

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, 2021 and 2020

USC Radio
(an Operating Department of the University of Southern California)
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June 30, 2021 and 2020

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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) ("USC Radio"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities for the year ended June 30, 2021 and of cash flows for the years ended June 30, 2021 and 2020.

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, 2021 and 2020, and the changes in its net assets for the year ended June 30, 2021 and its cash flows for the years ended June 30, 2021 and 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, USC Radio changed the manner in which it accounts for leases in 2021. Our opinion is not modified with respect to this matter.



Other Matter

We previously audited the statement of financial position as of June 30, 2020, 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 11, 2021, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Los Angeles, California

December 17, 2021

USC Radio
(an Operating Department of the University of Southern California)
Statements of Financial Position
As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ -	\$ -
Accounts receivable	1,367,395	209,945
Pledges receivable	329,249	784,691
Investments	11,279,812	8,345,843
Due from the University of Southern California	17,323,049	14,989,405
Intangible assets	17,097,719	17,097,719
Right-of-use assets - operating leases	4,653,399	-
Property and equipment, net	3,425,331	411,979
Total assets	\$ 55,475,954	\$ 41,839,582
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 511,519	\$ 484,293
Deferred revenue	806,548	970,484
Note payable to University of Southern California	1,656,628	2,279,596
Actuarial liability for annuities payable	607,682	602,737
Operating lease obligations	4,879,026	-
Total liabilities	\$ 8,461,403	\$ 4,337,110
Net assets		
Without donor restrictions	38,296,020	30,647,871
With donor restrictions	8,718,531	6,854,601
Total net assets	47,014,551	37,502,472
Total liabilities and net assets	\$ 55,475,954	\$ 41,839,582

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, 2021, with summarized comparative information for the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue, Support and Other				
Subscription, associate and individual contributions	\$ 17,432,793	\$ 146,220	\$ 17,579,013	\$ 13,399,697
Corporation and foundation	2,029,302	-	2,029,302	2,688,621
Corporation for Public Broadcasting grants	838,085	-	838,085	973,135
Investment return	949,700	2,204,160	3,153,860	168,063
Present value adjustment to annuities payable	-	(8,205)	(8,205)	(21,075)
Other	29,748	-	29,748	142,220
Loss on impairment	-	-	-	(10,000)
Net assets released from restrictions	478,245	(478,245)	-	-
Total revenue, support and other	21,757,873	1,863,930	23,621,803	17,340,661
Expenses				
Programming and production	4,919,692	-	4,919,692	4,368,961
Broadcast operations	2,567,374	-	2,567,374	2,145,599
Fundraising	1,972,747	-	1,972,747	2,488,461
Underwriting and grant solicitation	2,046,201	-	2,046,201	2,397,304
General and administrative	2,233,533	-	2,233,533	2,252,420
Web development	370,177	-	370,177	299,745
Total expenses	14,109,724	-	14,109,724	13,952,490
Change in net assets	7,648,149	1,863,930	9,512,079	3,388,171
Net assets at beginning of year	30,647,871	6,854,601	37,502,472	34,114,301
Net assets at end of year	\$ 38,296,020	\$ 8,718,531	\$ 47,014,551	\$ 37,502,472

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 9,512,079	\$ 3,388,171
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	241,099	72,947
Net (appreciation) depreciation in fair value of investments	(2,813,811)	157,032
Actuarial adjustment to annuities payable	8,205	21,075
Loss on impairment	-	10,000
Contributions with donor restrictions for long-term investments	(123,418)	(105,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,157,450)	129,347
Decrease in pledges receivable	455,442	88,932
Increase in accounts payable and accrued expenses	27,226	109,594
Decrease in deferred revenue	(163,936)	(428,750)
Increase (decrease) in other liabilities	225,627	(663,777)
Net cash provided by operating activities	<u>6,211,063</u>	<u>2,779,571</u>
Cash flows from investing activities		
Proceeds from sale of investments	90,377	111,241
Purchase of investments	(210,535)	(143,836)
Purchases of property and equipment	(3,254,451)	(61,675)
Change in due from the University of Southern California	(2,333,644)	(2,150,872)
Net cash used in investing activities	<u>(5,708,253)</u>	<u>(2,245,142)</u>
Cash flows from financing activities		
Endowment contributions with donor restrictions	123,418	105,000
Decrease in note payable with University of Southern California	(622,968)	(587,706)
Change in annuities payable	74,307	38,833
Payment on annuities payable	(77,567)	(90,556)
Net cash used in financing activities	<u>(502,810)</u>	<u>(534,429)</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
(an Operating Department of the University of Southern California)
Notes to the Financial Statements
June 30, 2021 and 2020

