

# **USC Radio**

*(an Operating Department of the University of  
Southern California)*

*Financial Statements*

**For KUSC-FM, KDSC-FM, KDB-FM, KPSC-FM,  
KESC-FM, KDFC-FM, KOSC-FM, KDFG-FM, and  
KXSC-FM**

**June 30, 2020 and 2019**

**USC Radio**  
*(an Operating Department of the University of Southern California)*  
**Index to Financial Statements**  
**June 30, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Trustees  
of the University of Southern California

We have audited the accompanying financial statements of USC Radio, an operating department of the University of Southern California, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities for the year ended June 30, 2020 and of cash flows for the years ended June 30, 2020 and 2019.

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

Management is responsible for the preparation and fair presentation of the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 our 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, we consider internal control relevant to USC Radio'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 USC Radio'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 USC Radio, an operating department of the University of Southern California, as of June 30, 2020 and 2019, and the changes in its net assets for the year ended June 30, 2020 and its cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of USC Radio, an operating department of the University of Southern California, are intended to present the financial position, the changes in net assets and cash flows of only that portion of the University of Southern California and its subsidiaries that is attributable to the transactions of USC Radio. They do not purport to, and do not, present fairly the consolidated financial position of the University of Southern California and its subsidiaries as of June 30, 2020 and 2019, the changes in their net assets for the year ended June 30, 2020 or their cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



***Other Matter***

We previously audited the statement of financial position as of June 30, 2019, and the related statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated February 13, 2020, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2019 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PricewaterhouseCoopers LLP*

February 11, 2021

## USC Radio

(an Operating Department of the University of Southern California)

### Statements of Financial Position

As of June 30, 2020 and 2019

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	2020	2019
<b>Assets</b>		
Cash	\$ -	\$ -
Accounts receivable	209,945	339,292
Pledges receivable	784,691	873,623
Investments	8,345,843	8,470,281
Due from the University of Southern California	14,989,405	12,838,535
Intangible assets	17,097,719	17,107,718
Property and equipment, net	411,979	423,249
Total assets	<b><u>\$ 41,839,582</u></b>	<b><u>\$ 40,052,698</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 484,293	\$ 374,699
Deferred revenue	970,484	1,399,233
Note payable to University of Southern California	2,279,596	2,867,303
Actuarial liability for annuities payable	602,737	633,385
Other liabilities	-	663,777
Total liabilities	<b><u>4,337,110</u></b>	<b><u>5,938,397</u></b>
<b>Net assets</b>		
Without donor restrictions	30,647,871	27,112,502
With donor restrictions	6,854,601	7,001,799
Total net assets	<b><u>37,502,472</u></b>	<b><u>34,114,301</u></b>
Total liabilities and net assets	<b><u>\$ 41,839,582</u></b>	<b><u>\$ 40,052,698</u></b>

The accompanying notes are an integral part of these financial statements.

# USC Radio

(an Operating Department of the University of Southern California)

## Statement of Activities for the year ended

June 30, 2020, with summarized comparative information for the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>Revenue, Support and Other</b>				
Subscription, associate and individual contributions	\$ 13,383,629	\$ 16,068	\$ 13,399,697	\$ 13,476,981
Corporation and foundation	2,688,621	-	2,688,621	2,963,081
Corporation for Public Broadcasting grants	973,135	-	973,135	681,789
Investment return	289,569	(121,506)	168,063	324,084
Present value adjustment to annuities payable	-	(21,075)	(21,075)	26,195
Other	142,220	-	142,220	123,454
Loss on impairment	(10,000)	-	(10,000)	-
Net assets released from restrictions	20,685	(20,685)	-	-
Total revenue, support and other	<u>17,487,859</u>	<u>(147,198)</u>	<u>17,340,661</u>	<u>17,595,584</u>
<b>Expenses</b>				
Programming and production	4,368,961	-	4,368,961	3,817,079
Broadcast operations	2,145,599	-	2,145,599	2,164,804
Fundraising	2,488,461	-	2,488,461	2,313,458
Underwriting and grant solicitation	2,397,304	-	2,397,304	2,221,733
General and administrative	2,252,420	-	2,252,420	3,296,150
Web development	299,745	-	299,745	528,738
Corporation for Public Broadcasting grant refund (refer to note 14)	-	-	-	663,777
Total expenses	<u>13,952,490</u>	<u>-</u>	<u>13,952,490</u>	<u>15,005,739</u>
Change in net assets	<b>3,535,369</b>	<b>(147,198)</b>	<b>3,388,171</b>	<b>2,589,845</b>
Net assets at beginning of year	27,112,502	7,001,799	34,114,301	31,524,456
Net assets at end of year	<u>\$ 30,647,871</u>	<u>\$ 6,854,601</u>	<u>\$ 37,502,472</u>	<u>\$ 34,114,301</u>

