

**KTSU-FM**  
**(A Component of Texas Southern University)**

**Financial Statements**

**For The Twelve Month Period Ended**  
**August 31, 2015 and 2014**

**KTSU-FM**  
**(A Component of Texas Southern University)**

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### Independent Auditor's Report

To The Management:  
KTSU-FM

We have audited the accompanying financial statements of KTSU-FM (A Component of Texas Southern University), which comprise the statement of financial position as of August 31, 2015 and 2014, 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 and standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

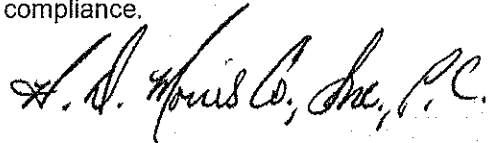
#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KTSU-FM (A Component of Texas Southern University) as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, on our consideration of KTSU-FM's (A Component of Texas Southern University) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering KTSU-FM's (A Component of Texas Southern University) internal control over financial reporting and compliance.



H. D. Morris Co., Inc., P.C.  
Houston, Texas  
March 1, 2016

This section of KTSU-FM (the "Organization") annual financial report presents our discussion and analysis of the financial performance of the radio stations for the year ended August 31, 2015 and 2014. This discussion has been prepared by the management along with the financial statements and related note disclosures and should be read in conjunction with, and is qualified in its entirety by the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes and current known facts. The financial statements, footnotes and this discussion are the responsibility of management.

### **Reporting Entity**

Texas Southern University operates the not-for-profit Organization through the Department of Public Broadcasting under licenses granted to the board of regions of the University. The assets, liabilities and net position of the Organization are included in the financial statements of Texas Southern University. The financial statements have been prepared in accordance with generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*.

### **Using the Financial Report**

The Organization's financial report includes three financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position and the statement of cash flows – indirect method. The financial statements presented focus on the financial condition, the results of operation and cash flows of the Organization taken as a whole. These financial statements are presented in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The statement of net position includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenue and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The statement of revenue, expenses and changes in net position presents the revenue earned and expenses incurred during the year. Activities are reported as either operating or non-operating revenue. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The statement of cash flows –indirect method presents the information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the Organization during the year.

**KTSU-FM**  
**(A Component of Texas Southern University)**

Management's Discussion and Analysis – Unaudited (Continued)

Condensed Financial Information

Statement of Net Position

	<u>2015</u>	<u>2014</u>
Current assets	\$ 525,252	\$ 495,968
Noncurrent asset:		
Capital assets	-	12,337
Total assets	<u>525,252</u>	<u>508,305</u>
Current liabilities	<u>140,294</u>	<u>149,685</u>
Total liabilities	140,294	149,685
Total net position	<u>\$ 384,958</u>	<u>\$ 358,620</u>

**Current assets** consist of cash and cash equivalents, receivables and unexpired program rights, such as pledges.

**Noncurrent assets** include capital assets net of accumulated depreciation.

**Net position** represents the difference between the Organization's assets and liabilities. Total net position at August is summarized as follows:

	<u>2015</u>	<u>2014</u>
Unrestricted	<u>\$ 384,958</u>	<u>\$ 358,620</u>
Total net position	<u>\$ 384,958</u>	<u>\$ 358,620</u>

**Summary**

The Organization operated within available resources during the year. Major sources of revenue to fund operations included the general University support, contributions and underwriting and support from the Corporation for Public Broadcasting. Expenses were limited to correspond with available.

**KTSU-FM**  
**(A Component of Texas Southern University)**  
**Statement of Net Position**  
**As of August 31,**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2015</u>	<u>2014</u>
<b>Assets</b>				
Current assets:				
Claim on cash	\$ (83,145)	\$ 120,462	\$ 37,317	\$ 82,991
Pledges receivable, net	487,935	-	487,935	412,977
Total current assets	<u>404,790</u>	<u>120,462</u>	<u>525,252</u>	<u>495,968</u>
Property, plant and equipment:				
Equipment	269,960	-	269,960	269,960
Accumulated depreciation	<u>(269,960)</u>	<u>-</u>	<u>(269,960)</u>	<u>(257,623)</u>
Total property, plant and equipment	-	-	-	12,337
Total assets	<u>\$ 404,790</u>	<u>\$ 120,462</u>	<u>\$ 525,252</u>	<u>\$ 508,305</u>
<b>Liabilities and Net Position</b>				
Liabilities:				
Current liabilities:				
Accrued liabilities	\$ -	\$ -	\$ -	\$ 10,725
Accrued compensable absences	19,832	-	19,832	24,365
Deferred revenues	-	120,462	120,462	114,595
Total current liabilities	<u>19,832</u>	<u>120,462</u>	<u>140,294</u>	<u>149,685</u>
Net position:				
Unrestricted	<u>384,958</u>	<u>-</u>	<u>384,958</u>	<u>358,620</u>
Total net position	<u>384,958</u>	<u>-</u>	<u>384,958</u>	<u>358,620</u>
Total liabilities and net position	<u>\$ 404,790</u>	<u>\$ 120,462</u>	<u>\$ 525,252</u>	<u>\$ 508,305</u>

