



UK University of
Kentucky

WUKY Radio

2016 Financial Statements

WUKY Radio
A Public Telecommunications Entity
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
University of Kentucky
WUKY Radio
Lexington, Kentucky

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents, of the University of Kentucky WUKY Radio (WUKY Radio), a public broadcasting entity owned and operated by the University of Kentucky (University) and an organizational unit of the University.

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, 2016 and 2015, and the changes in its financial position and its 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, 2016 and 2015, 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 3, 2016

Management's Discussion and Analysis

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, 2016 and 2015. 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 \$153,873 or 15.6%. This change was primarily due to decreases in cash and cash equivalents of \$102,301, capital assets, net of \$37,338, and pledges receivable of \$14,904.
- Total liabilities decreased \$3,376 or 7.7%. This change was primarily due to a decrease in accounts payable and accrued liabilities of \$4,036.
- Net position decreased \$150,497 or 16.0% to \$789,550.
- Operating revenues increased \$97,465 or 24.9% to \$488,436.
- Operating expenses increased \$136,755 or 9.9% to \$1,514,198.

Using the Financial Statements

This annual report consists of a series of financial statements, 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, capital, 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 and through the University of Kentucky Research Foundation, the University's fiscal agent for contracts and grants.

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current assets	\$ 198,509	\$ 293,148	\$ 329,095
Capital assets, net	603,137	640,475	666,161
Other noncurrent assets	28,146	50,042	47,093
Total assets	<u>829,792</u>	<u>983,665</u>	<u>1,042,349</u>
LIABILITIES			
Current liabilities	<u>40,242</u>	<u>43,618</u>	<u>13,439</u>
Total liabilities	<u>40,242</u>	<u>43,618</u>	<u>13,439</u>
NET POSITION			
Net investment			
in capital assets	603,137	640,475	666,161
Restricted			
Nonexpendable	20,588	21,015	21,532
Expendable	113,003	149,563	220,956
Unrestricted	<u>52,822</u>	<u>128,994</u>	<u>120,261</u>
Total net position	<u>\$ 789,550</u>	<u>\$ 940,047</u>	<u>\$ 1,028,910</u>

Assets. As of June 30, 2016, WUKY Radio's assets totaled \$829,792. Capital assets, net represented WUKY Radio's largest asset, totaling \$603,137 or 72.7% of total assets.

Total assets decreased \$153,873 during the year ended June 30, 2016. This decrease was primarily due to decreases in cash and cash equivalents of \$102,301, capital assets, net of \$37,338, and pledges receivable of \$14,904.

Liabilities. At June 30, 2016, WUKY Radio's liabilities totaled \$40,242. Accounts payable and accrued liabilities totaling \$28,037 represented WUKY Radio's largest liability at 69.7% and decreased \$4,036 due to timing differences in payments to vendors.

Net Position. Net position at June 30, 2016 totaled \$789,550 or 95.2% of total assets. Net investment in capital assets totaling \$603,137 comprise 76.4% of total net position.

Total net position decreased \$150,497 during the year ended June 30, 2016. Restricted net position decreased \$36,987 due to restricted expenditures exceeding gift revenue. Unrestricted net position decreased \$76,172 due to expenses exceeding revenues and grants from the University. Net investment in capital assets decreased \$37,338 due to depreciation and disposal of equipment.

