

UNIVERSITY OF KENTUCKY®



WUKY Radio 2015 Financial Statements

University of Kentucky
WUKY Radio
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2015 and 2014

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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, 2015 and 2014, and 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, 2015 and 2014, 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, 2015 and 2014, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 2, 2015

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, 2015 and 2014. 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 \$58,684 or 5.6%. This change was primarily due to decreases in capital assets, net of \$25,686, cash and cash equivalents of \$23,980, and pledges receivable of \$9,268.
- Total liabilities increased \$30,179 or 224.6%. This change was due to an increase in accounts payable and accrued liabilities of \$18,634 and unearned revenue of \$11,545.
- Total net position decreased \$88,863 or 8.6% to \$940,047.
- Operating revenues decreased \$57,448 or 12.8% to \$390,971.
- Operating expenses decreased \$18,033 or 1.3% to \$1,377,443.

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>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current assets	\$ 293,148	\$ 329,095	\$ 323,267
Noncurrent assets	50,042	47,093	88,042
Capital assets, net	640,475	666,161	700,485
Total assets	<u>983,665</u>	<u>1,042,349</u>	<u>1,111,794</u>
LIABILITIES			
Current liabilities	43,618	13,439	28,148
Total liabilities	<u>43,618</u>	<u>13,439</u>	<u>28,148</u>
NET POSITION			
Net investment			
in capital assets	640,475	666,161	700,485
Restricted			
Nonexpendable	21,015	21,532	20,827
Expendable	149,563	220,956	247,152
Unrestricted	<u>128,994</u>	<u>120,261</u>	<u>115,182</u>
Total net position	<u>\$ 940,047</u>	<u>\$ 1,028,910</u>	<u>\$ 1,083,646</u>

Assets. As of June 30, 2015, WUKY Radio's assets totaled \$983,665. Capital assets, net represented WUKY Radio's largest asset, totaling \$640,475 or 65.1% of total assets.

Total assets decreased \$58,684 during the year ended June 30, 2015. This decrease was due to decreases in capital assets, net of \$25,686, cash and cash equivalents of \$23,980, and pledges receivable of \$9,268.

Liabilities. At June 30, 2015, WUKY Radio's liabilities totaled \$43,618. Accounts payable and accrued liabilities totaling \$32,073 represented WUKY Radio's largest liability at 73.5% and increased \$18,634 due to timing differences in payments to vendors and an increase in accrued payroll.

Net Position. Net position at June 30, 2015 totaled \$940,047 or 95.6% of total assets. Net investment in capital assets totaling \$640,475 comprise 68.1% of total net position.

Total net position decreased \$88,863 during the year ended 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 transfers from the University exceeding expenses. Net investment in capital assets decreased \$25,686 due to depreciation and disposal of equipment offset by additional capital equipment purchases.

2014 Versus 2013. Total net position decreased \$54,736 from June 30, 2013 to June 30, 2014. Restricted net position decreased \$25,491 due to restricted expenditures exceeding gift revenue. Unrestricted net position increased \$5,079 due to revenues and transfers from the University exceeding expenses. Net investment in capital assets decreased by \$34,324 due to depreciation and disposal of equipment offset by additional capital equipment purchases.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES			
Sales related to fundraising activities	\$ 40,161	\$ 7,818	\$ 85,764
Underwriting income	216,689	301,676	266,380
Up-link syndication income	1,270	1,890	1,080
Community service grants	<u>132,851</u>	<u>137,035</u>	<u>139,501</u>
Total operating revenues	<u>390,971</u>	<u>448,419</u>	<u>492,725</u>
OPERATING EXPENSES			
Program services	775,039	762,105	785,085
Supporting services	570,664	602,635	575,156
Depreciation	<u>31,740</u>	<u>30,736</u>	<u>29,030</u>
Total operating expenses	<u>1,377,443</u>	<u>1,395,476</u>	<u>1,389,271</u>
NET LOSS FROM OPERATIONS	<u>(986,472)</u>	<u>(947,057)</u>	<u>(896,546)</u>
NONOPERATING REVENUES			
Gifts	306,999	372,455	418,279
Grants from the University of Kentucky	589,460	519,050	528,525
Other, net	<u>1,150</u>	<u>816</u>	<u>3,118</u>
Total nonoperating revenues	<u>897,609</u>	<u>892,321</u>	<u>949,922</u>
Total increase (decrease) in net position	<u>(88,863)</u>	<u>(54,736)</u>	<u>53,376</u>
Net position, beginning of year	<u>1,028,910</u>	<u>1,083,646</u>	<u>1,030,270</u>
Net position, end of year	<u>\$ 940,047</u>	<u>\$ 1,028,910</u>	<u>\$ 1,083,646</u>

2015. WUKY Radio's operating revenues of \$390,971 decreased \$57,448 or 12.8% primarily due to underwriting income decreasing \$84,987 or 28.2%. This decline was due to clients reducing their advertising budgets and the loss of multiple large accounts offset by increases in sales related to fundraising activities.

