

WUKY Radio

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# 2019 Financial Statements



**WUKY Radio**  
**A Public Telecommunications Entity**  
**An Organizational Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Trustees  
University of Kentucky  
WUKY Radio  
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky WUKY Radio (WUKY Radio), an organizational unit of the University of Kentucky (University), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the WUKY Radio's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 WUKY Radio as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended 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 WUKY Radio are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities that is attributable to the transactions of WUKY Radio. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*BKD, LLP*

Louisville, Kentucky  
October 8, 2019

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

WUKY Radio's Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of WUKY Radio for the years ended June 30, 2019 and 2018. Management has prepared this discussion, which provides summary financial information. MD&A should be read in conjunction with the accompanying financial statements and related footnotes.

**Financial Highlights**

- Total assets decreased \$50,604 or 4.9%. This change was primarily due to a decrease in capital assets, net of \$52,469.
- Total liabilities increased \$9,335 or 49.1%. This change was due to an increase in accounts payable and accrued liabilities of \$11,508, offset by a decrease in unearned revenue of \$2,173.
- Net position decreased \$59,939 or 5.9% to \$956,459.
- Operating revenues decreased \$95,620 or 20.2% to \$377,896.
- Operating expenses increased \$44,006 or 3.2% to \$1,426,382.

**Using the Financial Statements**

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

One of the most important questions asked about its finances is whether WUKY Radio is better off as a result of the year's activities. One key to answering this question is the financial statements of WUKY Radio. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present financial information on WUKY Radio in a format similar to that used by corporations, and present a long-term view of WUKY Radio's finances. WUKY Radio's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is one sign of its financial health. Over time, increases or decreases in net position indicate the improvement or erosion of WUKY Radio's financial health.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. It is prepared on the accrual basis of accounting, whereby revenues 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 Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating.

Another important factor to consider when evaluating financial viability is WUKY Radio's ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing, and investing activities.

**Reporting Entity**

WUKY Radio is an organizational unit of the University of Kentucky (the University), which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the

Commonwealth. WUKY Radio is owned and operated by the University. Funds for operations are received from the University.

**Condensed Statements of Net Position**

	2019	2018	2017
<b>ASSETS</b>			
Current assets	\$ 258,411	\$ 251,508	\$ 281,292
Capital assets, net	688,242	740,711	656,400
Other noncurrent assets	38,165	43,203	127,132
Total assets	984,818	1,035,422	1,064,824
 <b>LIABILITIES</b>			
Current liabilities	28,359	19,024	62,798
Total liabilities	28,359	19,024	62,798
 <b>NET POSITION</b>			
Net investment in capital assets	688,242	740,711	656,400
Restricted			
Nonexpendable	30,224	22,537	20,052
Expendable	133,686	140,072	128,028
Unrestricted	104,307	113,078	197,546
Total net position	\$ 956,459	\$ 1,016,398	\$ 1,002,026

**Assets.** As of June 30, 2019, WUKY Radio's assets totaled \$984,818. Capital assets, net represented WUKY Radio's largest asset, totaling \$688,242 or 69.9% of total assets.

Total assets decreased \$50,604 during the year ended June 30, 2019. This decrease was primarily due to a decrease in capital assets, net of \$52,469.

**Liabilities.** At June 30, 2019, WUKY Radio's liabilities totaled \$28,359. Accounts payable and accrued liabilities totaling \$27,759 represented WUKY Radio's largest liability at 97.9% of total liabilities. Accounts payable and accrued liabilities increased \$11,508 primarily due to timing differences in payments to vendors.

**Net Position.** Net position at June 30, 2019 totaled \$956,459 or 97.1% of total assets. Net investment in capital assets totaling \$688,242 comprise 72.0% of total net position.

Total net position decreased \$59,939 during the year ended June 30, 2019. Net investment in capital assets decreased \$52,469 primarily due to depreciation expense. Unrestricted net position decreased \$8,771 due to current year expenses exceeding revenues. Restricted net position increased \$1,301 primarily due to gift and underwriting revenues exceeding restricted expenditures.

