



WUKY Radio

**FINANCIAL  
REPORT  
2010**

# University of Kentucky WUKY Radio

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
University of Kentucky  
WUKY Radio  
Lexington, Kentucky

We have audited the accompanying basic financial statements of the University of Kentucky WUKY Radio (Station), a public broadcasting entity owned and operated by the University of Kentucky (University) and an organizational unit of the University, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Station's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Station as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

November 12, 2010

# 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, 2010 and 2009. 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.

## Using the Annual Report

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 Assets, Statement of Revenues, Expenses and Changes in Net Assets, 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 assets (the difference between assets and liabilities) are one sign of its financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of WUKY Radio's financial health.

The Statement of Net Assets includes all assets and liabilities. 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 Assets 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 Foundation), the University's fiscal agent for contracts and grants.

## Financial Information

### Condensed Statements of Net Assets

	2010	2009	2008
<b>ASSETS</b>			
Current assets	\$ 329,799	\$ 208,121	\$ 174,376
Noncurrent assets	25,851	19,198	19,835
Capital assets, net	718,366	739,719	759,400
Total assets	<u>1,074,016</u>	<u>967,038</u>	<u>953,611</u>
<b>LIABILITIES</b>			
Current liabilities	17,946	8,460	12,756
Total liabilities	<u>17,946</u>	<u>8,460</u>	<u>12,756</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	718,366	739,719	759,400
Restricted			
Nonexpendable	21,000	11,000	10,000
Expendable	241,921	153,308	119,928
Unrestricted	74,783	54,551	51,527
Total net assets	<u>\$ 1,056,070</u>	<u>\$ 958,578</u>	<u>\$ 940,855</u>

**Assets.** As of June 30, 2010, WUKY Radio's assets totaled \$1,074,000. Capital assets represented WUKY Radio's largest asset, totaling \$718,000 or 66.9% of total assets.

Total assets increased \$107,000 during the year ended June 30, 2010. This increase was due primarily to an increase in cash of \$108,000 and an increase in pledges receivable of \$19,000 offset by a decrease in capital assets of \$21,000.

**Liabilities.** At June 30, 2010, WUKY Radio's liabilities consisted of accounts payable and accrued expenses totaling \$18,000.

**Net Assets.** Net assets at June 30, 2010 totaled \$1,056,000, or 98.3% of total assets. Capital assets of \$718,000 comprise 68.0% of total net assets.

Total net assets increased \$97,000 during the year ended June 30, 2010. Restricted net assets increased \$99,000 and unrestricted net assets increased \$20,000 because revenues and transfers from the University exceeded expenses. Net assets invested in capital assets, net of related debt decreased by \$21,000 due to depreciation.

**2009 Versus 2008.** Total net assets increased \$18,000 from June 30, 2008 to June 30, 2009. Restricted net assets increased \$34,000 and unrestricted net assets increased \$3,000 because revenues and transfers from the University exceeded expenses. These increases were offset by a \$20,000 decrease in capital assets, net of related debt.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>			
Sales related to fundraising activities	\$ 44,216	\$ 41,040	\$ 51,375
Underwriting income	339,843	323,291	312,747
Up-link syndication income	1,080	2,260	4,492
Community service grants	154,366	134,987	146,539
Total operating revenues	<u>539,505</u>	<u>501,578</u>	<u>515,153</u>
<b>OPERATING EXPENSES</b>			
Program services	781,628	779,861	823,925
Supporting services	619,720	642,825	689,278
Depreciation	21,353	21,179	11,818
Total operating expenses	<u>1,422,701</u>	<u>1,443,865</u>	<u>1,525,021</u>
<b>NET LOSS FROM OPERATIONS</b>	<u>(883,196)</u>	<u>(942,287)</u>	<u>(1,009,868)</u>
<b>NONOPERATING REVENUES</b>			
Gifts	403,164	385,292	417,284
Grants from the University of Kentucky	566,635	575,697	601,607
Other, net	10,889	(979)	(845)
Total nonoperating revenues	<u>980,688</u>	<u>960,010</u>	<u>1,018,046</u>
Total increase in net assets	97,492	17,723	8,178
<b>Net assets, beginning of year</b>	<u>958,578</u>	<u>940,855</u>	<u>932,677</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,056,070</u></u>	<u><u>\$ 958,578</u></u>	<u><u>\$ 940,855</u></u>

**2010.** WUKY Radio's operating revenues, primarily from underwriting income revenues of \$340,000 and community service grants of \$154,000, increased \$38,000 to \$540,000.