Operating expenses totaled \$1,377,443 of which 56.3% was used for program services such as local programming production, broadcasting, and program information expenses. The remaining 43.7% was used for supporting services such as management and general, fundraising, and underwriting and grant solicitation expenses and depreciation. Operating expenses decreased \$18,033, primarily due to decreases in underwriting and grant solicitation and broadcasting expenses offset by increases in program information and local programming production expenses.

For the year ended June 30, 2015, net nonoperating revenues totaled \$897,609 and was primarily composed of \$589,460 in grants from the University in the form of administrative and facilities support and \$306,999 in gifts. Grants from the University increased \$70,410 due to increases in support provided. The gifts were comprised of cash gifts and pledges that were received as the result of fundraising activities.

2014 Versus 2013. Operating revenue decreased \$44,306 when comparing fiscal year 2014 to 2013. This decrease was due primarily to a decrease in sales related to fundraising activities revenue. Operating expenses increased \$6,205 due to increases in underwriting and grant solicitation and management and general expenses. Net nonoperating revenues decreased \$57,601 due to decreases in gifts and grants from the University offset by an increase in capital grants and 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.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (799,157)	\$ (721,397)	\$ (833,726)
Noncapital financing activities	780,380	828,829	844,363
Capital and related financing activities	(6,054)	(23,876)	(12,187)
Investing activities	<u>851</u>	<u>53</u>	<u>(556)</u>
Net increase (decrease) in cash and cash equivalents	(23,980)	83,609	(2,106)
Cash and cash equivalents, beginning of year	<u>291,009</u>	<u>207,400</u>	<u>209,506</u>
Cash and cash equivalents, end of year	<u><u>\$ 267,029</u></u>	<u><u>\$ 291,009</u></u>	<u><u>\$ 207,400</u></u>

2015. The major sources of cash included in operating activities were underwriting income of \$228,921 and grants of \$132,851. The largest cash payments for operating activities were \$806,877 for salaries, wages and benefits and \$407,028 to vendors and contractors.

Cash provided by noncapital financing activities decreased \$48,449 mainly due to a decrease in gifts received for other purposes offset by an increase in grants from the University for non-capital purposes.

Net cash used for capital and related financing activities of \$6,054 was used for purchases of capital assets.

2014 Versus 2013. Net cash used by operating activities decreased \$112,329 from June 30, 2013 to June 30, 2014 primarily due to an increase in cash provided by grants. Net cash provided by noncapital financing activities decreased \$15,534 due to a decrease in gifts received for other purposes, and net cash used by capital and related financing activities increased \$11,689 primarily due to an increase in capital grants to the University.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$640,475 at June 30, 2015, a decrease of \$25,686 from 2014. Capital assets as of June 30, 2015 and changes in capital assets during the year are as follows:

	Balance June 30, 2014	Net Additions/ (Deductions)	Balance June 30, 2015
WUKY PBS Antenna	\$ 750,414	\$ -	\$ 750,414
Equipment	677,828	(155,891)	521,937
	1,428,242	(155,891)	1,272,351
 <u>Accumulated depreciation</u>			
WUKY PBS Antenna	(121,953)	(18,760)	(140,713)
Equipment	(640,128)	148,965	(491,163)
	(762,081)	130,205	(631,876)
 Total	\$ 666,161	\$ (25,686)	\$ 640,475

Debt. WUKY Radio had no debt at or during the year ended June 30, 2015.