**2018 Versus 2017.** Total net position increased \$14,372 from June 30, 2017 to June 30, 2018. Net investment in capital assets increased by \$84,311 due to the addition of new equipment for WUKY Radio's new studio location. Restricted net position increased \$14,529 due to gift and underwriting revenues exceeding restricted expenditures. Unrestricted net position decreased \$84,468 due to expenses exceeding revenues.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	2019	2018	2017
<b>OPERATING REVENUES</b>			
Sales related to fundraising activities	\$ 5,759	\$ 18,664	\$ 47,666
Underwriting income	254,394	333,770	306,550
Up-link syndication income	550	270	1,090
Community service grants	117,193	120,812	121,169
Total operating revenues	<u>377,896</u>	<u>473,516</u>	<u>476,475</u>
<b>OPERATING EXPENSES</b>			
Program services	783,780	798,636	627,058
Supporting services	582,001	503,024	595,457
Depreciation	60,601	80,716	26,382
Total operating expenses	<u>1,426,382</u>	<u>1,382,376</u>	<u>1,248,897</u>
<b>NET LOSS FROM OPERATIONS</b>	<u>(1,048,486)</u>	<u>(908,860)</u>	<u>(772,422)</u>
<b>NONOPERATING REVENUES</b>			
Gifts	306,862	318,662	299,621
Grants from the University of Kentucky, net	679,563	602,497	682,375
Other, net	2,122	2,073	2,902
Total nonoperating revenues	<u>988,547</u>	<u>923,232</u>	<u>984,898</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(59,939)	14,372	212,476
<b>NET POSITION, beginning of year</b>	<u>1,016,398</u>	<u>1,002,026</u>	<u>789,550</u>
<b>NET POSITION, end of year</b>	<u>\$ 956,459</u>	<u>\$ 1,016,398</u>	<u>\$ 1,002,026</u>

**2019.** WUKY Radio's operating revenues of \$377,896 decreased \$95,620 or 20.2% primarily due to a \$79,376 decrease in underwriting income as a result of four major underwriters not renewing contracts this fiscal year and sales related to fundraising activities decreasing \$12,905 primarily due to decreased fund drive premiums offered to members.

Operating expenses totaled \$1,426,382, of which 54.9% was used for program services such as local programming production, broadcasting, and program information expenses. The remaining 45.1% was used for supporting services such as management and general, fundraising, underwriting and grant solicitation expenses and depreciation. Operating expenses increased \$44,006 primarily due to an increase in management and general expenses primarily related to an increase in in-kind support and software purchases for ratings data, offset by a decrease in depreciation due to a donation of three pieces of equipment to the Madison County Rescue Squad this fiscal year.

For the year ended June 30, 2019, total net nonoperating revenues totaled \$988,547. This was primarily composed of \$679,563 in grants from the University for capital purchases and facilities and administrative support along with \$306,862 in gifts. Grants from the University increased \$77,066 primarily due to an increase in support from the University offset by a decrease in grants for capital purposes.

**2018 Versus 2017.** Operating revenues decreased \$2,959 when comparing fiscal year 2018 to 2017. This decrease was primarily due to a decrease in sales related to fundraising activities, offset by an increase in underwriting income. Operating expenses increased \$133,479 primarily due to an increase in broadcasting expenses. Net nonoperating revenues decreased \$61,666 primarily due to a decrease in grants from the University.

Another way to assess the financial health of an organization is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by WUKY Radio during the period. The Statement of Cash Flows also helps financial statement readers assess WUKY Radio's:

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- need for external financing.

**Condensed Statements of Cash Flows**

	2019	2018	2017
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ (765,667)	\$ (750,706)	\$ (632,912)
Noncapital financing activities	790,874	774,916	720,924
Capital and related financing activities	(20,192)	(133,401)	73,657
Investing activities	893	917	907
Net increase (decrease) in cash and cash equivalents	5,908	(108,274)	162,576
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	219,030	327,304	164,728
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 224,938</u>	<u>\$ 219,030</u>	<u>\$ 327,304</u>

**2019.** The largest cash payments for operating activities were \$808,336 for salaries, wages and benefits and \$338,326 to vendors and contractors. The major sources of cash included in operating activities were underwriting income of \$258,069 and grants of \$116,617.