2015 Versus 2014. Total net position decreased \$88,863 from June 30, 2014 to June 30, 2015. Restricted net position decreased \$71,910 due to restricted expenditures exceeding gift revenue. Unrestricted net position increased \$8,733 due to revenues and grants from the University exceeding expenses. Net investment in capital assets decreased by \$25,686 due to depreciation and disposal of equipment offset by additional capital equipment purchases.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES			
Sales related to fundraising activities	\$ 38,551	\$ 40,161	\$ 7,818
Underwriting income	321,647	216,689	301,676
Up-link syndication income	900	1,270	1,890
Community service grants	127,338	132,851	137,035
Total operating revenues	<u>488,436</u>	<u>390,971</u>	<u>448,419</u>
OPERATING EXPENSES			
Program services	881,364	775,039	762,105
Supporting services	604,147	570,664	602,635
Depreciation	28,687	31,740	30,736
Total operating expenses	<u>1,514,198</u>	<u>1,377,443</u>	<u>1,395,476</u>
NET LOSS FROM OPERATIONS	<u>(1,025,762)</u>	<u>(986,472)</u>	<u>(947,057)</u>
NONOPERATING REVENUES			
Gifts	301,036	306,999	372,455
Grants from the University of Kentucky	573,201	589,460	519,050
Other, net	1,028	1,150	816
Total nonoperating revenues	<u>875,265</u>	<u>897,609</u>	<u>892,321</u>
Total increase (decrease) in net position	<u>(150,497)</u>	<u>(88,863)</u>	<u>(54,736)</u>
Net position, beginning of year	<u>940,047</u>	<u>1,028,910</u>	<u>1,083,646</u>
Net position, end of year	<u>\$ 789,550</u>	<u>\$ 940,047</u>	<u>\$ 1,028,910</u>

2016. WUKY Radio's operating revenues of \$488,436 increased \$97,465 or 24.9% primarily due to underwriting income increasing \$104,958 or 48.4% as a result of adding new underwriting clients.

Operating expenses totaled \$1,514,198, of which 58.2% was used for program services such as local programming production, broadcasting, and program information expenses. The remaining 41.8% was used for supporting services such as management and general, fundraising, and underwriting and grant solicitation expenses and depreciation. Operating expenses increased \$136,755 primarily due to an increase in broadcasting expenses for studio renovations.

For the year ended June 30, 2016, net nonoperating revenues totaled \$875,265 and was primarily composed of \$573,201 in grants from the University in the form of administrative and facilities support and \$301,036 in gifts. Grants from the University decreased \$16,259 due to a decrease primarily in facilities support. The gifts were comprised of cash gifts and pledges that were received as the result of fundraising activities.

2015 Versus 2014. Operating revenue decreased \$57,448 when comparing fiscal year 2015 to 2014. This decrease was due primarily to a decrease in underwriting income. Operating expenses decreased \$18,033 due to decreases in broadcasting and underwriting and grant solicitation expenses. Net nonoperating revenues increased \$5,288 due to an increase in grants from the University offset by a decrease in gifts.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (906,402)	\$ (799,157)	\$ (721,397)
Noncapital financing activities	795,242	780,380	828,829
Capital and related financing activities	9,317	(6,054)	(23,876)
Investing activities	<u>(458)</u>	<u>851</u>	<u>53</u>
Net increase (decrease) in cash and cash equivalents	(102,301)	(23,980)	83,609
Cash and cash equivalents, beginning of year	<u>267,029</u>	<u>291,009</u>	<u>207,400</u>
Cash and cash equivalents, end of year	<u><u>\$ 164,728</u></u>	<u><u>\$ 267,029</u></u>	<u><u>\$ 291,009</u></u>

2016. The major sources of cash included in operating activities were underwriting income of \$309,303 and grants of \$127,338. The largest cash payments for operating activities were \$848,592 for salaries, wages and benefits and \$533,902 to vendors and contractors.

Cash provided by noncapital financing activities increased \$14,862 mainly due to an increase in gifts received for other purposes offset by a decrease in grants from the University for non-capital purposes.

Net cash used for capital and related financing activities of \$9,317 was provided by insurance proceeds as reimbursement for fire damage during the year.

2015 Versus 2014. Net cash used by operating activities increased \$77,760 from June 30, 2014 to June 30, 2015 primarily due to decreases in cash provided by grants and underwriting income. Net cash provided by noncapital financing activities decreased \$48,449 due to a decrease in gifts received for other purposes, and net cash used by capital and related financing activities decreased \$17,822 primarily due to a decrease in capital grants to the University.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$603,137 at June 30, 2016, a decrease of \$37,338 from 2015. Capital assets as of June 30, 2016, 2015, and 2014, and changes in capital assets during the years ended June 30, 2015 and 2016 are as follows:

