

KUER-FM RADIO
(A Public Telecommunications Department of the University of Utah)

Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

KUER-FM RADIO
(A Public Telecommunications Department of the University of Utah)

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INDEPENDENT AUDITORS' REPORT

KUER-FM Radio
The University of Utah Board of Trustees
and David W. Pershing, Ph.D., President
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of KUER-FM Radio (a public telecommunications department of University of Utah), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KUER-FM Radio as of June 30, 2013, and the respective changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

WISAN, SMITH, RACKER & PRESCOTT, LLP

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Emphasis of Matter

As discussed in Note 1(a), the financial statements of KUER-FM Radio are intended to present the financial position, the changes in financial position and cash flows of only KUER-FM Radio. They do not purport to, and do not, present fairly the financial position of the University of Utah as of June 30, 2013, the changes in its financial position, or its cash flows for the year 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of KUER-FM Radio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUER-FM Radio's internal control over financial reporting and compliance.



Salt Lake City, Utah
December 18, 2013

KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of KUER-FM Radio (the Station) as of and for the year ended June 30, 2013, with selected comparative information as of and for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

The Station is a public radio station licensed to the University of Utah. Founded in 1960, the Station was one of the original 100 National Public Radio (NPR) affiliates. The Station broadcasts national news and information programs provided by NPR, Public Radio International and American Public Media, local news and information programs, as well as jazz music. Through an extensive translator network, the Station reaches the vast majority of the State of Utah's population. Though the Station is one of five noncommercial radio signals available to Utah residents, the Station's audience continues to reach between 150,000 - 175,000 weekly listeners.

FINANCIAL HIGHLIGHTS

The Station's financial position at June 30, 2013 included total assets of \$2,690,730 and total liabilities of \$196,502. Net position, which represents the residual interest in the Station's assets after liabilities are deducted, decreased by \$50,992 to \$2,494,228 at June 30, 2013.

Changes in net position represent the total activity of the Station, which results from all revenues, expenses, gains, and losses and are summarized for the years ended June 30, 2013 and 2012 as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|--------------------|-------------------|
| Total revenues | \$ 3,722,626 | \$ 3,615,603 |
| Total expenses | <u>3,773,618</u> | <u>3,377,015</u> |
| Increase (decrease) in net position | <u>\$ (50,992)</u> | <u>\$ 238,588</u> |

Fiscal year 2013 revenues increased by 3.0% or \$107,023, while expenses increased by 11.7% or \$396,603. As a result, net position decreased to \$50,992.

USING THE FINANCIAL STATEMENTS

The Station's financial report is prepared on the accrual basis of accounting and conforms to principles of *Accounting and Financial Reporting for Public Telecommunication Entities* published by the Corporation for Public Broadcasting (CPB), which conforms to U.S. generally accepted accounting principles and includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the Station at the end of the fiscal year and includes all assets and liabilities of the Station. The difference between total assets and total liabilities is net position and is one indicator of the current financial condition of the Station, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

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June 30, 2013

A summarized comparison of the Station's assets, liabilities, and net position at June 30, 2013 and 2012 follows:

| | <u>2013</u> | <u>2012</u> |
|----------------------------------|---------------------------|---------------------------|
| Current assets | | |
| Current assets, unrestricted | \$1,359,603 | \$1,156,025 |
| Current assets, restricted | 191,735 | 294,690 |
| Noncurrent assets | | |
| Capital assets, net | <u>1,139,392</u> | <u>1,258,358</u> |
| Total assets | 2,690,730 | 2,709,073 |
| Current liabilities | <u>196,502</u> | <u>163,853</u> |
| Net investment in capital assets | 1,139,392 | 1,258,358 |
| Restricted - expendable | 191,735 | 294,690 |
| Unrestricted | <u>1,163,101</u> | <u>992,172</u> |
| Total net position | <u><u>\$2,494,228</u></u> | <u><u>\$2,545,220</u></u> |

A review of the Station's Statements of Net Position as of June 30, 2013 and 2012 shows that the Station still maintains its favorable financial foundation. This financial position results from the efficient management and wise use of its financial resources.