**The Accompanying Notes Are An Integral Part of These  
Financial Statements**

**KTSU-FM**  
**(A Component of Texas Southern University)**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For The Twelve Months Ended August 31,**

	Unrestricted	Temporarily Restricted	2015 Total	2014
Operating revenues and support:				
Special events	\$ 18,364	-	\$ 18,364	\$ 10,087
In-kind revenues	73,012	-	73,012	58,470
Rentals	43,221	-	43,221	73,941
Underwriter income	107,536	-	107,536	136,169
Grants	41,481	-	41,481	79,649
Membership and donations	60,480	-	60,480	105,721
Guarantees	-	-	-	41,291
Sponsorships	64,733	-	64,733	52,859
Private gifts, grants and contracts	-	240,293	240,293	108,545
University support	602,402	-	602,402	561,865
Total operating revenues and support	1,011,230	240,293	1,251,523	1,228,597
Net assets released from restrictions	-	-	-	
Total revenues, gains and other support	1,011,230	240,293	1,251,523	1,228,597
Operating expenses:				
Personnel costs	520,401	-	520,401	489,971
Travel	1,390	15,641	17,031	16,832
Maintenance and repairs	-	21,641	21,641	13,639
Event admissions	-	-	-	26,042
Depreciation	-	12,337	12,337	29,859
Food	839	-	839	18,517
Sponsorships	-	-	-	20,000
Utilities	38,461	-	38,461	21,125
Professional fees	16,950	10,500	27,450	37,969
Miscellaneous	19,490	27,459	46,949	73,328
Supplies and materials	23,241	41,509	64,750	46,365
Contract labor	19,342	25,515	44,857	13,804
Fees and other charges	7,934	64,042	71,976	154,261
Postage and delivery	7,073	695	7,768	12,568
Rent	120,425	20,953	141,377	175,941
Total operating expenses	775,546	240,293	1,015,839	1,150,221
Change in net position from operating activities	235,684	-	235,684	78,376
Non-operating revenues and expenses:				
Worthless pledges	(209,346)	-	(209,346)	80,482
Change in net position from non-operating activities	(209,346)	-	(209,346)	80,482
Change in net position	26,338	-	26,338	(2,106)
Net position, beginning of year	358,620	-	358,620	360,726
Net position, end of year	\$ 384,958	\$ -	\$ 384,958	\$ 358,620

**The Accompanying Notes Are An Integral Part of These  
Financial Statements**



**KTSU-FM**  
**(A Component of Texas Southern University)**  
**Statement of Cash Flows**  
**For The Twelve Months Ended August 31,**

	<b>2015</b>	<b>2014</b>
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ 26,338	\$ (2,106)
Adjustments to reconcile net assets to net cash provided by operating activities:		
Depreciation	12,337	29,859
Changes in operating assets and liabilities:		
Increase in pledges receivable, net	(74,958)	(13,460)
Decrease in accounts payable	(10,725)	(13,135)
Decrease in accrued compensable absences	(4,533)	(779)
Increase in deferred revenues	5,867	13,354
Net cash generated by operating activities	(72,012)	15,839
Net increase in cash	(45,674)	13,733
Cash at beginning year	82,991	69,258
Cash at end of year	\$ 37,317	\$ 82,991

**The Accompanying Notes Are An Integral Part of These  
Financial Statements**

**KTSU-FM**  
**(A Component of Texas Southern University)**  
**Notes To The Financial Statements**

**Note A – Summary of Significant Accounting Policies**

KTSU-FM (the "Organization") is a major component of outreach for Texas Southern University, an agency of the State of Texas, in Houston, Texas, providing the community-at-large with non-commercial schedules of jazz music programming and other special programming 24 hours a day. It was founded on June 23, 1972.