	Balance June 30, 2014	Net Additions/ (Deductions)	Balance June 30, 2015	Net Additions/ (Deductions)	Balance June 30, 2016
WUKY PBS Antenna	\$ 750,414	\$ -	\$ 750,414	\$ -	\$ 750,414
Equipment	677,828	(155,891)	521,937	(109,653)	412,284
	<u>1,428,242</u>	<u>(155,891)</u>	<u>1,272,351</u>	<u>(109,653)</u>	<u>1,162,698</u>
<u>Accumulated depreciation</u>					
WUKY PBS Antenna	(121,953)	(18,760)	(140,713)	(18,760)	(159,473)
Equipment	(640,128)	148,965	(491,163)	91,075	(400,088)
	<u>(762,081)</u>	<u>130,205</u>	<u>(631,876)</u>	<u>72,315</u>	<u>(559,561)</u>
Total	<u>\$ 666,161</u>	<u>\$ (25,686)</u>	<u>\$ 640,475</u>	<u>\$ (37,338)</u>	<u>\$ 603,137</u>

Debt. WUKY Radio had no debt at or during the year ended June 30, 2016.

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 has declined due to the lack of economic recovery. In an effort to remediate this, WUKY Radio has engaged in certain fundraising 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 has experienced a sharp decline in previous years. This year, underwriting increased and WUKY is cautiously optimistic that this will continue. WUKY Radio continues implementing a promotional plan with new Media Audit 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 recovery and its impact on revenue and revenue growth continues to be of concern to WUKY Radio. WUKY Radio actively reviews 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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 164,728	\$ 265,168
Pledges receivable, net	33,781	27,980
Total current assets	<u>198,509</u>	<u>293,148</u>
Noncurrent Assets		
Restricted cash and cash equivalents	-	1,861
Pledges receivable, net	217	20,922
Endowment investments	27,929	27,259
Capital assets, net	603,137	640,475
Total noncurrent assets	<u>631,283</u>	<u>690,517</u>
Total assets	<u>829,792</u>	<u>983,665</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	28,037	32,073
Unearned revenue	12,205	11,545
Total current liabilities	<u>40,242</u>	<u>43,618</u>
Total liabilities	<u>40,242</u>	<u>43,618</u>
NET POSITION		
Net investment in capital assets	<u>603,137</u>	<u>640,475</u>
Restricted		
Nonexpendable	20,588	21,015
Expendable	113,003	149,563
Total restricted	<u>133,591</u>	<u>170,578</u>
Unrestricted	<u>52,822</u>	<u>128,994</u>
Total net position	<u>\$ 789,550</u>	<u>\$ 940,047</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Sales related to fundraising activities	\$ 38,551	\$ 40,161
Underwriting income	321,647	216,689
Up-link syndication income	900	1,270
Community service grants from Corporation for Public Broadcasting	<u>127,338</u>	<u>132,851</u>
Total operating revenues	<u>488,436</u>	<u>390,971</u>
OPERATING EXPENSES		
Program services		
Local programming production	545,767	546,451
Broadcasting	289,690	166,157
Program information	<u>45,907</u>	<u>62,431</u>
Total program services	<u>881,364</u>	<u>775,039</u>
Supporting services		
Management and general	339,290	332,651
Fundraising	151,773	141,842
Underwriting and grant solicitation	<u>113,084</u>	<u>96,171</u>
Total supporting services	<u>604,147</u>	<u>570,664</u>
Depreciation	<u>28,687</u>	<u>31,740</u>
Total operating expenses	<u>1,514,198</u>	<u>1,377,443</u>
Net income (loss) from operations	<u>(1,025,762)</u>	<u>(986,472)</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	301,036	306,999
Investment income	212	1,100
Grants (to) from the University of Kentucky for noncapital purposes	<u>573,201</u>	<u>589,460</u>
Net nonoperating revenues	<u>874,449</u>	<u>897,559</u>
Net income (loss) before other revenues, expenses, gains or losses	<u>(151,313)</u>	<u>(88,913)</u>
Additions to permanent endowments	150	50
Other, net	<u>666</u>	<u>-</u>
Total other revenues (expenses)	<u>816</u>	<u>50</u>
Increase (decrease) in net position	<u>(150,497)</u>	<u>(88,863)</u>
NET POSITION, beginning of year	<u>940,047</u>	<u>1,028,910</u>
NET POSITION, end of year	<u>\$ 789,550</u>	<u>\$ 940,047</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales related to fundraising activities	\$ 38,551	\$ 40,161
Underwriting income	309,303	240,466
Up-link syndication income	900	1,270
Grants	127,338	132,851
Payments to vendors and contractors	(533,902)	(407,028)
Salaries, wages and benefits	(848,592)	(806,877)
Net cash provided (used) by operating activities	<u>(906,402)</u>	<u>(799,157)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes		
Gifts received for endowment purposes	150	50
Gifts received for other purposes	328,944	304,034
Grants from the University of Kentucky for non-capital purposes	466,148	476,296
Net cash provided (used) by noncapital financing activities	<u>795,242</u>	<u>780,380</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	-	(6,054)
Other receipts (payments)	9,317	-
Net cash provided (used) by capital and related financing activities	<u>9,317</u>	<u>(6,054)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	6,789	4,843
Interest and dividends on investments	876	851
Purchases of investments	(8,123)	(4,843)
Net cash provided (used) by investing activities	<u>(458)</u>	<u>851</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(102,301)	(23,980)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>267,029</u>	<u>291,009</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 164,728</u>	<u>\$ 267,029</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (1,025,762)	\$ (986,472)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	28,687	31,740
Donated facilities and administrative support from the University of Kentucky	107,053	113,164
Change in underwriting pledges receivable	(13,004)	12,232
Change in accounts payable and accrued liabilities	(4,036)	18,634
Change in unearned revenue	660	11,545
Net cash provided (used) by operating activities	<u>\$ (906,402)</u>	<u>\$ (799,157)</u>
NONCASH TRANSACTIONS		
Capital assets disposal	\$ 8,651	\$ -