Cash provided by noncapital financing activities increased \$15,958 mainly due to increases in grants from the University for non-capital purposes.

Net cash used by capital and related financing activities of \$20,192 was due to purchases of capital assets and grants to the University for capital purposes.

**2018 Versus 2017.** Net cash used by operating activities increased \$117,794 from June 30, 2017 to June 30, 2018 primarily due to an increase in cash used by payments to vendors and contractors. Net cash provided by noncapital financing activities increased \$53,992 due to increases in grants from the University for non-capital purposes and gifts received for other purposes. Net cash provided by capital and related financing activities decreased \$207,058 primarily due to an increase in capital assets purchases and a decrease in grants from the University for capital purposes.



## Capital Asset and Debt Administration

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$688,242 at June 30, 2019, an decrease of \$52,469 from fiscal year 2018. Capital assets as of June 30, 2019, 2018, and 2017, and changes in capital assets during the years ended June 30, 2018 and 2019 are as follows:

	Balance June 30, 2017	Net Additions/ (Deductions)	Balance June 30, 2018	Net Additions/ (Deductions)	Balance June 30, 2019
WUKY PBS Antenna	\$ 750,414	\$ —	\$ 750,414	\$ —	\$ 750,414
Equipment	490,329	112,963	603,292	(57,108)	546,184
	<u>1,240,743</u>	<u>112,963</u>	<u>1,353,706</u>	<u>(57,108)</u>	<u>1,296,598</u>
<u>Accumulated depreciation</u>					
WUKY PBS Antenna	(178,235)	(18,760)	(196,995)	(18,760)	(215,755)
Equipment	(406,108)	(9,892)	(416,000)	23,399	(392,601)
	<u>(584,343)</u>	<u>(28,652)</u>	<u>(612,995)</u>	<u>4,639</u>	<u>(608,356)</u>
Total	<u>\$ 656,400</u>	<u>\$ 84,311</u>	<u>\$ 740,711</u>	<u>\$ (52,469)</u>	<u>\$ 688,242</u>

**Debt.** WUKY Radio had no debt at or during the year ended June 30, 2019, or 2018.

### Factors Impacting Future Periods

WUKY Radio has two sources of funding that are impacted by the ongoing economic situation; membership and underwriting. Membership and underwriting revenue comprise over 50% of WUKY Radio's annual funding. WUKY Radio's membership revenue was stagnate this year. WUKY is committed to membership growth. In an effort to revitalize growth, WUKY Radio has engaged in certain community events to increase nonprofit community awareness. In addition, WUKY Radio has also partnered with multiple community organizations to raise awareness of the station in additional demographics. WUKY Radio is also working to increase membership and revenue with audience growth, membership management training, utilizing the best practices of other stations, and developing a partnership with National Public Radio to obtain major gifts.

Underwriting sales have experienced a decrease this year after an increase in fiscal year 2017-2018. WUKY Radio is concerned that underwriting sales will continue to decline. WUKY Radio continues implementing a promotional plan with new Arbitron and RRC data to demonstrate WUKY Radio's business value to new underwriters using audience demographics, size and reach. WUKY Radio continues to engage the small business community and educate them with WUKY Radio's significance in their marketing programs.

The economic impact on WUKY Radio's revenue and revenue growth continues to be of concern. WUKY Radio has taken steps to remedy this by targeting the community's demographics better during peak listening hours, strengthening a developing partnership with National Public Radio, and continuing working with UK Philanthropy on gift resources. WUKY Radio will continue to actively review potential standalone events that have higher revenue potential with minimal risk.