The organization is committed to:

Maintaining the highest possible professional standards of program content and present technical quality within the broadcast industry in affirmation of its leadership role in the public radio community, measured by traditional standards of audience and budget size;

Improving the quality of life for the university and the community by increasing their awareness of the beauty, richness and depth of our cultural heritage through the presentation of jazz and other music features;

Providing its listeners with thoughtful, thorough and well-balanced coverage of news, current events, personalities and educational, social and cultural issues that impact their lives through university and community-based programs;

Improving partnerships with community organizations to advance and enrich the cultural life of metropolitan Houston through the broadcast of community-based activities;

Promoting the resources and services of the university to the community at large through educationally produced programming; and

Providing training for Texas Southern University's telecommunications students.

The organization is funded by community support through membership campaigns and donations, by special events, by Texas Southern University support and through a grant from the Center for Public Broadcasting.

**Note B – Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the *Principles of Accounting and Financial Reporting for Public Telecommunications Entities*.

The Organization follows the "business-type" activities requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. These financial statements require the following components of the Organizations financial statements:

- Management's Discussion and Analysis
- Basic financial statements including a statement of net position, statement of revenue, expenses, changes in net position and statement of cash flows – indirect method for the Organization as a whole
- Notes to the financial statements

GASB Statement No., 34, amended by GASB Statement No. 63, requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
- Nonexpendable – Net position subject to externally imposed constraints that it be maintained permanently by the Organization.
- Expendable: Net position whose use by the Organization is subject to externally imposed constraints that can be fulfilled by actions of the Organization pursuant to those constraints or that expire by the passage of time.
- Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the board or may otherwise be limited by contractual agreements with outside parties

### Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The Organization reports under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 20, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) statements and interpretations
- Accounting Principles Board opinions
- Accounting research bulletins of the American Institute of Certified Public Accountants (AICPA), Committee on Accounting Procedures

### 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 prudent and conservation estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### **Summary of Significant Accounting Policies**

#### Cash and Cash Equivalents

Cash and cash equivalents are stated at fair value.

#### Revenue Recognition

Revenue is recognized when earned and expenditures are recognized when the service is provided. Restricted grant revenue is recognized only to the extent expended. Operating revenue of the Organization consists of general appropriations from the University, contributions, community service grants from the CPB, outreach grants, underwriting and auxiliary enterprise revenue. Non-operating revenues of the Organization investing activities, capital contributions and capital grants. Restricted and unrestricted resources are spent and tracked at the station level within the guidelines of donor restrictions.

### Contributions and Pledges

Contributions are recorded when received. Voluntary non-exchange transactions (pledges) are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. GASB Statement No. 33 requires recognition of the entire pledge in the first period that use is permitted and all applicable eligibility requirements have been satisfied. Such pledges are recorded net of allowance for uncollectible pledges.

### Property and Equipment

Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at the estimated fair market value at the date of the gift. The Organization reports gifts of land, buildings and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service; if insignificant, gifts of long-lived assets are expensed when received.

Depreciation is computed using the straight-line method with estimated useful lives. The Organization capitalizes purchased property and equipment having a cost greater than \$5,000 with estimated useful lives greater than one year. In addition, the value of assets less than \$5,000 identified as controlled inventory are expensed upon purchase but are included in the property, plant and equipment inventory records. Expenditures for repair and maintenance are charged to operating expenses as incurred.

### Allocation of Function Expenses

Expenses are allocated to various programs and supporting services based on the ultimate use of the product or services and on estimated time and effort invested in the activity.

### Donated Materials and Services

Donated materials are recorded at fair market value at the date of the donation. Donated services that create or enhance nonfinancial assets or require specialized skills are recognized as revenues and corresponding expenses. Donated services that do not meet the above conditions are not recognized.