Note 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.

Note 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 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, comparable documents, or d) time restrictions.

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.

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Note 2. Summary of Significant Accounting Policies (continued)

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 and unappropriated 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.

On March 27, 2020, the Federal Government passed the CARES Act (Coronavirus Aid, Relief, and Economic Stimulus Act). CARES Act funds were provided by Congress to help public television and radio stations maintain local programming and services threatened by declines in non-federal revenue sources during the current economic decline triggered by COVID-19. CPB distributed these funds to eligible Community Service Grant (CSG) recipients in April 2020. In FY20, CPB provided stabilization funds to USC Radio in the amount of \$75,000. KUSC recognized \$75,000 as other revenue in FY20.

Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard 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. This ASU is effective for annual reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted. USC Radio adopted Topic 842 on July 1, 2020 (the effective date). Prior period amounts have not been adjusted in connection with the adoption of this standard. As part of this adoption, USC Radio elected the 'package of practical expedients', an option which permits it to not reassess prior conclusions about (i) lease identification, (ii) lease classification and (iii) initial direct costs under the new standard. USC Radio also elected the 'hindsight practical expedient' to determine the lease term for existing leases, which permits entities to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Additionally, USC Radio elected not to record leases with an initial term of 12 months or less on the statement of financial position. Furthermore, USC Radio has lease agreements with non-lease components that relate to the lease components. USC Radio did not elect the practical expedient to account for non-lease components and lease components combined and will continue to account for non-lease components and lease components separately. Additional information, including qualitative and quantitative disclosures, is included in Note 9. Leases.

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. USC Radio adopted ASU 2018-13 for the fiscal year ended June 30, 2021. Adoption did not have a material impact on the USC Radio financial statements.

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Note 2. Summary of Significant Accounting Policies (continued)

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, 2020 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.

Investments included units in the University's pooled investment fund. 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 the 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 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

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Note 2. Summary of Significant Accounting Policies (continued)

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 50 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.

Leases

USC Radio determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. USC Radio determines these assets are leased because it has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. For operating leases, the right-of-use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. For the initial and subsequent measurement of all lease liabilities, the discount rate is based on the rate implied within the lease or is based on the university’s incremental borrowing rate using a period comparable with the lease term. The lease term will include options to extend or to terminate the lease that USC Radio is reasonably certain to exercise. Operating lease expense is recognized on a straight-line basis over the lease term. USC Radio’s lease agreements do not contain any material residual value guarantees or restrictive covenants.

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 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

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Notes to the Financial Statements

June 30, 2021 and 2020

Note 2. Summary of Significant Accounting Policies (continued)

future benefits. The valuation followed generally accepted actuarial methods and was based on the requirements of FASB ASC 958, Not-for-Profit Entities. 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, Associate and Individual Contribution Revenue

Subscriptionm associate and individual 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 \$787,474 and \$1,778,953 in revenues from underwriting activities accounted for as contracts with customers for the years ended June 30, 2021 and 2020, respectively. Those revenues are combined with contribution and grant revenues in the statements of activities. For the years ended June 30, 2021 and 2020, USC Radio recognized \$1,241,828 and \$909,668, respectively, of contribution and grant revenue in corporation and foundation revenue on the statement of activities.

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.