The accompanying notes are an integral part of these financial statements.

# USC Radio

(an Operating Department of the University of Southern California)

## Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 3,388,171	\$ 2,589,845
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	72,947	77,045
Net depreciation (appreciation) in fair value of investments	157,032	(20,356)
Actuarial adjustment to annuities payable	21,075	(26,195)
Loss on impairment	10,000	-
Contributions with donor restrictions for long-term investments	(105,000)	(929,945)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	129,347	-
Decrease (increase) in pledges receivable	88,932	(219,160)
Increase in accounts payable and accrued expenses	109,594	14,352
(Decrease) increase in deferred revenue	(428,750)	401,307
(Decrease) increase in other liabilities	(663,777)	663,777
Net cash provided by operating activities	<u>2,779,571</u>	<u>2,550,670</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	111,241	106,215
Purchase of investments	(143,836)	(1,005,422)
Purchases of property and equipment	(61,675)	(6,588)
Change in due from the University of Southern California	(2,150,872)	(1,776,783)
Net cash used in investing activities	<u>(2,245,142)</u>	<u>(2,682,578)</u>
<b>Cash flows from financing activities</b>		
Endowment contributions with donor restrictions	105,000	929,945
Decrease in note payable with University of Southern California	(587,706)	(781,096)
Investment gain on annuities payable	38,833	75,477
Payments on annuities payable	(90,556)	(92,418)
Net cash (used in) provided by financing activities	<u>(534,429)</u>	<u>131,908</u>
Net change in cash	<u>-</u>	<u>-</u>
Cash at beginning of year	<u>-</u>	<u>-</u>
Cash at end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

# USC Radio

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## Notes to the Financial Statements

June 30, 2020 and 2019

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### 1. General

KUSC-FM, located in Los Angeles, and affiliated stations KDSC-FM, located in Thousand Oaks, KDB-FM, located in Santa Barbara, KPSC-FM, located in Palm Springs, KXSC-FM, located in Sunnyvale, KOSC-FM, located in Angwin, KDFC-FM, located in San Francisco, KESC-FM, located in Morro Bay, and KDFG-FM located in Seaside, (collectively referred to as "USC Radio") are noncommercial, not-for-profit, educational radio stations which are owned and operated by the University of Southern California (the "University"). USC Radio is an operating department of the University of Southern California. The University manages the assets, liabilities and operations of the radio stations and accounts for revenues directly related to the radio stations as well as costs attributable to the radio stations. These costs could be different if USC Radio operated as a separate, stand-alone entity.

In accordance with the *Corporation for Public Broadcasting Financial Reporting Guidelines*, the financial statements of USC Radio reflect the assets, liabilities and operations of KUSC-FM, KDSC-FM, KDB-FM, KPSC-FM, KESC-FM, KOSC-FM, KDFC-FM, KDFG-FM, and KXSC-FM radio stations.