Current assets consist of cash, receivables, and investments. Total current assets increased by \$100,623. The increase was due primarily to increases in unrestricted cash, receivables, and investments. These increases were offset by decreases in restricted cash and receivables.

Noncurrent assets consist of capital assets net of accumulated depreciation. Capital assets decreased by \$118,966 during the 2013 fiscal year. Capital purchases totaling \$99,786 contributed to the increase. This increase was offset by annual depreciation totaling \$218,752 for a net decrease of \$118,966.

Current liabilities consist of accounts payable and accrued personnel services. Total current liabilities increased by \$32,649 during fiscal year 2013 due primarily to an increase in accounts payable of \$21,281 and an increase in accrued personnel services of \$11,709.

NET POSITION

Net position is the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. *Net investment in capital assets* represents the Station's capital assets net of accumulated depreciation. *Restricted expendable net position* is subject to externally imposed restrictions governing their use. Although *unrestricted net position* is not subject to externally imposed stipulations, most of the Station's unrestricted net position has been designated for various programming and broadcasting needs, as well as capital projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2013

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the Station's results of operations. A comparison of the Station's revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012 follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|----------------------------|----------------------------|
| Operating revenues | \$ 21,424 | \$ 5,001 |
| Operating expenses | <u>3,773,618</u> | <u>3,377,015</u> |
| Operating loss | (3,752,194) | (3,372,014) |
| Nonoperating revenues | <u>3,701,202</u> | <u>3,610,602</u> |
| Increase (decrease) in net position | (50,992) | 238,588 |
| Net position – beginning of year | <u>2,545,220</u> | <u>2,306,632</u> |
| Net position – end of year | <u><u>\$ 2,494,228</u></u> | <u><u>\$ 2,545,220</u></u> |

The Station's main revenue sources are the University of Utah, the CPB, individuals, foundations, and corporations. The Station also receives funds from the National Telecommunications and Information Administration (NTIA) for specialized capital projects. The NTIA funds have to be applied for each year, and grants are not awarded every year. The Station, as in the past, will continue to aggressively seek funding from all possible sources consistent with its mission.

The Station's nonoperating revenues increased by \$90,600 in fiscal year 2013. The increase in revenues was in part due to an increase of \$18,627 in direct support from University of Utah. Contributions increased by \$74,413 primarily due to more revenue being received from individual donors through on-air fund drives and promotion of the Station's major donor program. Indirect support from the University of Utah increased by \$33,845. Other revenue increased by \$32,766 primarily due to increased revenue from special events. Underwriting revenue increased by \$25,314 primarily due to revenue being received from foundations and corporations. Investment income increased by \$13,029 primarily due to an increase in the market value of investments and interest income. These increases were offset with a decrease of federal grants revenue of \$22,894 primarily due to less grant revenue from NTIA and CPB. Direct support from State of Utah decreased by \$85,000.

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June 30, 2013

A comparative summary of the Station's operating expenses by functional classification for the years ended June 30, 2013 and 2012 follows:

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|--------------------|
| Program services | | |
| Programming and production | \$1,771,106 | \$1,597,986 |
| Broadcasting | 700,311 | 594,539 |
| Program information | 335,307 | 226,232 |
| Total program services | <u>2,806,724</u> | <u>2,418,757</u> |
| Support services | | |
| Management and general | 315,758 | 289,919 |
| Fundraising and membership development | 651,136 | 668,339 |
| Total support services | <u>966,894</u> | <u>958,258</u> |
| Total expenses | <u>\$3,773,618</u> | <u>\$3,377,015</u> |

The Station's operating expenses increased by \$396,603 in fiscal year 2013. Broadcasting expenses increased by \$105,772 primarily due to the equipment relocation expenses for Abajo Peak and Farnsworth Peak. Management and general expenses increased by \$25,839 primarily due to increases in personnel. Fundraising and membership development decreased by \$17,203 primarily due to a decrease in bank fees and fund drive gift expenses. Programming and production expenses increased by \$173,120 primarily due to an increase in expenses related to program purchases. Program information expenses increased by \$109,075 primarily due to special events funded in fiscal year 2013 and personnel expenses due to departmental reorganization.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the Station's financial activity by reporting the major sources and uses of cash.

