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UNIVERSITY OF
KENTUCKY[®]



2011

**WUKY Radio
Financial Statements**



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, 2011 and 2010, 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 audit 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, 2011 and 2010, 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 supplementary information and express no opinion on it.

BKD, LLP

September 29, 2011

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, 2011 and 2010. 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

	2011	2010	2009
ASSETS			
Current assets	\$ 303,606	\$ 329,799	\$ 208,121
Noncurrent assets	42,174	25,851	19,198
Capital assets, net	736,550	718,366	739,719
Total assets	<u>1,082,330</u>	<u>1,074,016</u>	<u>967,038</u>
LIABILITIES			
Current liabilities	13,656	17,946	8,460
Total liabilities	<u>13,656</u>	<u>17,946</u>	<u>8,460</u>
NET ASSETS			
Invested in capital assets, net of related debt	736,550	718,366	739,719
Restricted			
Nonexpendable	20,711	21,000	11,000
Expendable	206,431	241,921	153,308
Unrestricted	104,982	74,783	54,551
Total net assets	<u>\$ 1,068,674</u>	<u>\$ 1,056,070</u>	<u>\$ 958,578</u>

Assets. As of June 30, 2011, WUKY Radio's assets totaled \$1,082,000. Capital assets represented WUKY Radio's largest asset, totaling \$737,000 or 68.1% of total assets.

Total assets increased \$8,000 during the year ended June 30, 2011. This increase was due primarily to increases in capital assets of \$18,000 and investments of \$3,000 offset by a decrease in cash of \$14,000.

Liabilities. At June 30, 2011, WUKY Radio's liabilities consisted of accounts payable and accrued expenses totaling \$14,000.

Net Assets. Net assets at June 30, 2011 totaled \$1,069,000, or 98.7% of total assets. Net assets invested in capital assets, net of related debt \$737,000 comprise 68.9% of total net assets.

Total net assets increased \$13,000 during the year ended June 30, 2011. Restricted net assets decreased \$36,000 due to restricted expenditures exceeding gift revenue. Unrestricted net assets increased \$30,000 due to revenues and transfers from the University exceeding expenses. Net assets invested in capital assets, net of related debt increased by \$18,000 due to additional capital assets purchased offset by depreciation.

2010 Versus 2009. Total net assets increased \$97,000 from June 30, 2009 to 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. These increases were offset by a \$21,000 decrease in capital assets, net of related debt.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
Sales related to fundraising activities	\$ 40,475	\$ 44,216	\$ 41,040
Underwriting income	357,950	339,843	323,291
Up-link syndication income	810	1,080	2,260
Community service grants	139,203	154,366	134,987
Total operating revenues	<u>538,438</u>	<u>539,505</u>	<u>501,578</u>
OPERATING EXPENSES			
Program services	832,048	781,628	779,861
Supporting services	704,970	619,720	642,825
Depreciation	22,853	21,353	21,179
Total operating expenses	<u>1,559,871</u>	<u>1,422,701</u>	<u>1,443,865</u>
NET LOSS FROM OPERATIONS	<u>(1,021,433)</u>	<u>(883,196)</u>	<u>(942,287)</u>
NONOPERATING REVENUES			
Gifts	400,673	403,164	385,292
Grants from the University of Kentucky	617,034	566,635	575,697
Other, net	16,330	10,889	(979)
Total nonoperating revenues	<u>1,034,037</u>	<u>980,688</u>	<u>960,010</u>
Total increase in net assets	12,604	97,492	17,723
Net assets, beginning of year	<u>1,056,070</u>	<u>958,578</u>	<u>940,855</u>
Net assets, end of year	<u><u>\$ 1,068,674</u></u>	<u><u>\$ 1,056,070</u></u>	<u><u>\$ 958,578</u></u>

2011. WUKY Radio's operating revenues, primarily from underwriting income revenues of \$358,000 increased \$18,000 and community service grants of \$139,000, decreased \$15,000.

Operating expenses totaled \$1.6 million of which 53.3% was used for program services such as local programming production, broadcasting and program information expenses. The remaining 46.7% was used for supporting services such as management, fundraising, underwriting and grant solicitation expenses and depreciation. Operating expenses increased \$137,000 due to increases in programming fees, management and general expenses, fundraising and underwriting expenses.