On June 10, 2016, an agreement was entered into by Mount Wilson Broadcasters and USC Radio whereby USC Radio would purchase the broadcast license and certain related assets of KBOQ, a commercial FM station in Seaside, California for \$475,000 and would receive as a donation the broadcast license and certain related assets of KMZT, a commercial FM station in Big Sur, California. The assignment application was filed June 15, 2016, with the Federal Communications Commission by Mount Wilson Broadcasters. The call signs for the stations did not transfer; therefore, they were changed upon closing to KDFG, Seaside and KDFH, Big Sur. On August 26, 2016, a bill of sale was signed pursuant to the agreement dated June 15, 2016. The donated KDFH license and related assets were subsequently surrendered in 2017 as they were not employed by USC Radio. Furthermore, USC Radio recognized a contribution of \$525,000 on the acquisition of KDFG, which was the difference between the purchase price of \$475,000 and the market value of \$1 million that was assigned to the KDFG license.

As of May 1, 2017, KOSC and KDFC swapped call letters. KOSC became KDFC and KDFC became KOSC.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying financial statements present the financial position, changes in net assets and cash flows of USC Radio, which includes the radio stations. They have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

All inter-station transactions have been eliminated in the financial statements.

#### Net assets without and with donor restrictions

Net assets without donor restrictions are the part of net assets of a not-for-profit entity that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the

# USC Radio

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## Notes to the Financial Statements

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies (Continued)

following: a) the nature of the not-for-profit entity b) the environment in which it operates c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

This classification includes all revenues, gains, and expenses not restricted by donors. USC Radio reports all expenditures, with the exception of investment expenses that are required to be netted against investment return, in this class of net assets since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions includes contributions for which donor imposed restrictions have not been met (primarily future capital projects), endowment appreciation, charitable remainder unitrusts, pooled income funds, gift annuities and pledges receivable which are included in net assets with donor restrictions.

In January 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education. In addition, COVID-19 has negatively impacted the financial markets and may continue to materially affect the returns on and value of USC Radio's investments and/or endowment. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may have a negative effect on USC Radio's various revenue streams. The full impact of COVID-19 and the scope of any adverse impact on USC Radio's finances and operations cannot be fully determined at this time.

#### Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statements of financial position. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. USC Radio will adopt this ASU in fiscal year 2021 and is implementing a new lease system in connection with this adoption. Management is progressing with implementation and continuing to evaluate the effect to USC Radio's financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distributions received from equity method investments. USC Radio adopted ASU 2016-15 for the fiscal year ended June 30, 2020. Adoption did not have a material impact on USC Radio's financial statements.

# USC Radio

(an Operating Department of the University of Southern California)

## Notes to the Financial Statements

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash (topic 230): Statement of Cash Flows*. This ASU clarifies how entities should present restricted cash and restricted cash equivalents in the statements of cash flows and requires entities to present changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement as well. USC Radio adopted ASU 2016-18 for the fiscal year ended June 30, 2020 and applied it retroactively. Adoption did not have a material impact on USC Radio's financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. The ASU is effective for USC Radio beginning in fiscal year 2021. USC Radio is currently evaluating the effect of adoption to the financial statements.

#### Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with USC Radio's financial statements for the year ended June 30, 2019 from which the summarized financial information was derived.

#### Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash equivalents that are part of USC Radio's investment portfolio are reported as investments.

#### Investments

Investments are stated at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown on the Statement of Activities. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

Investments included units in the University's pooled investment fund and real estate. The University's pooled investment fund invests in bonds, stocks, hedge funds, private capital and other investments. The value of USC Radio's investment in pooled investment fund is reported based on its percentage of investment in relation to the entire pool. Real estate received in connection with charitable gift annuities and outright gift of the donor's estate is recorded at fair value at the date of gift.

