	5,322	-	-	5,322	2,876
Corporation for public broadcasting					
Community service grants	132,413	-	-	132,413	206,360
Change in beneficial interest	66	8,881	-	8,947	6,733
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>1,697,649</b>	<b>18,881</b>	<b>1,010,000</b>	<b>2,726,530</b>	<b>1,757,178</b>
<b>EXPENSES</b>					
Program expenses					
Local programming and production	239,963	-	-	239,963	235,872
Broadcasting	281,847	-	-	281,847	285,112
Program information and promotion	512,782	-	-	512,782	481,341
Support expenses					
Management and general	507,593	-	-	507,593	532,787
Fundraising and membership development	258,984	-	-	258,984	267,483
<b>TOTAL EXPENSES</b>	<b>1,801,169</b>	<b>-</b>	<b>-</b>	<b>1,801,169</b>	<b>1,802,595</b>
<b>CHANGE IN NET ASSETS</b>	<b>(103,520)</b>	<b>18,881</b>	<b>1,010,000</b>	<b>925,361</b>	<b>(45,417)</b>
NET ASSETS, beginning of year	3,185,344	98,526	-	3,283,870	3,329,287
NET ASSETS, end of year	<u>\$ 3,081,824</u>	<u>\$ 117,407</u>	<u>\$ 1,010,000</u>	<u>\$ 4,209,231</u>	<u>\$ 3,283,870</u>

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MAY 31, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 925,361	\$ (45,417)
Adjustments to reconcile change in net assets to net cash flows (used in) from operating activities:		
Depreciation	167,776	196,395
Contributions restricted for long-term investments	(1,010,000)	-
Change in beneficial interest	(1,018,947)	(6,733)
Changes in assets and liabilities:		
Accounts receivable	(13,119)	34,396
Prepays	974	(4,772)
Accounts payable	940	(4,248)
Accrued payroll liabilities	5,768	(8,710)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(941,247)	160,911
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	1,010,000	-
Payments to California Lutheran University	(68,753)	(160,911)
NET CASH USED IN FINANCING ACTIVITIES	941,247	(160,911)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, beginning of year	-	-
CASH AND CASH EQUIVALENTS, end of year	\$ -	\$ -

## **KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1 – Organization**

KCLU-FM California Lutheran University (the “Station”) is a noncommercial radio station owned and operated by California Lutheran University (the “University”). The accounts and reports of the Station are a part of the University’s general accounting system and have been identified and segregated from the books of the University for these financial statements. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America.

#### **Note 2 – Significant Accounting Policies**

The more significant accounting policies which relate to the Station are summarized below:

**Basis of presentation** – The Station is a department of the University, not a distinct legal entity, and its financial statements have been prepared in the same manner as those of the University. The Station maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Station as a whole. For the purpose of financial reporting, the Station classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Station are classified in the accompanying financial statements in the categories that follow:

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Station. Generally, the donors of these assets permit the Station to use all or part of the income earned on related investments for general or specific purposes.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met by action of the Station and/or the passage of time.

**Unrestricted net assets** – Net assets not subject to donor-imposed stipulations.

The 2016 statement of activities is presented with 2015 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles (“GAAP”). Accordingly, such information should be read in conjunction with the Station’s financial statements for the year ended May 31, 2015, from which the summarized information was derived.

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Significant Accounting Policies (continued)**

**Revenue recognition** – Revenues from sources other than contributions are recognized when earned and generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor-restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Contributions of general support, facilities and administrative support from the University are recognized as revenue at fair value in the period received and are reported as increases in unrestricted net assets.

Revenues from Community Service Grants are recognized as expenses as used and incurred and are reported as increases in unrestricted net assets.

**Accounts receivable** – Accounts receivable is carried at the unpaid balance on the original amount billed, less an estimate made for doubtful accounts, if deemed necessary. Management determines whether an allowance for doubtful accounts is necessary by identifying past due accounts and considering historical experience. There was no allowance for doubtful accounts at May 31, 2016 and 2015. Accounts receivable are written-off when deemed uncollectible. Receivables are generally unsecured.