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 219,145	\$ 206,970
Accounts receivable	39,266	44,538
Total current assets	<u>258,411</u>	<u>251,508</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	5,793	12,060
Endowment investments	32,372	31,143
Capital assets, net	688,242	740,711
Total noncurrent assets	<u>726,407</u>	<u>783,914</u>
Total assets	<u>984,818</u>	<u>1,035,422</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	27,759	16,251
Unearned revenue	600	2,773
Total current liabilities	<u>28,359</u>	<u>19,024</u>
Total liabilities	<u>28,359</u>	<u>19,024</u>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	<u>688,242</u>	<u>740,711</u>
<b>Restricted</b>		
Nonexpendable	30,224	22,537
Expendable	133,686	140,072
Total restricted	<u>163,910</u>	<u>162,609</u>
<b>Unrestricted</b>	<u>104,307</u>	<u>113,078</u>
<b>Total net position</b>	<u>\$ 956,459</u>	<u>\$ 1,016,398</u>

See notes to financial statements

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Sales related to fundraising activities	\$ 5,759	\$ 18,664
Underwriting income	254,394	333,770
Up-link syndication income	550	270
Community service grants from Corporation for Public Broadcasting	117,193	120,812
Total operating revenues	<u>377,896</u>	<u>473,516</u>
<b>OPERATING EXPENSES</b>		
Program services		
Local programming production	573,468	515,527
Broadcasting	158,042	239,675
Program information	52,270	43,434
Total program services	<u>783,780</u>	<u>798,636</u>
Supporting services		
Management and general	328,964	253,597
Fundraising	121,802	102,839
Underwriting and grant solicitation	131,235	146,588
Total supporting services	<u>582,001</u>	<u>503,024</u>
Depreciation	60,601	80,716
Total operating expenses	<u>1,426,382</u>	<u>1,382,376</u>
Net loss from operations	<u>(1,048,486)</u>	<u>(908,860)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	306,862	318,662
Investment income	2,122	2,073
Grants from the University of Kentucky for noncapital purposes	691,623	570,872
Net nonoperating revenues	<u>1,000,607</u>	<u>891,607</u>
Net loss before other revenues, expenses, gains or losses	<u>(47,879)</u>	<u>(17,253)</u>
Grants (to) from the University of Kentucky for capital purposes	<u>(12,060)</u>	<u>31,625</u>
Total other revenues (expenses)	<u>(12,060)</u>	<u>31,625</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(59,939)	14,372
<b>NET POSITION, beginning of year</b>	<u>1,016,398</u>	<u>1,002,026</u>
<b>NET POSITION, end of year</b>	<u>\$ 956,459</u>	<u>\$ 1,016,398</u>

See notes to financial statements

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Sales related to fundraising activities	\$ 5,759	\$ 18,664
Underwriting income	258,069	331,550
Up-link syndication income	550	270
Grants	116,617	120,812
Payments to vendors and contractors	(338,326)	(426,928)
Salaries, wages and benefits	(808,336)	(795,074)
Net cash used by operating activities	<u>(765,667)</u>	<u>(750,706)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts received for other purposes	306,862	318,662
Grants from the University of Kentucky for non-capital purposes	484,012	456,254
Net cash provided by noncapital financing activities	<u>790,874</u>	<u>774,916</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(12,060)	31,625
Purchases of capital assets	(8,132)	(165,026)
Net cash used by capital and related financing activities	<u>(20,192)</u>	<u>(133,401)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	11,426	19,719
Interest and dividends on investments	893	935
Purchases of investments	(11,426)	(19,737)
Net cash provided by investing activities	<u>893</u>	<u>917</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,908	(108,274)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>219,030</u>	<u>327,304</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 224,938</u>	<u>\$ 219,030</u>
<b>Reconciliation of net loss from operations to net cash used by operating activities:</b>		
Net loss from operations	\$ (1,048,486)	\$ (908,860)
Adjustments to reconcile net loss from operations to net cash used by operating activities:		
Depreciation expense	60,601	80,716
Donated facilities and administrative support from the University of Kentucky	207,611	114,618
Change in accounts receivable	5,272	6,594
Change in accounts payable and accrued liabilities	11,508	(34,960)
Change in unearned revenue	(2,173)	(8,814)
<b>Net cash used by operating activities</b>	<u>\$ (765,667)</u>	<u>\$ (750,706)</u>

See notes to financial statements

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

WUKY Radio is an organizational unit of the University of Kentucky (the University), which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. WUKY Radio is owned and operated by the University. Funds for operations are received by the University.