# USC Radio

(an Operating Department of the University of Southern California)

## Notes to the Financial Statements

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies (Continued)

USC Radio applies the provision of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by USC Radio for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level I - Quoted prices in active markets for identical assets or liabilities.
- Level II - Inputs other than Level I that are observable, either directly or indirectly, 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 same term of the assets or liabilities.
- Level III - 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. USC Radio considers additional factors in appropriately classifying the investments in the fair value hierarchy. An investment is generally classified as Level II if USC Radio has the ability to withdraw its investment with the investment fund at net asset value at the measurement date. An investment is generally classified as Level III if USC Radio does not have the ability to withdraw its investment with the investment fund at net asset value, such as investments in closed-end funds, “side pockets”, or funds with suspended withdrawals imposed (if any).

#### Property and Equipment

Property and equipment is stated at cost or estimated fair value determined at the date of contribution. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 4 to 10 years.

#### FCC Licenses (Indefinite Lived Intangible Assets)

In accordance with ASC 350, USC Radio determined the FCC broadcasting licenses are indefinite lived. Indefinite lived intangible assets are stated at estimated fair value determined as of the date of purchase and will not be amortized. The licenses will be tested for impairment annually. Specifically, the carrying value of the individual licenses is compared to the fair value of comparable stations recently sold. If the fair value is below the carrying amount, the asset will be impaired.

#### Contributions

Contributions and grants without donor restrictions are recognized as revenue when received. Unconditional promises to give are recorded as contributions when received at the net present value of the amounts expected to be collected. USC Radio has determined that any donor-imposed restrictions of contributions for current or developing programs and activities are

## **USC Radio**

*(an Operating Department of the University of Southern California)*

### **Notes to the Financial Statements**

**June 30, 2020 and 2019**

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#### **2. Summary of Significant Accounting Policies (Continued)**

generally met within the operating cycle of USC Radio and therefore, USC Radio's policy is to record these net assets as without donor restrictions.

Donor-restricted contributions, which are received and either spent or deemed spent within the same year, are reported as revenue without donor restrictions.

#### **Due from the University of Southern California**

Due from the University of Southern California represents unexpended gift and grant funds maintained in the University's working capital funds.

#### **Annuities**

The actuarial liability for annuities payable includes gift annuities and unitrusts which are based on the present value of future payments using discount rates ranging from 2.70% to 6.00%. The liabilities are adjusted during the terms of the trust for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. The valuation followed generally accepted actuarial methods and was based on the requirements of FASB ASC 958. The 2012 Individual Annuity Mortality Basic Table (without margin) for Males and Females with Projection Scale G2 for Males and Females were used in the valuations.

#### **Subscription Contribution Revenue**

Subscription contribution revenue which primarily consists of cash donations from donors through fundraising activities is recorded when received. Fundraising expenses related to promotional items distributed to subscribers are recognized as incurred. All promotional items are mailed at the time subscriptions are made; therefore, no liability is recognized in the financial statements. Other revenues without donor restrictions are recognized as earned.

#### **Corporation and Foundation Revenue**

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services (the performance obligation) in an amount that reflects the consideration USC Radio expects to receive in exchange for those goods or services (the transaction price). Revenue is recognized as the performance obligations are satisfied. USC Radio corporation and foundation revenue is primarily derived from the planning and execution of on-air spots known as underwriting revenue. The transaction price of a contract is allocated to each distinct performance obligation based on its relative stand-alone selling price set by an agreed fee or rate per hour and is recognized as revenue when, or as, the customer receives the benefit of the performance obligation. All customer contracts provide that USC Radio is entitled to consideration for services performed to date based on the agreed upon transaction price stated in the contract. USC Radio bills the customer on a monthly basis with payment terms that are due upon receipt of the invoice. Accordingly, USC Radio satisfies its performance obligation within the same fiscal year as contracts with customers for underwriting spots typically are satisfied within a week's timeframe. USC Radio recognized \$1,778,953 and \$2,238,738 in revenues from underwriting activities accounted for as contracts with customers for the years ended June 30, 2020 and 2019, respectively. Those revenues are combined with contribution and grant revenues in the statements of activities. For the years ended June 30, 2020 and 2019, USC Radio recognized \$909,668 and \$724,343, respectively, of contribution and grant revenue in corporation and foundation revenue on the statement of activities.