Operating expenses totaled \$1.4 million of which 55.8% was used for program services such as local programming production, broadcasting and program information expenses. The remaining 44.2% was used for supporting services such as management, fundraising, underwriting and grant solicitation expenses and depreciation. Operating expenses decreased \$21,000 mainly due to staff reductions.

For the year ended June 30, 2010, net nonoperating revenues totaled \$981,000, of which \$403,000 was from gifts and \$567,000 was from grants from the University of Kentucky in the form of administrative and facilities support. The gifts were comprised of cash gifts and pledges that were received as the result of fundraising activities. Gift revenue increased \$18,000 due to a new and aggressive mail campaign.

**2009 Versus 2008.** Operating revenue decreased \$14,000 when comparing fiscal year 2009 to 2008. This decrease was due to fewer sales related to fundraising activities and fewer community service grants offset by increased underwriting income. Operating expenses decreased \$81,000 due to decreases in program production and supporting services. Net nonoperating revenues decreased \$58,000 due to the impact of economic conditions on gifts.

**Condensed Statements of Cash Flows**

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.

	2010	2009	2008
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ (740,605)	\$ (764,250)	\$ (853,989)
Noncapital financing activities	849,230	810,666	902,261
Capital and related financing activities	-	(1,498)	(9,885)
Investing activities	(376)	254	(544)
Net increase (decrease) in cash and cash equivalents	108,249	45,172	37,843
<b>Cash and cash equivalents, beginning of year</b>	<b>160,782</b>	<b>115,610</b>	<b>77,767</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 269,031</b>	<b>\$ 160,782</b>	<b>\$ 115,610</b>

**2010.** Cash payments for operating activities were \$501,000 to suppliers for goods and services and \$751,000 for salaries, wages and benefits. Cash receipts from operating activities were mainly from underwriting income of \$311,000 and grants of \$154,000. Cash used for operating activities decreased \$24,000, primarily due to a reduction in staff.

Cash receipts in the noncapital financing activities group were related to gifts of \$423,000 and grants from the University of Kentucky of \$426,000. Cash provided by this category increased \$39,000 during fiscal year 2010 due to a \$26,000 increase in gifts and a \$10,000 addition to endowments.

**2009 Versus 2008.** Net cash used by operating activities decreased \$90,000 from June 30, 2008 to June 30, 2009, primarily caused by decreases in salaries, wages and benefits. Net cash provided by noncapital financing activities decreased \$92,000 primarily due to a decrease in gifts and grants from the University of Kentucky. Net cash used by capital financing activities decreased \$8,000 as a result of the completion of a transmitter and antenna project in fiscal year 2008.

### Capital Asset and Debt Administration

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$718,000 at June 30, 2010, a decrease of \$21,000. Capital assets as of June 30, 2010 and changes in capital assets during the year are as follows:

	Balance June 30, 2009	Net Additions/ (Deductions)	Balance June 30, 2010
WUKY PBS Antenna	\$ 750,414		\$ 750,414
Equipment	421,848	\$ 185,021	606,869
	1,172,262	185,021	1,357,283
 <u>Accumulated depreciation</u>			
WUKY PBS Antenna	(28,153)	(18,760)	(46,913)
Equipment	(404,390)	(187,614)	(592,004)
	(432,543)	(206,374)	(638,917)
 Total	\$ 739,719	\$ (21,353)	\$ 718,366

During the year ended June 30, 2010, WUKY Radio received a gift of capital equipment from the University with a book value of \$288,678 and accumulated depreciation of \$288,678. In addition, WUKY disposed of capital equipment with a book value of \$103,657 and accumulated depreciation of \$103,657.