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, 2016 AND 2015

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 and through the University of Kentucky Research Foundation, the University's fiscal agent for contracts and grants.

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 the 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.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,100 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, 2016 and 2015, the University’s annual endowment management fee was 0.50% and 0.25%, 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 \$1,302 and \$1,276 for the years ended June 2016 and 2015, 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 Statement 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.

Reclassifications. Certain reclassifications have been made to the fiscal year 2015 financial statements to conform to the fiscal year 2016 financial statement presentation. These reclassifications had no effect on change in net position.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash on deposit with the University of Kentucky	\$ 164,728	\$ 267,029
Investment in the University of Kentucky pooled endowment fund	<u>27,929</u>	<u>27,259</u>
Total	<u>\$ 192,657</u>	<u>\$ 294,288</u>
Statement of Net Position classification		
Cash and cash equivalents	\$ 164,728	\$ 265,168
Restricted cash and cash equivalents	-	1,861
Endowment investments	<u>27,929</u>	<u>27,259</u>
Total	<u>\$ 192,657</u>	<u>\$ 294,288</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.

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, 2016.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2016 and 2015 is as follows:

	2016	2015
Cash and cash equivalents	0.7%	0.4%
Common and preferred stock	3.1%	3.5%
Corporate fixed income securities	0.5%	0.7%
Government agency fixed income securities	0.2%	0.2%
Pooled absolute return funds	11.5%	10.0%
Pooled diversified inflation strategies funds	7.5%	-
Pooled equity funds	24.3%	26.2%
Pooled fixed income funds	5.9%	7.3%
Pooled global tactical asset allocation funds	6.8%	7.2%
Pooled long/short equity funds	13.6%	14.2%
Pooled private equity funds	14.4%	12.8%
Pooled real estate funds	10.6%	8.5%
Pooled real return funds	-	8.3%
U.S. Treasury fixed income securities	0.9%	0.7%
Total	100.0%	100.0%

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 balances.

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

- Cash on deposit with the University which the University invests in deposits with banks and the Commonwealth. During the fiscal year ended June 30, 2015, the University invested in repurchase agreements with banks and the Commonwealth.
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University is managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University.