The Station's cash increased by \$82,884 primarily due to an increase in cash received from sales and service and private contributions. Capital expenditures decreased by \$354,605 from the prior year. The Station's significant sources of cash provided by noncapital financing activities include funding from the University of Utah, grants from the CPB, federal grants, and private gifts.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

The Station faces various financial challenges in the future. Like much of the public radio system, the Station has made considerable investments in digital technologies to transition from analog to digital-based broadcasting in the Station's studio and at remote sites where translators are housed. The Station is now broadcasting three digital signals along with its analog signal. It is unknown to what degree these new digital signals will result in more listeners and, in turn, more business and listener revenues. Fortunately, the Station has no debt related to these technical investments.

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June 30, 2013

Installation of the last of three new transmitters in the southern and southeastern parts of Utah is complete. These installations have ongoing, annual costs attached to them. The move of the Station's main transmitter from its current location at Mt. Vision to Farnsworth Peak, both in the Oquirrh mountain range west of Salt Lake City, has been essentially completed. Engineering "loose ends" are being finished up as time and the transmitter site access permits. The move to Farnsworth Peak has resulted in an increase in annual lease payments for the transmitter site.

Portable handheld devices such as iPods, smart phones and tablets are ongoing challenges to traditional media forms. This is largely due to these devices' enormous capacity to store music, pictures, and video. The Station hopes that young users of this technology will seek out public radio programming as they mature into the public radio age range of listeners. We are tailoring specific web audio streams for portable device consumption.

The entire public radio system continues to be increasingly dependent on individual, foundation, and corporate donations as federal and state sources of revenue have declined. The Station still faces an uncertain future with state and federal funding. Federal funding for public broadcasting stations continues to be under threat. As a result, private funding sources will remain very important.

Congress eliminated the NTIA/PTFP grant program through the U.S. Department of Commerce. These grants have enabled the Station to purchase equipment for its facilities and for its statewide transmitter and translator network. Finding funds to replace this federal funding will be challenging in the future. The Station has implemented an annual Technology Fund Drive to raise private funds for facilities and equipment. The standard equipment replacement cycle under NTIA/PTFP was 20 years, for the most part confirmed by normal "wear and tear" experience, so a far sighted budgeting and equipment replacement plan should be realizable.

The most significant short-term challenges are those outside the Station's control. These challenges include the volatility of the state and national economies. Political upheaval in the Middle East and other parts of the world as well as unexpected natural disasters are beyond the Station's control. If crises arise that draw upon local foundations, new revenues would have to be found to replace those lost from foundations. Fortunately, the Station's statewide audience continues to grow.

The Station will continue to be prudent in its long-term planning. While it is not possible to predict future listener behaviors, management will be aggressive in meeting these economic uncertainties to maintain its favorable financial position in this rapidly evolving industry.

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STATEMENT OF NET POSITION

As of June 30, 2013

| | <u>2013</u> | <u>[For Comparison Only] 2012</u> |
|----------------------------------|---------------------------|---|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 719,420 | \$ 634,757 |
| Restricted cash | 123,062 | 124,841 |
| Receivables, net (Note 2) | 436,306 | 393,744 |
| Restricted receivables (Note 2) | 68,673 | 169,849 |
| Investments (Note 4) | 203,877 | 127,524 |
| Total current assets | <u>1,551,338</u> | <u>1,450,715</u> |
| Noncurrent assets | | |
| Capital assets, net (Note 3) | <u>1,139,392</u> | <u>1,258,358</u> |
| Total noncurrent assets | <u>1,139,392</u> | <u>1,258,358</u> |
| Total assets | <u><u>\$2,690,730</u></u> | <u><u>\$2,709,073</u></u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 36,054 | \$ 14,773 |
| Accrued personnel services | 160,448 | 148,739 |
| Unearned revenue | | 341 |
| Total current liabilities | <u>\$ 196,502</u> | <u>\$ 163,853</u> |
| NET POSITION | | |
| Net investment in capital assets | \$1,139,392 | \$1,258,358 |
| Restricted – expendable | 191,735 | 294,690 |
| Unrestricted | <u>1,163,101</u> | <u>992,172</u> |
| Total net position | <u><u>\$2,494,228</u></u> | <u><u>\$2,545,220</u></u> |

See accompanying notes to financial statements.