For the year ended June 30, 2011, net nonoperating revenues totaled \$1.0 million, primarily composed of \$401,000 from gifts and \$617,000 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. Grants from the University of Kentucky increased \$50,000 due to increases in grants for equipment upgrades and other support.

2010 Versus 2009. Operating revenue increased \$38,000 when comparing fiscal year 2010 to 2009. This increase was due to increases in underwriting and gift revenue. Operating expenses decreased \$21,000 due to staff reductions. Net nonoperating revenues increased \$21,000 due to a new and aggressive mail campaign.

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.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (837,127)	\$ (740,605)	\$ (764,250)
Noncapital financing activities	850,843	849,230	810,666
Capital and related financing activities	(28,435)	-	(1,498)
Investing activities	<u>649</u>	<u>(376)</u>	<u>254</u>
Net increase (decrease) in cash and cash equivalents	(14,070)	108,249	45,172
Cash and cash equivalents, beginning of year	<u>269,031</u>	<u>160,782</u>	<u>115,610</u>
Cash and cash equivalents, end of year	<u><u>\$ 254,961</u></u>	<u><u>\$ 269,031</u></u>	<u><u>\$ 160,782</u></u>

2011. Cash payments for operating activities were \$575,000 to suppliers for goods and services and \$809,000 for salaries, wages and benefits. Cash receipts from operating activities were mainly from underwriting income of \$366,000 and grants of \$139,000. Cash used for operating activities increased \$97,000, primarily due to increases in National Public Radio and Associated Press fees, fundraising expenses and underwriting and grant solicitation expense.

2010 Versus 2009. Net cash used by operating activities decreased \$24,000 from June 30, 2009 to June 30, 2010, primarily caused by a reduction in staff. Net cash provided by noncapital financing activities increased \$39,000 primarily due to a \$26,000 increase in gifts and a \$10,000 addition to endowments.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$737,000 at June 30, 2011, an increase of \$18,000. Capital assets as of June 30, 2011 and changes in capital assets during the year are as follows:

	Balance June 30, 2010	Net Additions/ (Deductions)	Balance June 30, 2011
WUKY PBS Antenna	\$ 750,414		\$ 750,414
Equipment	606,869	\$ 63,369	670,238
	1,357,283	63,369	1,420,652
 Accumulated depreciation			
WUKY PBS Antenna	(46,913)	(18,760)	(65,673)
Equipment	(592,004)	(26,425)	(618,429)
	(638,917)	(45,185)	(684,102)
 Total	 \$ 718,366	 \$ 18,184	 \$ 736,550

Debt. WUKY Radio had no debt at or during the year ended June 30, 2011.

Factors Impacting Future Periods

WUKY Radio has received funding for a Federal Emergency Management Agency grant for equipment additions and improvements at the Clays Ferry Tower in the amount of \$113,000. The improvements include a tower site generator, an uninterrupted power supply (UPS) system, power transfer switches and ice shielding for the equipment and building. The grant stipulates twenty-five percent matching funding provided by WUKY of \$28,000. WUKY expects the equipment additions and improvements to be finished by September 2012.