Note 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 date of the statement of financial position for general expenditures at June 30, 2021 and 2020, was \$3,114,328,000 and \$3,363,758,000, respectively.

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June 30, 2021 and 2020

Note 4. Investments

As of June 30, 2021 and 2020, \$1,382,389 and \$1,192,270 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, 2021, by the ASC 820 valuation hierarchy defined above:

Investments:	Level I	Level II	Level III	Total
University pooled investment fund	\$ -	\$ 11,279,812	\$ -	\$ 11,279,812
Total Investments	\$ -	\$ 11,279,812	\$ -	\$ 11,279,812

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

Investments:	Level I	Level II	Level III	Total
University pooled investment fund	\$ -	\$ 8,345,843	\$ -	\$ 8,345,843
Total Investments	\$ -	\$ 8,345,843	\$ -	\$ 8,345,843

Note 5. Property and Equipment

Property and equipment consist of:

	<u>2021</u>	<u>2020</u>
Buildings	\$ 3,025,301	\$ -
Equipment	1,902,422	1,673,273
Less: Accumulated depreciation and amortization	(1,502,392)	(1,261,294)
Total	<u>\$ 3,425,331</u>	<u>\$ 411,979</u>

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 amounted to \$241,099 and \$72,946, respectively.

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Note 6. Intangible Assets

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

	<u>2021</u>	<u>2020</u>
KXTY (referred to as 'KESC-FM')	\$ 900,000	\$ 900,000
KNDL (referred to as 'KDFC-FM')	2,250,000	2,250,000
KCNL (referred to as 'KXSC-FM')	7,502,700	7,502,700
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>\$ 17,097,719</u>	<u>\$ 17,097,719</u>

Note 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, 2021 and 2020, the net assets with donor restrictions balance of \$1,015,481 and \$1,289,153, respectively, related to annuity trust agreements and pledges receivables. At June 30, 2021 and 2020, net assets with donor imposed restrictions balance of \$7,703,050 and \$5,565,448, respectively, comprised of pledges and an investment in perpetuity of which the income is expendable to support educational activity.

Note 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.

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Note 8. Endowment (continued)

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 7,614,577	\$ 7,614,577
Board-designated endowment funds	2,282,846	-	2,282,846
Total endowment funds	<u>\$ 2,282,846</u>	<u>\$ 7,614,577</u>	<u>\$ 9,897,423</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,480,378	\$ 5,480,378
Board-designated endowment funds	1,673,195	-	1,673,195
Total endowment funds	<u>\$ 1,673,195</u>	<u>\$ 5,480,378</u>	<u>\$ 7,153,573</u>

Changes in endowment net assets consist of the following:

	Year ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,673,194	\$ 5,480,379	\$ 7,153,573
Total investment return, net	688,528	2,284,144	2,972,672
Gifts and transfers	-	111,227	111,227
Appropriation of endowment assets for expenditures	<u>(78,876)</u>	<u>(261,173)</u>	<u>(340,049)</u>
Endowment net assets as of June 30, 2021	<u>\$ 2,282,846</u>	<u>\$ 7,614,577</u>	<u>\$ 9,897,423</u>

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Note 8. Endowment (continued)

	<u>Year ended June 30, 2020</u>		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets,			
beginning of year	\$ 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
Appropriation of endowment assets for expenditures	<u>(76,579)</u>	<u>(248,516)</u>	<u>(325,095)</u>
Endowment net assets as of June 30, 2020	<u>\$ 1,673,194</u>	<u>\$ 5,480,379</u>	<u>\$ 7,153,573</u>

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

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 donor 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 donor restrictions were \$0 as of June 30, 2021 and 2020, respectively.

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 6.6% 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.

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Note 9. Leases

The University enters into lease agreements on behalf of USC Radio. The University is the lessee of space under non-cancellable operating leases. Total rent expense for the years ended June 30, 2021 and 2020 amounted to \$980,295 and \$498,146, respectively.