Endowment investments are managed by the University's Endowment Investment Policy, established 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. 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 on deposit with the University is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization for balances exceeding amounts covered by the Federal Deposit Insurance Corporation (FDIC). WUKY Radio deposits are insured up to \$250,000 at each FDIC insured institution.
- Credit risk on repurchase agreements was mitigated by requiring the issuing financial institution's pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth was mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth.
- 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 on deposit with the University is invested in deposits and repurchase agreements which are held in the University's name. Deposits and repurchase agreements 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 on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, all such 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, 2016, 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 on deposit with the University has limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements 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 managers are limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further protect against 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. PLEDGES RECEIVABLE

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, WUKY Radio is required to record operating pledges as revenue when all eligibility requirements have been met. Accordingly, at June 30, 2016 and 2015, WUKY Radio recorded the discounted value of operating pledges using a rate of two percent.

At June 30, 2016, pledges are expected to be collected over the next 14 years, as follows:

	<u>2016</u>	<u>2015</u>
Operating gift	\$ 527	\$ 43,147
Underwriting	<u>33,663</u>	<u>20,659</u>
Total	34,190	63,806
Less discount and allowance	<u>(192)</u>	<u>(14,904)</u>
Total	<u>\$ 33,998</u>	<u>\$ 48,902</u>
Current portion	\$ 33,781	\$ 27,980
Noncurrent portion	<u>217</u>	<u>20,922</u>
Total	<u>\$ 33,998</u>	<u>\$ 48,902</u>

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2016 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
WUKY PBS Antenna	\$ 750,414	\$ -	\$ -	\$ 750,414
Equipment	<u>521,937</u>	<u>-</u>	<u>109,653</u>	<u>412,284</u>
	<u>1,272,351</u>	<u>-</u>	<u>109,653</u>	<u>1,162,698</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	140,713	18,760	-	159,473
Equipment	<u>491,163</u>	<u>9,927</u>	<u>101,002</u>	<u>400,088</u>
	<u>631,876</u>	<u>28,687</u>	<u>101,002</u>	<u>559,561</u>
Capital assets, net	<u>\$ 640,475</u>	<u>\$ (28,687)</u>	<u>\$ 8,651</u>	<u>\$ 603,137</u>

Capital assets as of June 30, 2015 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
WUKY PBS Antenna	\$ 750,414	\$ -	\$ -	\$ 750,414
Equipment	<u>677,828</u>	<u>6,054</u>	<u>161,945</u>	<u>521,937</u>
	<u>1,428,242</u>	<u>6,054</u>	<u>161,945</u>	<u>1,272,351</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	121,953	18,760	-	140,713
Equipment	<u>640,128</u>	<u>12,980</u>	<u>161,945</u>	<u>491,163</u>
	<u>762,081</u>	<u>31,740</u>	<u>161,945</u>	<u>631,876</u>
Capital assets, net	<u>\$ 666,161</u>	<u>\$ (25,686)</u>	<u>\$ -</u>	<u>\$ 640,475</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Payable to vendors and contractors	\$ 11,898	\$ 18,817
Accrued payroll	<u>16,139</u>	<u>13,256</u>
Total	<u>\$ 28,037</u>	<u>\$ 32,073</u>

6. IN-KIND CONTRIBUTIONS AND DONATED FACILITIES AND ADMINISTRATIVE SUPPORT

In-kind contributions and donated facilities and administrative support for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Facilities and administrative support from the University consists of:		
Allocation of Executive Vice President for Finance and Administration, Office of the Treasurer and Development office costs	\$ 32,416	\$ 34,269
Maintenance, physical plant, operations and utilities	74,293	78,551
Use charge in accordance with CPB Regulations, for use of McVey Hall, Radio Tower and Transmitter Building	<u>344</u>	<u>344</u>
Total	<u>\$ 107,053</u>	<u>\$ 113,164</u>

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

7. 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 2015 to 2016. Settlements have not exceeded insurance coverage during the past three years.



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