**Basis of Presentation**

The accompanying 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). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position 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 stipulations that they be maintained permanently by WUKY Radio. Such assets include WUKY Radio's permanent endowment funds.
  - Expendable* – Net position whose use by WUKY Radio is subject to externally imposed stipulations that can be fulfilled by actions of WUKY Radio pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by WUKY Radio is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of WUKY Radio's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

**Summary of Significant Accounting Policies**

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents. WUKY Radio considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents includes plant funds allocated for capital projects and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by WUKY Radio's endowment fund are included in endowment investments.

Accounts Receivable. Accounts receivable consist of amounts due from underwriting contracts. No allowance has been recorded, as the amounts are deemed to fully collectible.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,300 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The adopted spending policy is a “hybrid” policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is calculated by taking a weighted average comprising 60% of the prior year’s spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula is constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. For the years ended June 30, 2019 and 2018, the University’s annual endowment management fee was 0.82% and 0.50%, respectively.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10% undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

The amount of gross spending policy distribution in accordance with the University’s endowment spending policy was \$1,319 and \$1,344 for the years ended June 30, 2019 and 2018, respectively.

Investments. Investments in marketable securities are carried at fair value. See footnote 2 for more information on the fair value determination. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure and 5 – 20 years for equipment.

Unearned Revenue. Unearned revenue consists of amounts received from underwriting contracts that have not yet been earned under the terms of the agreement.

Restricted Asset Spending Policy. WUKY Radio's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. WUKY Radio defines operating activities, as reported on the Statements of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. WUKY Radio's operating revenues, other than community service grants from the Corporation for Public Broadcasting, are from exchange transactions. Certain significant revenues, such as gift revenue and grants from the University, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

Donated Services. Donated personal services of professional volunteers are recorded as revenue and expense in the accompanying Statements of Revenues, Expenses, and Changes in Net Position at estimated fair value based upon standard valuation rates and job level classifications developed by the Corporation for Public Broadcasting.

Use of Estimates. Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount 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 these estimates.

Income Taxes. The University, of which WUKY Radio is an organizational unit, is an agency and instrumentality of the Commonwealth, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in section 115 of the Internal Revenue Code of 1986 as amended.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2019 and 2018 are as follows:

	2019	2018
Cash and cash equivalents on deposit with the University of Kentucky	\$ 224,938	\$ 219,030
Investment in the University of Kentucky pooled endowment fund	32,372	31,143
Total	<u>\$ 257,310</u>	<u>\$ 250,173</u>
Statement of Net Position classification		
Cash and cash equivalents	\$ 219,145	\$ 206,970
Restricted cash and cash equivalents	5,793	12,060
Total cash and cash equivalents	224,938	219,030
Endowment investments	32,372	31,143
Total	<u>\$ 257,310</u>	<u>\$ 250,173</u>

Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

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

Cash and cash equivalents on deposit with the University are based on the historical cost and therefore are not classified in the fair value hierarchy. The investment in the University pooled endowment fund is derived based on the per unit calculation as described in footnote 1, thus is deemed to be a level 3 investment. For more information regarding the fair value measurements, refer to the University's financial statements, footnote 2. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2019 and 2018 is as follows:

	2019	2018
Cash and cash equivalents	0.2%	0.3%
Diversifying strategies	14.9%	19.0%
Global equity - hedged	6.0%	6.0%
Global equity - international	17.6%	14.6%
Global equity - private	16.1%	15.0%
Global equity - U.S.	12.4%	9.3%
Global fixed income - high quality/rate sensitive	6.9%	7.6%
Global fixed income - private credit	3.1%	2.9%
Global fixed income - public credit	5.8%	6.1%
Real assets - private	10.0%	8.2%
Real assets - public	7.0%	11.0%
Total	<u>100.0%</u>	<u>100.0%</u>

Deposit and Investment Policies. WUKY Radio follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of WUKY Radio's funds.