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. WUKY Radio is developing 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
OPERATED BY THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 265,168	\$ 288,564
Pledges receivable	<u>27,980</u>	<u>40,531</u>
Total current assets	<u>293,148</u>	<u>329,095</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,861	2,445
Pledges receivable	20,922	17,639
Endowment investments	27,259	27,009
Capital assets, net	<u>640,475</u>	<u>666,161</u>
Total noncurrent assets	<u>690,517</u>	<u>713,254</u>
Total assets	<u>983,665</u>	<u>1,042,349</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	32,073	13,439
Unearned revenue	<u>11,545</u>	<u>-</u>
Total current liabilities	<u>43,618</u>	<u>13,439</u>
Total liabilities	<u>43,618</u>	<u>13,439</u>
NET POSITION		
Net investment in capital assets	<u>640,475</u>	<u>666,161</u>
Restricted		
Nonexpendable	21,015	21,532
Expendable	<u>149,563</u>	<u>220,956</u>
Total restricted	<u>170,578</u>	<u>242,488</u>
Unrestricted		
Total net position	<u>\$ 940,047</u>	<u>\$ 1,028,910</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 POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Sales related to fundraising activities	\$ 40,161	\$ 7,818
Underwriting income	216,689	301,676
Up-link syndication income	1,270	1,890
Community service grants from Corporation for Public Broadcasting	<u>132,851</u>	<u>137,035</u>
Total operating revenues	<u>390,971</u>	<u>448,419</u>
OPERATING EXPENSES		
Program services		
Local programming production	546,451	528,519
Broadcasting	166,157	196,335
Program information	<u>62,431</u>	<u>37,251</u>
Total program services	<u>775,039</u>	<u>762,105</u>
Supporting services		
Management and general	332,651	335,233
Fundraising	141,842	141,529
Underwriting and grant solicitation	<u>96,171</u>	<u>125,873</u>
Total supporting services	<u>570,664</u>	<u>602,635</u>
Depreciation	<u>31,740</u>	<u>30,736</u>
Total operating expenses	<u>1,377,443</u>	<u>1,395,476</u>
Net income (loss) from operations	<u>(986,472)</u>	<u>(947,057)</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	306,999	372,455
Investment income	1,100	3,699
Grants (to) from the University of Kentucky for noncapital purposes	<u>589,460</u>	<u>542,926</u>
Net nonoperating revenues	<u>897,559</u>	<u>919,080</u>
Net income (loss) before other revenues, expenses, gains or losses	<u>(88,913)</u>	<u>(27,977)</u>
Capital grants and gifts	-	26,105
Grants (to) from the University of Kentucky for capital purposes	-	(23,876)
Additions to permanent endowments	50	705
Other, net	<u>-</u>	<u>(29,693)</u>
Total other revenues (expenses)	<u>50</u>	<u>(26,759)</u>
Increase (decrease) in net position	<u>(88,863)</u>	<u>(54,736)</u>
NET POSITION, beginning of year	<u>1,028,910</u>	<u>1,083,646</u>
NET POSITION, end of year	<u>\$ 940,047</u>	<u>\$ 1,028,910</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales related to fundraising activities	\$ 40,161	\$ 7,818
Underwriting income	228,921	289,176
Up-link syndication income	1,270	1,890
Grants	132,851	232,544
Unearned revenue	11,545	-
Payments to vendors and contractors	(407,028)	(460,151)
Salaries, wages and benefits	(806,877)	(792,674)
Net cash provided (used) by operating activities	<u>(799,157)</u>	<u>(721,397)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes		
Gifts received for endowment purposes	50	705
Gifts received for other purposes	304,034	411,822
Grants from the University of Kentucky for non-capital purposes	<u>476,296</u>	<u>416,302</u>
Net cash provided (used) by noncapital financing activities	<u>780,380</u>	<u>828,829</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants to the University of Kentucky for capital purposes	-	(23,876)
Purchases of capital assets	<u>(6,054)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(6,054)</u>	<u>(23,876)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,843	14,117
Interest and dividends on investments	851	342
Purchases of investments	<u>(4,843)</u>	<u>(14,406)</u>
Net cash provided (used) by investing activities	<u>851</u>	<u>53</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,980)	83,609
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>291,009</u>	<u>207,400</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 267,029</u>	<u>\$ 291,009</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (986,472)	\$ (947,057)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	31,740	30,736
Donated facilities and administrative support from the University of Kentucky	113,164	126,624
Change in underwriting pledges receivable	12,232	(12,500)
Change in accounts receivable	-	95,509
Change in accounts payable and accrued liabilities	18,634	(14,709)
Change in unearned revenue	<u>11,545</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (799,157)</u>	<u>\$ (721,397)</u>
NONCASH TRANSACTIONS		
Donated facilities and support from the University of Kentucky	\$ 113,164	\$ 126,624
Gifts of capital assets	\$ -	\$ 26,105

See notes to financial statements.