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended June 30, 2013

| | <u>2013</u> | <u>[For Comparison Only] 2012</u> |
|--|---------------------|---|
| OPERATING REVENUES | | |
| Sales and services | \$ 21,424 | \$ 5,001 |
| Total operating revenues | <u>21,424</u> | <u>5,001</u> |
| OPERATING EXPENSES | | |
| Broadcasting | 700,311 | 594,539 |
| Programming and production | 1,771,106 | 1,597,986 |
| Program information | 335,307 | 226,232 |
| Management and general | 315,758 | 289,919 |
| Fundraising and membership development | 651,136 | 668,339 |
| Total operating expenses | <u>3,773,618</u> | <u>3,377,015</u> |
| Operating loss | <u>(3,752,194)</u> | <u>(3,372,014)</u> |
| NONOPERATING REVENUES | | |
| Direct support from the University of Utah | 490,935 | 472,308 |
| Direct support - State of Utah | | 85,000 |
| Other Local Government Sources | 500 | |
| Indirect support from the University of Utah | 350,082 | 316,237 |
| Federal grants | 229,893 | 252,787 |
| Contributions | 1,732,375 | 1,657,962 |
| Underwriting | 824,231 | 798,917 |
| Investment income (Note 4) | 13,693 | 664 |
| Other | 59,493 | 26,727 |
| Total nonoperating revenues | <u>3,701,202</u> | <u>3,610,602</u> |
| Increase (decrease) in net position | (50,992) | 238,588 |
| NET POSITION | | |
| Net position – beginning of year | 2,545,220 | 2,306,632 |
| Net position – end of year | <u>\$ 2,494,228</u> | <u>\$ 2,545,220</u> |

See accompanying notes to financial statements.

KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF CASH FLOWS

Years ended June 30, 2013

| | 2013 | [For Comparison Only] 2012 |
|--|-------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from sales and services | \$ 21,424 | \$ 4,801 |
| Cash payments for salaries, wages, and benefits | (1,596,363) | (1,391,648) |
| Cash payments for other operating expenses | (1,441,882) | (1,498,034) |
| Net cash used by operating activities | (3,016,821) | (2,884,881) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Cash received from the University of Utah | 490,935 | 472,308 |
| Cash received from State of Utah | | 85,000 |
| Cash received from Other Local Government Sources | 500 | |
| Cash received from Corporation for Public Broadcasting | 229,551 | 232,410 |
| Cash received from other federal grants | 101,518 | 155,314 |
| Cash received from contributions | 1,607,524 | 1,548,198 |
| Cash received from underwriting | 712,239 | 755,489 |
| Cash received from other income | 49,308 | 15,191 |
| Net cash provided by noncapital financing activities | 3,191,574 | 3,263,910 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Capital expenditures | (99,786) | (454,391) |
| Net cash used by capital financing activities | (99,786) | (454,391) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash received from interest income | 7,917 | 3,908 |
| Net cash provided by investing activities | 7,917 | 3,908 |
| Net increase (decrease) in cash | 82,884 | (71,454) |
| Cash, beginning of year | 759,598 | 831,052 |
| Cash, end of year | \$ 842,482 | \$ 759,598 |

See accompanying notes to financial statements.

KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

STATEMENT OF CASH FLOWS (CONTINUED)

Years ended June 30, 2013

| | <u>2013</u> | <u>[For Comparison Only] 2012</u> |
|--|-----------------------------|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$(3,752,194) | \$(3,372,014) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 218,752 | 177,346 |
| Indirect support from University of Utah | 350,082 | 316,237 |
| In-kind donations | 133,890 | 109,416 |
| Change in assets and liabilities: | | |
| Receivables related to operating revenue | | (200) |
| Accounts payable and accruals | 32,649 | (115,666) |
| Net cash used by operating activities | <u><u>\$(3,016,821)</u></u> | <u><u>\$(2,884,881)</u></u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| Increase (decrease) in fair value of investments | <u><u>\$ 5,776</u></u> | <u><u>\$ (3,244)</u></u> |

See accompanying notes to financial statements.