**Debt.** WUKY Radio had no debt at or during the year ended June 30, 2010.

### Factors Impacting Future Periods

WUKY Radio has been accepted by the Kentucky Broadcast Association (KBA) to become the primary Emergency Broadcast Station for this region. This will require equipment upgrades to satisfy KBA and Federal Communications Commission emergency alert system requirements. The project budget will be approximately \$200,000 for a tower site generator, an uninterrupted power supply (UPS) system, ice shielding for equipment, power transfer switches and auxiliary transmitter upgrade.

WUKY Radio has applied for a Federal Emergency Management Agency grant for the equipment additions and improvements. This project will be completed in phases as funding becomes available.

Due to current economic conditions, large declines in donations and grant revenue could negatively impact WUKY Radio's future financial results.



**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**OPERATED BY THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 259,278	\$ 160,120
Pledges receivable	70,511	47,863
Accounts receivable	10	138
Total current assets	<u>329,799</u>	<u>208,121</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	9,753	662
Pledges receivable	7,255	10,959
Endowment investments	8,843	7,577
Capital assets, net	718,366	739,719
Total noncurrent assets	<u>744,217</u>	<u>758,917</u>
Total assets	<u>1,074,016</u>	<u>967,038</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	17,946	8,460
Total current liabilities	<u>17,946</u>	<u>8,460</u>
Total liabilities	<u>17,946</u>	<u>8,460</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	718,366	739,719
Restricted nonexpendable	21,000	11,000
Restricted expendable	241,921	153,308
Unrestricted	74,783	54,551
Total net assets	<u>\$ 1,056,070</u>	<u>\$ 958,578</u>

See notes to financial statements.

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**OPERATED BY THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Sales related to fundraising activities	\$ 44,216	\$ 41,040
Underwriting income	339,843	323,291
Up-link syndication income	1,080	2,260
Community service grants from Corporation for Public Broadcasting	154,366	131,857
Nongovernmental grants	-	3,130
Total operating revenues	<u>539,505</u>	<u>501,578</u>
<b>OPERATING EXPENSES</b>		
Program services		
Local programming production	574,093	575,831
Broadcasting	179,959	176,397
Program information	<u>27,576</u>	<u>27,633</u>
Total program services	<u>781,628</u>	<u>779,861</u>
Supporting services		
Management and general	330,627	314,160
Fundraising	229,955	246,256
Underwriting and grant solicitation	<u>59,138</u>	<u>82,409</u>
Total supporting services	<u>619,720</u>	<u>642,825</u>
Depreciation	<u>21,353</u>	<u>21,179</u>
Total operating expenses	<u>1,422,701</u>	<u>1,443,865</u>
Net income (loss) from operations	<u>(883,196)</u>	<u>(942,287)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	403,164	385,292
Investment income	889	(1,979)
Grants (to) from the University of Kentucky for noncapital purposes	566,635	575,697
Additions to permanent endowments	<u>10,000</u>	<u>1,000</u>
Net nonoperating revenues	<u>980,688</u>	<u>960,010</u>
Increase (decrease) in net assets	97,492	17,723
<b>NET ASSETS, beginning of year</b>	<u>958,578</u>	<u>940,855</u>
<b>NET ASSETS, end of year</b>	<u>\$ 1,056,070</u>	<u>\$ 958,578</u>

See notes to financial statements.