For purposes of investment management, WUKY Radio's deposits and investments can be grouped into two significant categories:

- Cash and cash equivalents on deposit with the University, which the University invests in deposits with banks and the Commonwealth. The University also invests cash on deposit in money market funds and the University's pooled endowment fund.
- Endowment investments in the University's pooled endowment fund.

Cash and cash equivalents on deposit with the University are managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University.

Endowment investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board of Trustees, which governs the University's pooled endowment fund.

Deposit and Investment Risks. WUKY Radio's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment



securities will occur in the near term and that such change could affect the investment amounts in the Statements of Net Position.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing WUKY Radio to experience a loss of principal. As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University are governed by policy that minimizes risk in several ways. The University's deposits in Federal Deposit Insurance Corporation (FDIC) insured financial institutions are covered up to \$250,000 at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage.
- Deposits with the Commonwealth consist of securities eligible for short-term investments under state law. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities.
- Endowment managers are permitted to use derivative instruments to limit credit risk.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, WUKY Radio will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University are invested in deposits which are held in the University's name. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing WUKY Radio's ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of WUKY Radio's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. WUKY Radio's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash and cash equivalents on deposit with the University are not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2019, WUKY Radio had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's core-plus fixed income manager is limited to a duration

that is within two years of the duration of the Barclays U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit.

WUKY Radio's exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

### 3. CAPITAL ASSETS, NET

Capital assets as of June 30, 2019 and 2018 are as follows:

	2019			
	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414	\$ —	\$ —	\$ 750,414
Equipment	603,292	8,132	65,240	546,184
	<u>1,353,706</u>	<u>8,132</u>	<u>65,240</u>	<u>1,296,598</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	196,995	18,760	—	215,755
Equipment	416,000	41,841	65,240	392,601
	<u>612,995</u>	<u>60,601</u>	<u>65,240</u>	<u>608,356</u>
Capital assets, net	<u>\$ 740,711</u>	<u>\$ (52,469)</u>	<u>\$ —</u>	<u>\$ 688,242</u>

	2018			
	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414	\$ —	\$ —	\$ 750,414
Equipment	490,329	165,027	52,064	603,292
	<u>1,240,743</u>	<u>165,027</u>	<u>52,064</u>	<u>1,353,706</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	178,235	18,760	—	196,995
Equipment	406,108	61,956	52,064	416,000
	<u>584,343</u>	<u>80,716</u>	<u>52,064</u>	<u>612,995</u>
Capital assets, net	<u>\$ 656,400</u>	<u>\$ 84,311</u>	<u>\$ —</u>	<u>\$ 740,711</u>

#### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2019 and 2018 are as follows:

	2019	2018
Payable to vendors and contractors	\$ 20,874	\$ 10,393
Accrued payroll	6,885	5,858
Total	<u>\$ 27,759</u>	<u>\$ 16,251</u>

#### 5. IN-KIND CONTRIBUTIONS AND DONATED FACILITIES AND ADMINISTRATIVE SUPPORT

In-kind contributions and donated facilities and administrative support for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Facilities and administrative support from the University consists of:		
Allocation of Vice President for University Relations and University Financial Services office costs	\$ 34,343	\$ 32,874
Maintenance, physical plant, operations and utilities	106,110	81,400
Use charge in accordance with CPB Regulations, for use of 2640 Spurr Road Radio Tower and Transmitter Building	67,158	344
Total	<u>\$ 207,611</u>	<u>\$ 114,618</u>