# USC Radio

*(an Operating Department of the University of Southern California)*

## Notes to the Financial Statements

June 30, 2020 and 2019

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### 2. Summary of Significant Accounting Policies (Continued)

#### **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.

#### **Revision of Previously Issued Financial Statements**

In connection with the preparation of the financial statements for the year ended June 30, 2020, USC Radio identified errors in its previously issued June 30, 2019 financial statements. The errors relate to the presentation of investment return in the Statement of Activities in accordance with ASC 958, Not-for-profit entities, the classification of cash flow activities between USC Radio and the University in accordance with ASC 230, Statement of cash flows, and the recognition of Corporation and foundation revenue in accordance with ASC 606, Revenue from contracts with customers. USC Radio also identified a disclosure error in the fair value leveling table in Note 4, Investments. Management has concluded that these errors were not material, individually or in the aggregate, to the previously issued 2019 financial statements, but has revised the 2019 financial statements as described below.

The impact of correcting the investment return presentation error was to collapse the different components of investment return from three line items to one, but it had no impact on previously reported Total revenues, support and other or Change in net assets. The impact of correcting the classification error in the Statement of Cash Flows was to increase previously reported Net cash provided by operating activities by \$1.8 million and increase previously reported Net cash used in investing activities by \$1.8 million. This change had no impact on previously reported Net cash provided by financing activities or Net change in cash. The impact of correcting the revenue recognition error was to increase previously reported Net assets at beginning of year in the Statement of Activities and previously reported Accounts receivable in the Statement of Financial Position by \$339 thousand. Management revised the leveling table in Note 4 by reclassifying approximately \$1.3 million of amounts previously presented as Gift annuities & life estates in Level I of the fair value hierarchy to University pooled investment fund within Level II.

**USC Radio**  
*(an Operating Department of the University of Southern California)*  
**Notes to the Financial Statements**  
**June 30, 2020 and 2019**

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**2. Summary of Significant Accounting Policies (Continued)**

The revision adjustments to the June 30, 2019 financial statements are summarized in the tables below:

<b>Statement of Financial Position</b>			
<b>2019</b>			
	<b>As Originally Reported</b>	<b>Adjustment</b>	<b>2019 As Revised</b>
<b>Assets</b>			
Accounts receivable	-	339,292	339,292
Total assets	<u>\$39,713,406</u>	<u>339,292</u>	<u>\$ 40,052,698</u>
<b>Net Assets</b>			
Without donor restrictions	26,773,210	339,292	27,112,502
Total net assets	<u>33,775,009</u>	<u>339,292</u>	<u>34,114,301</u>
Total liabilities and net assets	<u>\$39,713,406</u>	<u>339,292</u>	<u>\$ 40,052,698</u>

<b>Statement of Activities</b>			
<b>2019</b>			
	<b>As Originally Reported</b>	<b>Adjustment</b>	<b>2019 As Revised</b>
<b>Revenue, Support and Other</b>			
Contribution from the University of Southern California	117,655	(117,655)	-
Investment return	-	324,084	324,084
Net appreciation in fair value of investments	20,356	(20,356)	-
Other	309,527	(186,073)	123,454
Total revenue, support and other	<u>17,595,584</u>	<u>-</u>	<u>17,595,584</u>
Net assets at beginning of year	31,185,164	339,292	31,524,456
Net assets at end of year	<u>\$33,775,009</u>	<u>339,292</u>	<u>\$ 34,114,301</u>

<b>Statement of Cash Flows</b>			
<b>2019</b>			
	<b>As Originally Reported</b>	<b>Adjustment</b>	<b>2019 As Revised</b>
<b>Cash flows from operating activities</b>			
Due from the University of Southern California	(1,776,783)	1,776,783	-
Net cash provided by operating activities	<u>773,887</u>	<u>1,776,783</u>	<u>2,550,670</u>
<b>Cash flows from investing activities</b>			
Change in due from the University of Southern California	-	(1,776,783)	(1,776,783)
Net cash used in investing activities	<u>(905,795)</u>	<u>(1,776,783)</u>	<u>(2,682,578)</u>