**WUKY RADIO**  
**A PUBLIC TELECOMMUNICATIONS ENTITY**  
**OPERATED BY THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Sales related to fundraising activities	\$ 44,216	\$ 41,040
Underwriting income	311,280	332,208
Up-link syndication income	1,080	2,260
Grants	154,494	134,849
Payments to vendors and contractors	(500,946)	(474,929)
Salaries, wages and benefits	(750,729)	(799,678)
Net cash provided (used) by operating activities	<u>(740,605)</u>	<u>(764,250)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes		
Gifts received for endowment purposes	10,000	1,000
Gifts received for other purposes	412,782	386,344
Other noncapital financing receipts (payments), net	426,448	423,322
Net cash provided (used) by noncapital financing activities	<u>849,230</u>	<u>810,666</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	-	(1,498)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(1,498)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	11,314	10,213
Interest and dividends on investments	566	(2,382)
Purchases of investments	(12,256)	(7,577)
Net cash provided (used) by investing activities	<u>(376)</u>	<u>254</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	108,249	45,172
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>160,782</u>	<u>115,610</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 269,031</u>	<u>\$ 160,782</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ (883,196)	\$ (942,287)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	21,353	21,179
Donated facilities and administrative support from the University of Kentucky	140,187	152,375
Change in underwriting pledges receivable	(28,435)	8,779
Change in accounts payable and accrued liabilities	9,486	(4,296)
<b>Net cash provided (used) by operating activities</b>	<u>\$ (740,605)</u>	<u>\$ (764,250)</u>
<b>NONCASH TRANSACTIONS</b>		
Donated facilities and support from the University of Kentucky	\$ 140,187	\$ 152,375
Donated equipment from the University of Kentucky	\$ 288,678	\$ -
Capital assets disposal	\$ 103,657	\$ 89,959

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 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 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 assets categories:

- Invested in capital assets, net of related debt: 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 assets subject to externally imposed stipulations that they be maintained permanently by WUKY Radio. Such assets include WUKY Radio's permanent endowment funds.
  - Expendable* – Net assets 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 assets whose use by WUKY Radio is not subject to externally imposed stipulations. Unrestricted net assets 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, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, WUKY Radio has elected to apply the provisions for all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

#### 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. WUKY Radio's endowment investments are administered as part of the University's pooled endowment 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 (loss) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Uniform Management of Institutional Funds Act as adopted by the Commonwealth of Kentucky, the University employs the total return method of investment management for setting investment objectives and determining investment performance. This method recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. Additionally, this method allows the University to appropriate for spending a prudent amount of realized and unrealized gains, in addition to traditional income. In July 2010, the Commonwealth of Kentucky will adopt the Uniform Prudent Management of Institutional Funds Act, which also allows the total return method of investment management.

For the years ended June 30, 2010 and 2009, the University's endowment spending rule provided for annual distributions of 4.5 percent of the thirty-six month moving average market value of fund units. For each of the years ended June 30, 2010 and 2009, approximately \$500 was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, for the years ended June 30, 2010 and 2009, the University assessed eligible endowment accounts with a management fee of 0.5 percent of total asset value.

The Investment Committee of the University's Board of Trustees has approved a spending rate distribution of 4.375 percent and 4.25 percent of a sixty month moving average market value of fund units for the years ended June 30, 2011 and 2012, respectively. Additionally, the Investment Committee has approved a management fee of 0.375 percent and 0.25 percent of total asset value for the years ended June 30, 2011 and 2012, respectively.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. 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 Assets.

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 \$2,000 or more (\$1,000 for computers) 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.

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 Statement of Revenues, Expenses and Changes in Net Assets, 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 Statement of Revenues, Expenses, and Changes in Net Assets 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.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2010 and 2009 is as follows:

	2010	2009
Cash on deposit with the University of Kentucky	\$ 269,031	\$ 160,782
Investment in the University of Kentucky pooled endowment fund	8,843	7,577
	<u>\$ 277,874</u>	<u>\$ 168,359</u>
Statement of Net Assets classification		
Cash and cash equivalents	\$ 259,278	\$ 160,120
Restricted cash and cash equivalents	9,753	662
Endowment investments	8,843	7,577
	<u>\$ 277,874</u>	<u>\$ 168,359</u>

At June 30, 2010, the University's pooled endowment fund consists of pooled equity funds (48.2%), pooled private equity funds (3.6%), pooled absolute return funds (10.0%), pooled real return funds (7.1%), pooled real estate funds (6.9%), U.S. treasury fixed income funds (4.4%), government agency fixed income funds (2.0%), corporate fixed income funds (4.4%), pooled fixed income funds (12.1%) and cash equivalents (1.3%).

**Deposit and investment policies.** WUKY Radio follows the deposit and investment policies established by the University of Kentucky'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, as follows:

- Cash on deposit with the University of Kentucky, which the University invests in deposits and repurchase agreements with banks and the Commonwealth of Kentucky, and
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University is managed based on the University's Overnight and Short-Term Investment Policy approved by the Investment Committee of the University's Board of Trustees.