KUER-FM RADIO

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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting and conform to principles of *Accounting and Financial Reporting for Public Telecommunications Entities*, published by the Corporation for Public Broadcasting (CPB), which conform to U.S. generally accepted accounting principles.

(a) Organization

KUER-FM Radio (the Station) is operated by the University of Utah (the University), Salt Lake City, Utah. There are common management and facilities between the Station and two affiliated television stations, KUED-TV and KUEN-TV. Certain Station personnel share their time among the Station, KUED-TV, and KUEN-TV.

(b) Accounting Principles

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The Station had adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

(c) Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the service efforts of the Station. Additionally, donations in-kind that are deemed to support the service efforts of the Station, as defined by its mission, goals, and objectives, are recorded as operating expenses. Such donations in-kind are also reflected as a part of nonoperating revenues as they are considered nonexchange transactions as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The accounting for revenues of the Station recorded in the accompanying Statement of Revenues, Expenses, and Changes in Net Position is as follows:

- **Sales and services** – Sales and services represent funds received from locally produced programming and facilities rentals. These amounts are recorded as services are rendered.
- **Direct support from the University of Utah** – Direct support from the University represents funds received to support various Station personnel and underwriting support. These amounts are recorded as revenue and associated expense at the estimated fair value or actual amounts where known at the time such costs are incurred.
- **State of Utah – capital improvements** – State of Utah one-time fiscal year 2013 appropriation for transmitter relocation expenses.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(c) **Basis of Accounting(Continued)**

- **Indirect support from the University of Utah** - Indirect support from the University represents costs associated with certain administrative and other services provided by the University. These amounts are recorded as revenue and associated expense at the estimated fair value or actual amounts where known at the time such costs are incurred. The Station uses the University's negotiated facilities and administrative rate for other sponsored programs to determine indirect support. The rate is assessed against eligible Station expenses in deriving the amount recognized as indirect University support.
- **Indirect in-kind support from governmental entities** - Indirect in-kind support from governmental entities represents services provided by governmental entities and certain transmitter expenses. This support is recognized throughout the year as costs are incurred and expended by other governmental entities.
- **Federal grants** - Federal grants represent funds received from federal agencies to assist in the purchase of capital assets and to support programming and operating activities. These revenues are recognized at the time the Station has met the eligibility requirements as defined by the grant.
- **Corporation for Public Broadcasting** - Corporation for Public Broadcasting represents funds received from the CPB to support the operations of the Station, including personnel, programming and production, broadcasting, program information, educational services, training, and purchase of capital assets. These revenues are recognized as federal grants at the time the Station has met the eligibility requirements as defined by the grant.
- **Contributions** - Contributions represent funds received from individuals through on-air, direct mail, and special event fundraisers and are used to purchase national and locally produced programming. Pledges are recognized as revenue when a pledge is made by a donor and the amount is estimable and deemed probable of collection. Pledges for endowments are not recognized as receivable per GASB Statement No. 33.
- **Underwriting** - Underwriting represents funds received from local corporations and foundations to purchase national and locally produced programming. Underwriting revenues are recognized as revenues and expenses upon execution of an underwriting contract.

(d) **Cash**

Cash is pooled for the University, as a whole. Amounts reported as cash in the KUER's financial statements reflect the Station's proportionate ownership in that pool. Therefore, the Station does not have separate accounts in financial institutions. Thus, disclosures of risk related to deposits apply at the University level. See the financial statements of the University of Utah for those disclosures.

(e) **Investments**

In accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are stated at their fair value. GASB Statement No. 31 requires that certain investments be reported at fair value and that investment income includes changes in the fair value of these investments. Such changes in fair value are reflected in investment income (loss) in the Statement of Revenues, Expenses, and Changes in Net Position.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(f) **Capital Assets**

Capital assets are recorded at cost or, in the case of donated equipment, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---------------------|---------------|
| Building | 40 years |
| Transmitter | 15 years |
| Broadcast equipment | 5 to 10 years |

Expenditures for repairs and maintenance are charged to expense as incurred.

(g) **Income Taxes**

The University, as a political subdivision of the State of Utah, has a dual status for federal income tax purposes. The University is both an Internal Revenue Code (IRC) Section 115 organization and an IRC Section 501(c)(3) charitable organization. This status exempts the University from paying federal income tax on revenue generated by activities that are directly related to the University's mission. This exemption does not apply to unrelated business activities. On these activities, the University is required to report and pay federal and state income tax. The Station, as a separate department of the University, shares in these same tax exemptions.