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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 245,831	\$ 259,278
Pledges receivable	57,765	70,511
Accounts receivable	10	10
Total current assets	<u>303,606</u>	<u>329,799</u>
Noncurrent Assets		
Restricted cash and cash equivalents	9,130	9,753
Pledges receivable	21,122	7,255
Endowment investments	11,922	8,843
Capital assets, net	736,550	718,366
Total noncurrent assets	<u>778,724</u>	<u>744,217</u>
Total assets	<u>1,082,330</u>	<u>1,074,016</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	13,656	17,946
Total current liabilities	<u>13,656</u>	<u>17,946</u>
Total liabilities	<u>13,656</u>	<u>17,946</u>
NET ASSETS		
Invested in capital assets, net of related debt	736,550	718,366
Restricted nonexpendable	20,711	21,000
Restricted expendable	206,431	241,921
Unrestricted	104,982	74,783
Total net assets	<u>\$ 1,068,674</u>	<u>\$ 1,056,070</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales related to fundraising activities	\$ 40,475	\$ 44,216
Underwriting income	357,950	339,843
Up-link syndication income	810	1,080
Community service grants from Corporation for Public Broadcasting	<u>139,203</u>	<u>154,366</u>
Total operating revenues	<u>538,438</u>	<u>539,505</u>
OPERATING EXPENSES		
Program services		
Local programming production	609,558	574,093
Broadcasting	192,633	179,959
Program information	<u>29,857</u>	<u>27,576</u>
Total program services	<u>832,048</u>	<u>781,628</u>
Supporting services		
Management and general	359,382	330,627
Fundraising	259,061	229,955
Underwriting and grant solicitation	<u>86,527</u>	<u>59,138</u>
Total supporting services	<u>704,970</u>	<u>619,720</u>
Depreciation	<u>22,853</u>	<u>21,353</u>
Total operating expenses	<u>1,559,871</u>	<u>1,422,701</u>
Net income (loss) from operations	<u>(1,021,433)</u>	<u>(883,196)</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	400,673	403,164
Investment income	3,728	889
Grants (to) from the University of Kentucky for noncapital purposes	<u>617,034</u>	<u>566,635</u>
Net nonoperating revenues	<u>1,021,435</u>	<u>970,688</u>
Net income (loss) before other revenues, expenses, gains or losses	<u>2</u>	<u>87,492</u>
Capital grants and gifts	12,602	-
Additions to permanent endowments	<u>-</u>	<u>10,000</u>
Total other revenues (expenses)	<u>12,602</u>	<u>10,000</u>
Increase (decrease) in net assets	12,604	97,492
NET ASSETS, beginning of year	<u>1,056,070</u>	<u>958,578</u>
NET ASSETS, end of year	<u>\$ 1,068,674</u>	<u>\$ 1,056,070</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales related to fundraising activities	\$ 40,475	\$ 44,216
Underwriting income	365,946	311,280
Up-link syndication income	810	1,080
Grants	139,203	154,494
Payments to vendors and contractors	(575,027)	(500,946)
Salaries, wages and benefits	(808,534)	(750,729)
Net cash provided (used) by operating activities	<u>(837,127)</u>	<u>(740,605)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes		
Gifts received for endowment purposes	-	10,000
Gifts received for other purposes	391,553	412,782
Grants from the University of Kentucky for non-capital purposes	459,290	426,448
Net cash provided (used) by noncapital financing activities	<u>850,843</u>	<u>849,230</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	12,602	-
Purchases of capital assets	(41,037)	-
Net cash provided (used) by capital and related financing activities	<u>(28,435)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,766	11,314
Interest and dividends on investments	648	566
Purchases of investments	(15,765)	(12,256)
Net cash provided (used) by investing activities	<u>649</u>	<u>(376)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,070)	108,249
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>269,031</u>	<u>160,782</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 254,961</u>	<u>\$ 269,031</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (1,021,433)	\$ (883,196)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	22,853	21,353
Donated facilities and administrative support from the University of Kentucky	157,746	140,187
Change in underwriting pledges receivable	7,997	(28,435)
Change in accounts payable and accrued liabilities	(4,290)	9,486
Net cash provided (used) by operating activities	<u>\$ (837,127)</u>	<u>\$ (740,605)</u>
NONCASH TRANSACTIONS		
Donated facilities and support from the University of Kentucky	\$ 157,746	\$ 140,187
Donated equipment from the University of Kentucky	\$ -	\$ 288,678
Capital assets disposal	\$ -	\$ 103,657

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 Prudent Management of Institutional Funds Act ("UPMIFA"), as adopted by the Commonwealth of Kentucky 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. Prior to the passage of UPMIFA, the University was subject to the Uniform Management of Institutional Funds Act ("UMIFA"), as adopted by the Commonwealth of Kentucky, which also allowed for total return management.