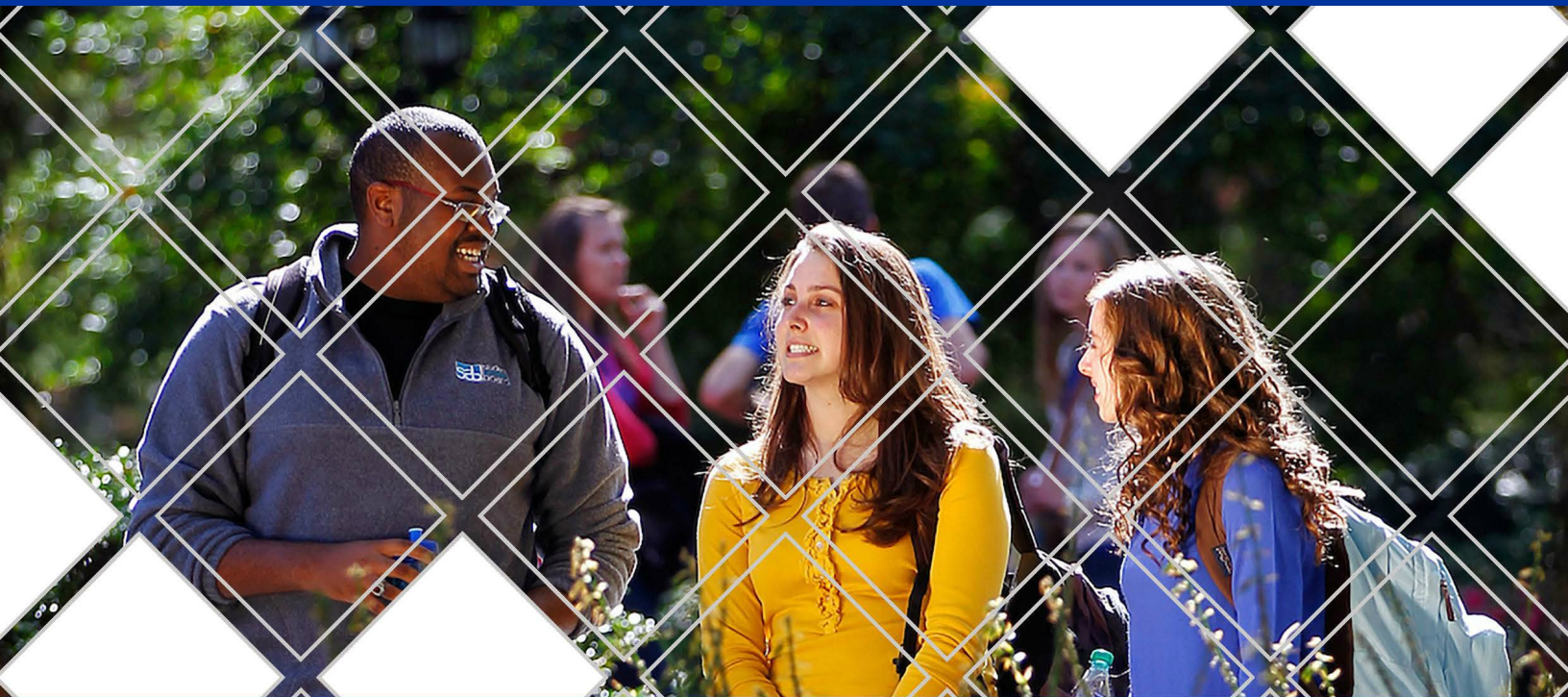
In-kind contributions and donated facilities and administrative support are recorded in revenues and expenses when received.

#### 6. RISK MANAGEMENT

The University, of which WUKY Radio is an organizational unit, is exposed to various risks of loss related to torts and errors and omissions. These risks are covered by extension of coverage by the University's participation in an insurance risk retention group and self-insurance. Claims against directors and officers for wrongful acts (errors and omissions) are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2018 to 2019. Settlements have not exceeded insurance coverage during the past three years.

University Financial Services  
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[www.uky.edu/ufs/financial-statements-and-investor-information](http://www.uky.edu/ufs/financial-statements-and-investor-information)



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