(h) **Use of Estimates**

Management of the Station has made estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(i) **Restricted Resources**

When the Station has both restricted and unrestricted resources available to finance a particular program, it is the Station's practice to use restricted resources before unrestricted resources.

(j) **Disclosures**

Financial information for fiscal year ended June 30, 2012 is included for comparison only and is not complete. Complete information is available in the separately issued financial statements for that year.

KUER-FM RADIO

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NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(2) Accounts Receivable

Accounts receivable at June 30 consist of the following:

| | 2013 | [For Comparison Only] 2012 |
|--------------------------------------|-------------------------|---|
| Federal grants – restricted | \$ 68,673 | \$169,849 |
| Underwriting | 199,227 | 211,118 |
| Contributions | 333,351 | 272,097 |
| Other | 400 | 500 |
| | <u>601,651</u> | <u>653,564</u> |
| Less allowance for doubtful accounts | <u>(96,672)</u> | <u>(89,971)</u> |
| | <u><u>\$504,979</u></u> | <u><u>\$563,593</u></u> |

(3) Capital Assets

Capital assets at June 30, 2013 consist of the following:

| | Beginning balance | Additions | Retirements | Ending balance |
|--------------------------------|------------------------------|----------------------------|--------------------|----------------------------|
| Transmitter | \$ 479,526 | | | \$ 479,526 |
| Broadcast equipment | 971,521 | \$ 99,786 | \$ 34,079 | 1,037,228 |
| Building | 1,494,199 | | | 1,494,199 |
| Total | <u>2,945,246</u> | <u>99,786</u> | <u>34,079</u> | <u>3,010,953</u> |
| Less accumulated depreciation | | | | |
| Transmitter | 183,639 | 25,281 | | 208,920 |
| Broadcast equipment | 541,906 | 143,920 | 34,079 | 651,747 |
| Building | 961,343 | 49,551 | | 1,010,894 |
| Total accumulated depreciation | <u>1,686,888</u> | <u>218,752</u> | <u>34,079</u> | <u>1,871,561</u> |
| Capital assets, net | <u><u>\$ 1,258,358</u></u> | <u><u>\$ (118,966)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,139,392</u></u> |

(4) Investments

The State of Utah Money Management Council (Council) has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (Act) that relate to the deposit and investment of public funds.

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Except for endowment funds, the University follows the requirements of the Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

The Act defines the types of securities authorized as appropriate investments for the University's non-endowment funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

These statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable agreements; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Student Loan Marketing Association (Sallie Mae) bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the Securities and Exchange Commission (SEC) as an investment company. The PTIF is authorized and regulated by the Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, including gains and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The University's participation in mutual funds may indirectly expose it to risks associated with using or holding derivatives. However, specific information about any such transactions is not available to the University.

The Station participates in the University's endowment pool. The University holds the investments within the pool on behalf of the Station. The Station holds an interest in the University's investment pool, but not in specific investment instruments within that pool. The Station carries its interest at fair value and had a net unrealized, noncash gain of \$5,776 for the year ended June 30, 2013.

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For endowment funds, the University follows the requirements of the Uniform Prudent Management of Institutional Funds Act, UPMIFA, Section 51-8 of the Utah Code; State Board of Regents' Rule 541, *Management and Reporting of Institutional Investments*; and the University's investment policy and endowment guidelines.

The UPMIFA, Rule 541, and the University's endowment guidelines allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the SEC or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; investments in corporate stock listed on a major exchange (direct ownership); and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, private real estate, and hedge funds, such as long/short equities.

Investment income in the Statement of Revenues, Expenses, and Changes in Net Position at June 30 consists of the following:

| | 2013 | (For Comparison Only) 2012 |
|---|------------------|---|
| Unrealized gain (loss) on investments | \$ 5,776 | \$ (3,244) |
| Interest income on endowment pool distributions | 7,917 | 3,908 |
| Investment income | <u>\$ 13,693</u> | <u>\$ 664</u> |

The Station's participation in the University's endowment pool exposes it to a portion of the applicable risks.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For endowment funds Rule 541 requires that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Act, the UPMIFA, and Rule 541, as previously discussed.