WUKY RADIO
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
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 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.

Effective for fiscal year 2015 and thereafter, the University has established a “hybrid” spending 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. For fiscal year 2014, spending was based on four percent of the average endowment market value for the preceding 60 months.

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, 2015 and 2014, the University’s annual endowment management fee was 0.25%.

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 \$1,276 and \$754 for the years ended June 2015 and 2014, 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 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 \$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.

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

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

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

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

Use of Estimates. Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Cash on deposit with the University of Kentucky	\$ 267,029	\$ 291,009
Investment in the University of Kentucky pooled endowment fund	<u>27,259</u>	<u>27,009</u>
Total	<u>\$ 294,288</u>	<u>\$ 318,018</u>
Statement of Net Position classification		
Cash and cash equivalents	\$ 265,168	\$ 288,564
Restricted cash and cash equivalents	1,861	2,445
Endowment investments	<u>27,259</u>	<u>27,009</u>
Total	<u>\$ 294,288</u>	<u>\$ 318,018</u>

The composition of the University's pooled endowment fund based upon fair value at June 30, 2015 and 2014 is as follows:

	2015	2014
Cash and cash equivalents	0.4%	0.4%
Common and preferred stock	3.5%	4.6%
Corporate fixed income funds	0.7%	0.5%
Government agency fixed income funds	0.2%	0.2%
Pooled absolute return funds	10.0%	11.6%
Pooled equity funds	26.2%	28.3%
Pooled fixed income funds	7.3%	7.5%
Pooled global tactical asset allocation funds	7.2%	7.6%
Pooled long/short equity funds	14.2%	12.1%
Pooled private equity funds	12.8%	9.9%
Pooled real estate funds	8.5%	6.7%
Pooled real return funds	8.3%	9.6%
U.S. Treasury fixed income	0.7%	1.0%
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, as follows:

- Cash on deposit with the University which the University invests in deposits and repurchase agreements with banks and the Commonwealth, and
- 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.

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 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 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 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.

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, 2015, 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 new unconstrained fixed income strategies have been implemented to further protect against rising interest rates.

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, 2015 and 2014, WUKY Radio recorded the discounted value of operating pledges using a rate of two percent.

At June 30, 2015, pledges are expected to be collected over the next 15 years, as follows:

	2015	2014
Operating gift	\$ 43,147	\$ 38,453
Underwriting	20,659	32,891
Total	63,806	71,344
Less discount and allowance	(14,904)	(13,174)
Total	<u>\$ 48,902</u>	<u>\$ 58,170</u>
Current portion	\$ 27,980	\$ 40,531
Noncurrent portion	20,922	17,639
Total	<u>\$ 48,902</u>	<u>\$ 58,170</u>

4. CAPITAL ASSETS, NET

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

	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414	\$ -	\$ -	\$ 750,414
Equipment	677,828	6,054	161,945	521,937
	<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	640,128	12,980	161,945	491,163
	<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>

Capital assets as of June 30, 2014 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
WUKY PBS Antenna	\$ 750,414	\$ -	\$ -	\$ 750,414
Equipment	699,207	28,254	49,633	677,828
	<u>1,449,621</u>	<u>28,254</u>	<u>49,633</u>	<u>1,428,242</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	103,193	18,760	-	121,953
Equipment	645,943	14,125	19,940	640,128
	<u>749,136</u>	<u>32,885</u>	<u>19,940</u>	<u>762,081</u>
Capital assets, net	<u>\$ 700,485</u>	<u>\$ (4,631)</u>	<u>\$ 29,693</u>	<u>\$ 666,161</u>

Additions to equipment and equipment depreciation transferred from UK include \$2,149 for both cost and depreciation.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2015 and 2014 are as follows:

	2015	2014
Payable to vendors and contractors	\$ 18,817	\$ 1,294
Accrued payroll	13,256	12,145
Total	<u>\$ 32,073</u>	<u>\$ 13,439</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, 2015 and 2014 are as follows:

	2015	2014
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	\$ 34,269	\$ 32,404
Maintenance, physical plant, operations and utilities	78,551	93,876
Use charge in accordance with CPB Regulations, for use of McVey Hall, Radio Tower and Transmitter Building	344	344
Total	<u>\$ 113,164</u>	<u>\$ 126,624</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 2014 to 2015. Settlements have not exceeded insurance coverage during the past three years.



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