**Transmission, property and equipment and other intangible assets** – Purchased assets are recorded at cost. Donated assets are recorded at fair value or appraised value on the date of donation. Intangible assets are non-monetary assets without physical substance. The Station's other intangible assets consist of a FCC broadcasting license acquired for \$475,000 during the fiscal year ended May 31, 2013. The other intangible asset, determined to have an indefinite useful life, is not amortized, but instead is tested for impairment at least annually. There were no impairment charges recorded during the years ended May 31, 2016 and 2015.

## **KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – Significant Accounting Policies (continued)**

The Station depreciates its assets, with the exception of certain intangible assets, on the straight-line basis over the estimated useful life of the vehicle (5 years), equipment (3 – 10 years) and property (10 – 40 years). Normal repair and maintenance expenses are charged to operations as incurred. The Station capitalizes fixed assets acquisitions in excess of \$10,000.

**Impairment of long-lived assets** – The Station reviews long-lived assets, including transmission, property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

**Income tax status** – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501c(3) of the Internal Revenue Code as non-profit organizations. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University, of which the Station is a department, follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2016.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising costs** – Advertising costs were \$1,579 and \$35,991 for the years ended May 31, 2016 and 2015, respectively, and are expensed when incurred.

**Functional allocation of expenses** – The costs of providing the various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Fair Value Measurements**

Accounting Standards Codification (“ASC”) 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

- Level 1 –** Quoted prices in active markets for identical assets or liabilities.
- Level 2 –** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 –** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2016 and 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Beneficial interest in endowment funds invested by California Lutheran University	2016 \$ 1,183,618	\$ -	\$ -	\$ 1,183,618
Beneficial interest in endowment funds invested by California Lutheran University	2015 \$ 164,671	\$ -	\$ -	\$ 164,671

The fair value of securities is based on valuations provided by the external investment managers. The Investment Committee and Management, in conjunction with the external investment advisors, monitor and analyze the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Regents. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. All investment objectives and strategies used by the fund managers comply with the University’s Investment Policy.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

## **KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 3 – Fair Value Measurements (continued)**

**Beneficial interest in endowment funds invested by California Lutheran University** – The Station's endowment funds are held by the University. The beneficial interest in endowment funds invested by the University consists of cash equivalents, equities, fixed income, partnerships and other funds with both observable and unobservable inputs. The beneficial interest in endowment funds follow the investment strategy of the University and do not require advance notice for redemption. The objective of the investments held by the University is to provide a predictable funding stream for its programs while protecting the purchase power of the endowment fund. The fair value of certain partnerships and hedge funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. FASB guidance allows for the use of the NAV as a “practical expedient” for estimating the fair value of alternative investments. NAV reported by each partnership and hedge fund is used as a practical expedient to estimate the fair value of the Station's interest in each fund. Investments are categorized as Level 2 instruments when the Station has the ability to redeem its investment in the entity at the NAV per share in the near term. If the Station does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The Station generally considers a redemption period of 90 days or less to be considered near term. As the underlying Level 3 assets are significant to the fair value of the funds as a whole, the entire beneficial interest is classified as Level 3. While the Station believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 – Fair Value Measurements (continued)**

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2016 and 2015:

	Balance May 31, 2015	Net realized and unrealized gains included in change in net assets	Purchases, issuances and settlement, net	Net transfers in (out) of Level 3	Balance May 31, 2016
Assets					
Beneficial interest in endowment funds invested by California Lutheran University	\$ 164,671	\$ 8,947	\$ 1,010,000	\$ -	\$ 1,183,618

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 financial instruments still held at May 31, 2016

	\$ 8,947
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	Balance May 31, 2014	Net realized and unrealized gains included in change in net assets	Purchases, issuances and settlement, net	Net transfers in (out) of Level 3	Balance May 31, 2015
Assets					
Beneficial interest in endowment funds invested by California Lutheran University	\$ 157,938	\$ 6,733	\$ -	\$ -	\$ 164,671

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to Level 3 financial instruments still held at May 31, 2015

	\$ (116)
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**Note 4 – Restriction and Limitation on Net Asset Balances**

Permanently restricted net assets consist of the following on May 31:

	2016	2015
Endowment Funds	\$ 1,010,000	\$ -

Temporarily restricted net assets consist of the following on May 31:

	2016	2015
Property - Building Fund	\$ 117,407	\$ 98,526

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4 - Restriction and Limitation on Net Asset Balances (continued)**

Unrestricted net assets consist of the following on May 31:

	<u>2016</u>	<u>2015</u>
Operations	\$ 602,912	\$ 572,440
Long-term investment	173,618	164,671
Investment in transmission, property and equipment and other intangible assets, net	<u>2,305,294</u>	<u>2,448,233</u>
	<u>\$ 3,081,824</u>	<u>\$ 3,185,344</u>

Net investment in property has been reduced by liabilities of \$1,346,753 and \$1,371,590 for the years ended May 31, 2016 and 2015, respectively, which are included in the liability account "Due to California Lutheran University" on the statements of financial position.

**Note 5 - Transmission, Property and Equipment**

Transmission, property and equipment consisted of the following at May 31:

	<u>2016</u>	<u>2015</u>
Property	\$ 4,820,576	\$ 4,820,576
Equipment	597,203	611,695
Vehicles	<u>29,396</u>	<u>29,396</u>
	5,447,175	5,461,667
Less: accumulated depreciation	<u>(1,795,128)</u>	<u>(1,641,844)</u>
Transmission, property and equipment, net	<u>\$ 3,652,047</u>	<u>\$ 3,819,823</u>

**Note 6 - Interfund Transactions and Concentration of Credit Risk**

One checking account is used for all of the University's funds which is also used as a depository for the Station's receipts. If the Station has a share of this common checking account at year end, it would be reported in an asset account "Due from California Lutheran University." The account "Due to California Lutheran University" represents the Station's balance due to the University for funds used in excess of deposits made into this checking account at year-end.

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Interfund Transactions and Concentration of Credit Risk (continued)**

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

	2016	2015
Due from California Lutheran University	\$ 264,583	\$ 220,667
Debt owed to California Lutheran University on capital	( 1,346,753 )	( 1,371,590 )
Due to California Lutheran University, net	\$ (1,082,170)	\$ (1,150,923)

Cash and cash equivalents held by the University in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. Investments held by the University are diversified in order to limit credit risk and are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk.

**Note 7 – Endowment**

The Station’s endowment consists of the beneficial interest in endowment funds invested by the University which consist of approximately 300 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law** – The Station’s governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as allowing the Station to appropriate for expenditure or accumulate so much of an endowment fund as the Station determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 2 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Station in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Station considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Station and the donor-restricted endowment fund

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Endowment (continued)**

3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Station
7. The investment policies of the Station

Endowment net asset composition by type of fund consists of the following as of May 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,010,000	\$ 1,010,000
Board-designated endowment funds*	<u>66</u>	<u>8,881</u>	<u>-</u>	<u>8,947</u>
Total endowment net assets	<u>\$ 66</u>	<u>\$ 8,881</u>	<u>\$ 1,010,000</u>	<u>\$ 1,018,947</u>

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2015	\$ -	\$ -	\$ -	\$ -
Investment return				
Investment income, net of fees of \$2,446	4,207	(3,177)	-	1,030
Net (depreciation) appreciation - realized and unrealized	<u>(4,141)</u>	<u>12,058</u>	<u>-</u>	<u>7,917</u>
Total investment return	66	8,881	-	8,947
Contributions	<u>-</u>	<u>-</u>	<u>1,010,000</u>	<u>1,010,000</u>
Endowment net assets, May 31, 2016	<u>\$ 66</u>	<u>\$ 8,881</u>	<u>\$ 1,010,000</u>	<u>\$ 1,018,947</u>

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Station to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of May 31, 2016. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**KCLU-FM CALIFORNIA LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Endowment (continued)**

**Return objectives and risk parameters** – The Station has adopted investment and spending policies that attempt to be prudent and provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Station must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

**Strategies employed for achieving objectives** – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

**Note 8 – Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Station has evaluated subsequent events through September 12, 2016, which is the date the financial statements were available to be issued. The Station recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. The Station does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.