## USC Radio

(an Operating Department of the University of Southern California)

### Notes to the Financial Statements

June 30, 2020 and 2019

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#### 3. Liquidity and Availability

USC Radio's liquidity is supported by the financial assets of the University which are sufficient to cover the liquidity needs of USC Radio. The University's financial assets available within one year of the balance sheet date for general expenditures at June 30, 2020 and 2019, was \$3,363,758,000 and \$2,348,725,000, respectively.

#### 4. Investments

As described in Note 2, the fiscal year 2019 leveling table has been revised to reflect the reclassification of approximately \$1.3 million of amounts previously presented as Gift annuities & life estates in Level I of the fair value hierarchy to University pooled investment fund within Level II.

Investments are comprised of the following:

	2020		2019
University pooled investment fund	\$ 8,345,843	\$	8,470,281
Total Investments	<u>\$ 8,345,843</u>	<u>\$</u>	<u>8,470,281</u>

As of June 30, 2020 and 2019, \$1,192,270 and \$1,267,898 of investments, respectively, relate to gift annuities and life estates for which the University is the trustee but the funds are ultimately restricted for support of USC Radio.

The following table summarizes the financial instruments carried at fair value as of June 30, 2020, by the ASC 820 valuation hierarchy defined above:

Investments:	Level 1	Level II	Level III	Total
University pooled investment fund	\$ -	\$ 8,345,843	\$ -	\$ 8,345,843
Total Investments	<u>\$ -</u>	<u>\$ 8,345,843</u>	<u>\$ -</u>	<u>\$ 8,345,843</u>

The following table summarizes the financial instruments carried at fair value as of June 30, 2019, by the ASC 820 valuation hierarchy:

Investments:	Level 1	Level II	Level III	Total
University pooled investment fund	\$ -	\$ 8,470,281	\$ -	\$ 8,470,281
Total Investments	<u>\$ -</u>	<u>\$ 8,470,281</u>	<u>\$ -</u>	<u>\$ 8,470,281</u>

## USC Radio

(an Operating Department of the University of Southern California)

### Notes to the Financial Statements

June 30, 2020 and 2019

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#### 5. Property and Equipment

Property and equipment consist of:

	<b>2020</b>	<b>2019</b>
Equipment	\$ 1,673,273	\$ 1,631,351
Less: Accumulated depreciation and amortization	<u>(1,261,294)</u>	<u>(1,208,102)</u>
Total	<u>\$ 411,979</u>	<u>\$ 423,249</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 amounted to \$72,946 and \$77,045, respectively.

#### 6. Intangible Assets

KUSC has acquired various FCC licenses, which it treats as indefinite lived intangible assets.

	<b>2020</b>	<b>2019</b>
KXTY (referred to as 'KESC-FM')	\$ 900,000	\$ 900,000
KNDL (referred to as 'KDFC-FM')	2,250,000	2,260,000
KCNL (referred to as 'KXSC-FM')	7,502,699	7,502,699
K212AA	205,000	205,000
KUSF (referred to as 'KOSC-FM')	3,840,019	3,840,019
KDB	1,400,000	1,400,000
KDFG	1,000,000	1,000,000
Total	<u>\$ 17,097,718</u>	<u>\$ 17,107,718</u>

#### 7. Net Assets

Net assets with donor imposed restrictions under annuity trust agreements represent funds previously collected but not yet expended or released from their restrictions. At June 30, 2020 and 2019, the net assets with donor restrictions balance of \$1,289,153 and \$941,925, respectively, related to annuity trust agreements and pledges receivables. At June 30, 2020 and 2019, net assets with donor imposed restrictions that are comprised of an investment in perpetuity of \$5,565,448 and \$6,059,875, respectively, of which the income is expendable to support educational activity.