### **Note C – Pledges Receivable**

Unconditional promises to give are included in the financial statements as pledges receivable in the appropriate net position category. All pledges receivable are unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value. An allowance for un-collectibles has been established for pledges outstanding for more than three years as of August 31, 2015. Pledge receivable, net is comprised of the following as of August 31, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Pledges receivable	\$ 697,281	\$ 622,323
Less: Allowance for uncollectible pledges	<u>(209,346)</u>	<u>(209,346)</u>
Pledges receivable, net	<u>\$ 487,935</u>	<u>\$ 412,977</u>

### **Note D – Property, Plant and Equipment**

Property, plant and equipment are comprised of the following as of August 31,:

	August 31, 2014	Additions	Deductions	August 31, 2015
Property, plant and equipment	\$ 269,960	\$ -	\$ -	\$ 269,960
TOTAL	269,960	-	-	269,960
Accumulated depreciation	\$ (257,623)	\$ (12,337)	\$ -	(269,960)
Net book value	\$ 12,337	\$ (12,337)	\$ -	\$ -

#### Note E – Income Taxes

The Organization as a component of Texas Southern University is exempt from income taxes. Therefore, no provision for such has been included in the accompanying financial statements.

#### Note F – Compensable Absences

As a component of an agency of the State of Texas, KTSU-FM's employees are entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from State employment provided to employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source from which the employee's salary or wage compensation was paid. As of August 31, 2015 and 2014, a total of \$19,832 and \$24,365 was accrued, respectively.

#### Note G – University Support

Texas Southern University provided funding and support to the Organization during 2015 and 2014. KTSU-FM occupies a separate building provided by the University. Management estimates the value of the use of the building to be \$8,500 per month or \$102,000 annually. This amount is reported as rent expense for each year. In addition, the University pays the electricity for the building occupied by KTSU-FM. A total of \$38,461 and \$21,125 are reported in the 2015 and 2014, financials as utility expense, respectively. Finally the University provides State funded support and local fund support in the amount of \$461,941 and \$438,365 to KTSU-FM for 2015 and 2014, respectively. These amounts are reported in the various expense accounts including personnel costs.

#### Note H – In-Kind Revenues

In exchange for radio advertising, KTSU-FM obtained in-kind services in the amount of \$59,286 and \$73,012 from program underwriters during the fiscal year 2015 and 2014. The value of the revenue recorded is determined by the fair market value of the services provided as determined by management.

#### Note I – Retirement Plans

The Organization's employees are included in retirement plans funded by the University. See the notes to the University's financial statements for details of the plan.

#### Note J – Schedule of Functional Expenses

The Organization reports its operating expenses into primarily two functional classifications:

- Program services – activities that provided goods and services to the beneficiaries, customers and members of the Organization that fulfill its purpose or mission for which the Organization exists.
- Support services – activities not directly related to the purpose or mission for which the Organization exists, but which are necessary for the Organization to operate. Support services generally include management and general, fundraising and membership development activities.

Also, the Organization allocates its functional expenses to programming and production; broadcasting, engineering and technical; program information; and fundraising and membership development. The allocation is based on management's estimate of resources spent in each area.

The Organization's functional expenses for the year ended August 31, 2015 are as follows:

	Programming and Production	Broadcasting , Engineering, Technical	Program Information	Fundraising and Membership Development	Management and General	Total
Program services	\$ 127,355	\$ 38,447	\$ 7,209	\$ 31,238	\$ 36,044	\$ 240,293
Support services						
Management and general	411,040	124,087	23,267	100,821	103,996	763,209
Depreciation					12,337	12,337
	<u>\$ 538,395</u>	<u>\$ 162,534</u>	<u>\$ 30,475</u>	<u>\$ 132,058</u>	<u>\$ 152,377</u>	<u>\$ 1,015,839</u>

### Note K – Fair Value Measurements

Fair Value Accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair Value is defined as the price an asset would bring or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Fair Value Accounting specifies a hierarchy based upon whether the inputs to valuation techniques are observable or unobservable. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of the Organization's Board of Trustees. The Organization is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The components of each level are:

**Level 1** – Quoted market prices for identical instruments in active markets.

**Level 2** – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** – Valuation models in which significant inputs are unobservable or where there is little, if any, market activity.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash – the carrying amount reflected in the statement of financial position for cash approximates the respective fair value due to the short maturity of the instrument.

Pledges receivable – the carrying value of pledges receivable is reported at a net realizable value using present value techniques which approximate fair value.

Carrying values and estimated fair values at August 31, 2015:

	Carrying Value		Fair Value
Financial assets:			
Cash	\$ 37,317	\$	37,317
Pledges receivable, net	487,935		487,935
Financial liabilities:			
None			

#### Note L – Subsequent Events

The date through which subsequent events have been evaluated is March 1, 2016 which is the date the financial statements were available to be issued.