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June 30, 2013

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-entry-only securities, such as U.S. Treasury or Agency securities, by the University's custodial bank was reflected in the book-entry records of the issuer and the University's ownership was represented by a receipt, confirmation, or statement issued by the custodial bank.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's policy for reducing this risk of loss is to comply with the Rules of the Council or the UPMIFA and Rule 541, as applicable. For endowments, the University, under Rule 541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's Pool Asset Allocation Guidelines allocate endowment funds in the following asset classes:

| <u>Asset class</u> | <u>Target allocation</u> | <u>Allocation range</u> |
|--------------------------------|--------------------------|-------------------------|
| Global marketable equities | 45% | 20% – 60% |
| Global marketable fixed income | 30% | 25% – 50% |
| Alternatives | 25% | 5% – 30% |

The University diversifies assets among several investment managers of varying investment strategies. Diversification is an effective means of maximizing return while mitigating risk.

(5) Pension Plans and Retirement Benefits

As required by state law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Station are covered by the Utah State and School Contributory or Noncontributory Retirement System (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) or Fidelity Investments (Fidelity).

The Station contributes to the Systems that are multi-employer, cost-sharing, defined benefit pension plans. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated, 1953*, as amended. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems.

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Plan members in the Utah State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by the Station, and the Station is required to contribute 14.27% of their annual salaries. In the Utah State and School Noncontributory Retirement System, the Station is required to contribute 18.76% (with an additional 1.50% to a 401(k) salary deferral program) of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board, and the contribution rates are actuarially determined.

TIAA-CREF and Fidelity provide individual retirement fund contracts with each participating employee. Employees may allocate contributions by the Station to any or all of the providers and the contributions to the employee's contract(s) become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2013, the Station's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. The Station has no further liability once contributions are made.

For the years ended June 30, 2013, 2012, and 2011, the Station's contributions to the Systems, TIAA-CREF and Fidelity were equal to the required amounts as follows: \$168,020, \$144,340 and \$132,937, respectively.

(6) Risk Management

The Station participates in the University's insurance coverage program for commercial general liability, automobile, errors and omissions, and property (building and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the Station and authorized volunteers are covered by workers' compensation and employees' liability through the Workers' Compensation Fund of Utah.

In addition, the Station participates in the University-maintained self-insurance funds for health care, dental, and auto/physical damage, which are held in a trust with an independent financial institution in compliance with Medicare reimbursement regulations. The Station's participation in these programs is funded through indirect support provided by the University.

(7) Commitments

The Station's rent for the year ended June 30, 2013 totaled \$25,230 for land where the Station's analog transmitter was located. The lease expired at this location in July 2012. All equipment was removed from this location September 30, 2012. The Station installed its digital transmitter at a different location. Rental payments under the new lease began September 1, 2012. This lease expires in January 2019 with an estimated rental amount of \$27,675 for fiscal year 2014.

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June 30, 2013

The station contracts for other transmitter sites. Rental fees for these leases totaled \$42,491 for fiscal year 2013. At June 30, 2013, future commitments under these leases consist of the following:

| | |
|-------------|-------------------------|
| 2014 | \$ 40,681 |
| 2015 | 37,464 |
| 2016 | 18,905 |
| 2017 | 7,048 |
| 2018 - 2021 | <u>17,700</u> |
| Total | <u><u>\$121,798</u></u> |

(8) Subsequent Events

Management of the Station has evaluated subsequent events through December 18, 2013, which is also the date of the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in these financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

**KUER-FM Radio
The University of Utah Board of Trustees
and David W. Pershing, Ph.D., President
Salt Lake City, Utah**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KUER-FM Radio, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUER-FM Radio's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUER-FM Radio's internal control. Accordingly, we do not express an opinion on the effectiveness of KUER-FM Radio's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

WISAN, SMITH, RACKER & PRESCOTT, LLP

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Member: American Institute, Utah Association and Nevada Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUER-FM Radio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wison, Smith, Roemer + Prescott, LLP

Salt Lake City, Utah
December 18, 2013