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#### 8. Endowment

The University's Board of Trustees has interpreted the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as With Donor Restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the University considers various factors in making a determination to appropriate or accumulate endowment funds including: duration and preservation of the fund, economic conditions, effects of inflation or deflation, expected return on the funds and other economic resources of the University.

Endowment net asset composition by type of fund consists of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,480,378	\$ 5,480,378
Board-designated endowment funds	<u>1,673,195</u>	<u>-</u>	<u>1,673,195</u>
Total endowment funds	<u>\$ 1,673,195</u>	<u>\$ 5,480,378</u>	<u>\$ 7,153,573</u>

  

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,493,664	\$ 5,493,664
Board-designated endowment funds	<u>1,708,719</u>	<u>-</u>	<u>1,708,719</u>
Total endowment funds	<u>\$ 1,708,719</u>	<u>\$ 5,493,664</u>	<u>\$ 7,202,383</u>

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**8. Endowment (Continued)**

Changes in endowment net assets consist of the following:

	<u>Year ended June 30, 2020</u>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ 1,708,719	\$ 5,493,664	\$ 7,202,383
Total investment return, net	41,054	130,231	171,285
Gifts and transfers	-	105,000	105,000
Redesignations, reclassifications and other	-	-	-
Appropriation of endowment assets for expenditures	<u>(76,579)</u>	<u>(248,516)</u>	<u>(325,095)</u>
<b>Endowment net assets as of June 30, 2020</b>	<b><u>\$ 1,673,195</u></b>	<b><u>\$ 5,480,378</u></b>	<b><u>\$ 7,153,573</u></b>
	<u>Year ended June 30, 2016</u>		
	<u>Year ended June 30, 2019</u>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ 2,122,353	\$ 4,143,936	\$ 6,266,289
Total investment return, net	74,988	234,889	309,877
Gifts and transfers	-	929,945	929,945
Redesignations, reclassifications and other	(414,265)	414,265	-
Appropriation of endowment assets for expenditures	<u>(74,357)</u>	<u>(229,371)</u>	<u>(303,728)</u>
<b>Endowment net assets as of June 30, 2019</b>	<b><u>\$ 1,708,719</u></b>	<b><u>\$ 5,493,664</u></b>	<b><u>\$ 7,202,383</u></b>

Endowments with donor restrictions are to be utilized and restricted for program support.

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#### 8. Endowment (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with restrictions. The University has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Deficits of this nature reported in net assets with restrictions were \$29,035 as of June 30, 2020 and \$0 as of June 30, 2019.

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment net assets. Under these policies, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The University expects its endowment funds over time, to provide an average rate of return of approximately 6.7% annually. Actual returns in any given year may vary from this amount.

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

The University utilizes a spending rule for its pooled endowment. The spending rule determines the endowment income and realized gains to be distributed currently for spending with the provision that any amounts remaining after the distribution be transferred and reinvested in the endowment pool as funds functioning as endowment.

#### 9. Operating Lease

The University enters into lease agreements on behalf of USC Radio. The University is the lessee of various equipment and space under non-cancellable operating leases. Future minimum lease payments due under non-cancellable operating leases are as follows:

2020	\$	929,626
2021		912,649
2022		870,566
2023		791,738
2024		728,456
Thereafter		1,114,660
Total	\$	<u>5,347,695</u>

Total rent expense for the years ended June 30, 2020 and 2019 amounted to \$498,146 and \$484,246, respectively.

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#### 10. Pledges Receivables

Unconditional promises are included in the financial statements as pledges receivable with donor restrictions. Pledges are recorded after discounting using a rate of 4% to the present value of the future cash flows.