Operating Leases

The university has various equipment, vehicle and real estate leases for office space and housing that expire in various years through 2061. These leases generally contain renewal options for periods ranging from 2 years to 10 years and require the university to pay all executory costs (property taxes, maintenance, and insurance). The university is not reasonably certain the renewal options will be exercised and has not included them in the terms. Space leases contain customary escalation clauses, which are included in annual aggregate minimum rentals.

Short-Term Leases

The university has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. The university does not include short-term leases within the balance sheet since it has elected the practical expedient to exclude these leases from right-of-use assets - operating leases and operating lease obligations. The value for these leases were immaterial for years ending June 30, 2021 and 2020.

Operating Leases - Lessor

The university has various leases in which it is the lessor. The university leases to others portions of certain buildings owned for retail, office, and medical office purposes. Leases are generally ten-year terms or less and are classified as operating leases. These leasing arrangements are not material to the consolidated financial statements.

The components of lease expense for the year ended June 30, are as follows:

	2021
Lease Expense	
Operating lease expense	\$980,295
Variable lease expense	9,352
Total	\$989,647
Other Information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating - Operating cash flows	\$999,608
Right-of-use assets obtained in the exchange for lease liabilities	
Operating leases	\$2,288,607
Weighted-average remaining lease term	
Operating leases	6.4 years
Weighted-average discount rate	
Operating leases	1.5%

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Note 9. Leases (continued)

Future aggregate minimum lease payments as of June 30, 2021, under operating leases are as follows:

Future minimum lease payments:	Operating
2022	\$960,075
2023	908,720
2024	834,780
2025	765,701
2026	698,301
Thereafter	952,707
	5,120,284
Less: amounts representing interest	(241,258)
Present value of net minimum lease payments	\$4,879,026

Future minimum lease payments at June 30, 2020, prior to USC Radio's adoption of Topic 842, are as follows:

Future minimum lease payments:	Operating
2021	\$929,626
2022	912,649
2023	870,566
2024	791,738
2025	728,456
Thereafter	1,114,660
	5,347,695
Less: amounts representing interest	-
Present value of net minimum lease payments	\$5,347,695

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Note 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:

	<u>2021</u>	<u>2020</u>
In one year or less	\$ 130,000	\$ 240,000
Between one year and five years	224,520	591,751
More than five years	-	-
Less: Discount	<u>(25,271)</u>	<u>(47,060)</u>
Total	<u>\$ 329,249</u>	<u>\$ 784,691</u>

Pledges receivable at June 30, have the following restrictions:

	<u>2021</u>	<u>2020</u>
Endowment for departmental programs and activities	\$ 88,473	\$ 85,070
Departmental programs and activities	<u>240,776</u>	<u>699,621</u>
Total	<u>\$ 329,249</u>	<u>\$ 784,691</u>

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Note 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.

For the year ended June 30, 2021, functional expense consists of the following:

	Compensation	Fringe Benefits	Operating Expenses	Depreciation	Year Ended June 30, 2021
Programming and Production	\$2,741,919	\$917,690	\$1,176,017	\$84,066	\$4,919,692
Broadcast Operations	706,040	236,523	1,580,941	43,870	2,567,374
Fundraising	514,932	172,502	1,251,604	33,709	1,972,747
Unerwriting and Grant Solicitation	836,625	280,270	894,342	34,964	2,046,201
General and Administrative	634,475	203,429	1,357,464	38,165	2,233,533
Web Development	110,966	37,173	215,713	6,325	370,177
Total	\$5,544,957	\$1,847,587	\$6,476,081	\$241,099	\$14,109,724

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
Unerwriting 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
Total	\$5,302,527	\$1,737,992	\$6,839,024	\$72,947	\$13,952,490

Note 12. Related Party Transactions

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.

Note 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.

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Note 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. The liability of \$633,777 was paid to CPB during fiscal year 2020 and there are no outstanding amounts owed to CPB.

Note 15. Subsequent Events

USC Radio has performed an evaluation of subsequent events through December 17, 2021, which is the date the financial statements were available to be issued.