Endowment investments are managed by the University's Endowment Investment Policy as 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, including credit, interest rate and foreign currency risk, as discussed in more detail below:

**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 of Kentucky is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization. Credit risk on repurchase agreements is 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 of Kentucky is 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. Additionally, endowment investments held by the University's fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

**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 of Kentucky are held in the Commonwealth's name. The University maintains records evidencing WUKY'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 investments in excess of Federal Depository 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 (5) 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, 2010, WUKY Radio had no underlying investments in any one issuer which represent more than five (5) 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 fixed income managers are limited to a duration that is within +/-25% of the duration of the Barclays Aggregate Bond Index.

**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. The University's investments in the various pooled funds are denominated in U.S. dollars, with the exception of two private equity funds denominated in Euros. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

WUKY Radio invests in various securities. Investment securities are exposed to various interest rate, market and credit risks, discussed above. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of the investment securities will occur in the near term and that such change could affect the investment amounts in the statement of net assets.

### 3. PLEDGES RECEIVABLE

Operating pledges totaling approximately \$89,000 are expected to be collected over the next three years. 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, 2010, WUKY Radio recorded the discounted value of operating pledges, net of the allowance for uncollectible pledges of approximately \$78,000, using a rate of 4%.



#### 4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2010 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414			\$ 750,414
Equipment	421,848	\$ 288,678	\$ 103,657	606,869
	<u>1,172,262</u>	<u>288,678</u>	<u>103,657</u>	<u>1,357,283</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	28,153	18,760	-	46,913
Equipment	404,390	291,271	103,657	592,004
	<u>432,543</u>	<u>310,031</u>	<u>103,657</u>	<u>638,917</u>
Net capital assets	<u>\$ 739,719</u>	<u>\$ (21,353)</u>	<u>\$ -</u>	<u>\$ 718,366</u>

Additions to equipment and equipment depreciation include \$288,678 in fully depreciated equipment transferred from UK.

Capital assets as of June 30, 2009 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 751,414		\$ 1,000	\$ 750,414
Equipment	509,309	\$ 2,498	89,959	421,848
	<u>1,260,723</u>	<u>2,498</u>	<u>90,959</u>	<u>1,172,262</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	9,393	18,760	-	28,153
Equipment	491,930	2,419	89,959	404,390
	<u>501,323</u>	<u>21,179</u>	<u>89,959</u>	<u>432,543</u>
Net capital assets	<u>\$ 759,400</u>	<u>\$ (18,681)</u>	<u>\$ 1,000</u>	<u>\$ 739,719</u>

The WUKY Clays Ferry transmitter and antenna was partially funded by a Federal PTFP grant of \$242,084. The Federal government retains a reversionary interest in all facilities constructed with Federal grant funds. This period begins with the purchase of the facilities and continues for a period of ten (10) years following March 31, 2007.

#### 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2010 and 2009 are as follows:

	2010	2009
Accrued payroll	\$ 8,299	\$ 6,809
Payable to vendors and contractors	9,647	1,651
Total	<u>\$ 17,946</u>	<u>\$ 8,460</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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</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	\$ 55,658	\$ 74,670
Maintenance, physical plant, operations and utilities	84,185	77,361
Use charge in accordance with CPB Regulations, for use of McVey Hall, Radio Tower and Transmitter Building	344	344
	<u>\$ 140,187</u>	<u>\$ 152,375</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 2009 to 2010. Settlements have not exceeded insurance coverage during the past three years.

## 8. CURRENT ECONOMIC CONDITIONS

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges which in some cases have resulted in large declines in private donations and nongovernmental grant revenue. These conditions have made it difficult for many donors to continue to contribute to WUKY Radio and for nonprofit foundations to fund community services such as WUKY Radio. Since WUKY Radio is substantially funded by grants from the Corporation for Public Broadcasting and private gifts, a decline in grant revenue and donations could have an adverse impact on WUKY Radio's future operating results. The ability of the University to provide support may also be affected. The financial statements have been prepared using values and information available to WUKY Radio.



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