Unconditional promises are expected to be realized in the following periods:

	<b>2020</b>		<b>2019</b>
In one year or less	\$ 240,000	\$	239,520
Between one year and five years	591,751		684,837
More than five years	-		5,000
Less: Discount	(47,060)		(55,734)
Total	<u>784,691</u>	\$	<u>873,623</u>

Pledges receivable at June 30, have the following restrictions:

	<b>2020</b>		<b>2019</b>
Endowment for departmental programs and activities	\$ 85,070	\$	566,211
Departmental programs and activities	699,621		307,412
Total	<u>\$ 784,691</u>	\$	<u>873,623</u>

#### 11. Functional Expenses

Expenses are presented below by functional classification in accordance with the overall service mission of USC Radio. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation expense is allocated to the functional categories based on square footage occupancy.

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**11. Functional Expenses (continued)**

For the year ended June 30, 2020, functional expense consists of the following:

	Compensation	Fringe Benefits	Operating Expenses	Depreciation	Year Ended June 30, 2020
Programming and Production	\$2,373,060	\$794,975	\$1,178,084	\$22,842	\$4,368,961
Broadcast Operations	374,530	125,468	1,634,383	11,218	2,145,599
Fundraising	785,637	261,547	1,428,267	13,010	2,488,461
Underwriting and Grant Solicitation	1,000,772	335,259	1,048,739	12,534	2,397,304
General and Administrative	692,551	195,291	1,352,802	11,776	2,252,420
Web Development	75,977	25,452	196,749	1,567	299,745
<b>Total</b>	<b>\$5,302,527</b>	<b>\$1,737,992</b>	<b>\$6,839,024</b>	<b>\$72,947</b>	<b>\$13,952,490</b>

For the year ended June 30, 2019, functional expense consists of the following:

	Compensation	Fringe Benefits	Operating Expenses	Depreciation	Year Ended June 30, 2019
Programming and Production	\$1,947,513	\$651,846	\$1,197,214	\$20,506	\$3,817,079
Broadcast Operations	423,844	140,931	1,588,400	11,629	2,164,804
Fundraising	752,916	252,227	1,295,887	12,428	2,313,458
Underwriting and Grant Solicitation	903,853	302,464	1,003,481	11,935	2,221,733
General and Administrative	499,131	162,250	3,280,839	17,707	3,959,927
Web Development	71,876	24,079	429,943	2,840	528,738
<b>Total</b>	<b>\$4,599,133</b>	<b>\$1,533,797</b>	<b>\$8,795,764</b>	<b>\$77,045</b>	<b>\$15,005,739</b>

**12. Related Party Transactions**

The University of Southern California provides support to USC Radio by providing funds for the radio stations day-to-day operations and providing funds for purchases of long-lived assets. In fiscal year 2006, the University entered into a lease agreement for the USC Radio office space, refer to Note 9 Operating Leases for the lease obligation.

In fiscal year 2012, USC Radio entered into a bridge loan with USC for \$7,502,699 at 6% interest. The terms of the loan allow for USC Radio to pay down the loan as funds are available. There is no defined repayment schedule and USC Radio accrues interest based upon the principal and accumulated interest outstanding.

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#### **13. Tax Status**

The University of Southern California, which operates the radio stations, is generally exempt from federal income taxes under the provisions of Internal Revenue Code Section 501 (c)(3). The University is also generally exempt from payment of California state income, gift, estate and inheritance taxes.

#### **14. Commitments and Contingencies**

In fiscal year 2019, USC Radio notified the Corporation for Public Broadcasting (CPB) that a portion of the restricted funds related to the Community Service Grant (CSG) were expended on unallowable costs under the grant guidelines. The CSG guidelines require that a portion of the funds awarded be expended on national program acquisition, production and distribution activity. The CPB acknowledged the oversight and requested that USC Radio submit payment in the amount of \$663,777. As of June 30, 2019, USC Radio accrued a liability in the amount of \$663,777 for the portion of the restricted funding that was expended on activity not aligned with CSG guidelines. The liability of \$633,777 was paid to CPB during fiscal year 2020 and there are no outstanding amounts owed to CPB.

#### **15. Subsequent Events**

USC Radio has performed an evaluation of subsequent events through February 11, 2021, which is the date the financial statements were available to be issued.