The University utilizes a spending policy designed to smooth spending distributions and protect endowed programs from market volatility by calculating distributions based on a percentage of the average market value of the endowment over a specified period of time. The University has made expenditure decisions in accordance with prevailing UPMIFA or UMIFA statutes and donor gift agreements. UPMIFA allows institutions to appropriate for expenditure so much of an endowment fund as the institution deems is prudent based on a review of various factors set forth in the Act, subject to terms set forth in a gift agreement. UMIFA allowed institutions to appropriate for expenditure a prudent amount of realized and unrealized gains over the historic dollar value of an endowment fund, also subject to terms set forth in a gift agreement.

For the year ended June 30, 2011 the University's endowment spending rule provided for annual distributions of 4.375 percent of the sixty month moving average market value of fund units. For the year ended June 30, 2010, 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 the year ended June 30, 2010, approximately \$500 was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. There were no transfers in the year ended June 30, 2011. Additionally, for the year ended June 30, 2011, the University assessed eligible endowment accounts with a management fee of 0.375 percent of total asset value. For the year ended June 30, 2010, 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 4.25 percent of a sixty month moving average market value of fund units for the year ended June 30, 2012. Additionally, the Investment Committee has approved a management fee of 0.25 percent for the year ended June 30, 2012.

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.

Income Taxes: The University, of which WUKY Radio is an organizational unit, is an agency and instrumentality of the Commonwealth of Kentucky, 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, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Cash on deposit with the University of Kentucky	\$ 254,961	\$ 269,031
Investment in the University of Kentucky pooled endowment fund	11,922	8,843
	<u>\$ 266,883</u>	<u>\$ 277,874</u>
Statement of Net Assets classification		
Cash and cash equivalents	\$ 245,831	\$ 259,278
Restricted cash and cash equivalents	9,130	9,753
Endowment investments	11,922	8,843
	<u>\$ 266,883</u>	<u>\$ 277,874</u>

At June 30, 2011, the University's pooled endowment fund consists of common and preferred stock (5.3%), pooled equity funds (37.0%), pooled private equity funds (4.7%), pooled absolute return funds (19.1%), pooled real return funds (10.4%), pooled real estate funds (5.5%), U.S. treasury fixed income funds (0.8%), government agency fixed income funds (1.8%), corporate fixed income funds (2.2%), pooled fixed income funds (13.1%) and cash equivalents (0.1%).

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. 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 statement of net assets.

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 for balances exceeding amounts covered by the Federal Deposit Insurance Corporation. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (the "Dodd-Frank Provision"). The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012. WUKY Radio deposits are non-interest bearing and are fully insured by FDIC coverage.
- 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 deposits 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, 2011, 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.

3. PLEDGES RECEIVABLE

Operating pledges totaling approximately \$94,000 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, 2011, WUKY Radio recorded the discounted value of operating pledges, net of the allowance for uncollectible pledges, of approximately \$79,000 using a rate of 4%.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2011 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414			\$ 750,414
Equipment	606,869	\$ 63,369	\$ -	670,238
	<u>1,357,283</u>	<u>63,369</u>	<u>-</u>	<u>1,420,652</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	46,913	18,760	-	65,673
Equipment	592,004	26,425	-	618,429
	<u>638,917</u>	<u>45,185</u>	<u>-</u>	<u>684,102</u>
Net capital assets	<u>\$ 718,366</u>	<u>\$ 18,184</u>	<u>\$ -</u>	<u>\$ 736,550</u>

Additions to equipment and equipment depreciation include \$22,332 in fully depreciated equipment transferred from UK.

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>

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 years following March 31, 2007.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Accrued payroll	\$ 10,113	\$ 8,299
Payable to vendors and contractors	<u>3,543</u>	<u>9,647</u>
Total	<u>\$ 13,656</u>	<u>\$ 17,946</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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</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	\$ 72,007	\$ 55,658
Maintenance, physical plant, operations and utilities	85,395	84,185
Use charge in accordance with CPB Regulations, for use of McVey Hall, Radio Tower and Transmitter Building	344	344
	<u>\$ 157,746</u>	<u>\$ 140,187</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 2010 to 2011. 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. Due to the volatility of capital markets subsequent to year end, changes in investment values have been significant and may continue to affect investment amounts in the statements of net assets in the near term.



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