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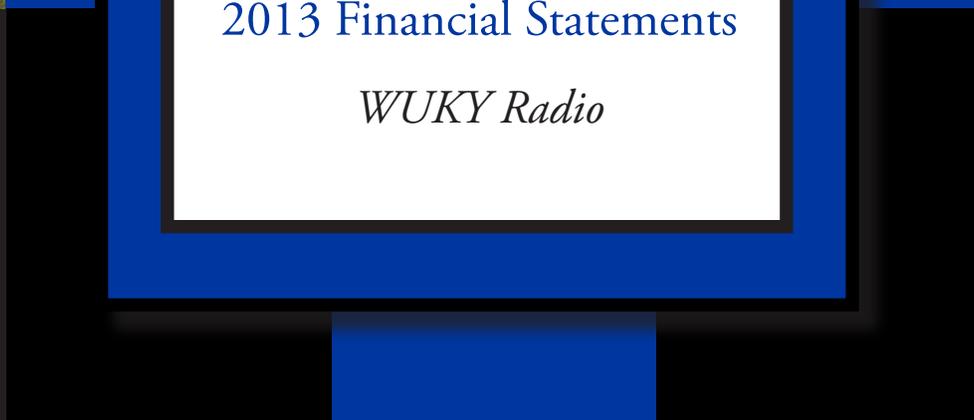


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UNIVERSITY OF
KENTUCKY[®]
2013 Financial Statements
WUKY Radio

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University of Kentucky WUKY Radio

CONTENTS	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11

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, 2013 and 2012, 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 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 WUKY Radio'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 WUKY Radio'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 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, 2013 and 2012, 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.

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 1, 2013

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, 2013 and 2012. Management has prepared this discussion, which provides summary financial information. MD&A should be read in conjunction with the accompanying financial statements and related footnotes.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

One of the most important questions asked about its finances is whether WUKY Radio is better off as a result of the year's activities. One key to answering this question is the financial statements of WUKY Radio. The Statement of Net 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 Foundation), the University's fiscal agent for contracts and grants.

Financial Information

Condensed Statements of Net Position

	2013	2012	2011
ASSETS			
Current assets	\$ 323,267	\$ 272,347	\$ 303,606
Noncurrent assets	88,042	66,327	42,174
Capital assets, net	700,485	717,328	736,550
Total assets	<u>1,111,794</u>	<u>1,056,002</u>	<u>1,082,330</u>
LIABILITIES			
Current liabilities	28,148	25,732	13,656
Total liabilities	<u>28,148</u>	<u>25,732</u>	<u>13,656</u>
NET POSITION			
Net investment			
in capital assets	700,485	717,328	736,550
Restricted			
Nonexpendable	20,827	20,539	20,711
Expendable	247,152	182,058	206,431
Unrestricted	115,182	110,345	104,982
Total net position	<u>\$ 1,083,646</u>	<u>\$ 1,030,270</u>	<u>\$ 1,068,674</u>

Assets. As of June 30, 2013, WUKY Radio's assets totaled \$1,111,794. Capital assets represented WUKY Radio's largest asset, totaling \$700,485 or 63.0% of total assets.

Total assets increased \$55,792 during the year ended June 30, 2013. This increase was due primarily to increases in accounts receivable of \$87,629 and investments of \$3,140 offset by decreases in capital assets of \$16,843 and pledges receivable of \$16,028.

Liabilities. At June 30, 2013, WUKY Radio's liabilities consisted of accounts payable totaling \$28,148.

Net Position. Net position at June 30, 2013 totaled \$1,083,646, or 97.5% of total assets. Net investment in capital assets, totaling \$700,485, comprise 64.6% of total net position.

Total net position increased \$53,376 during the year ended June 30, 2013. Restricted net position increased \$65,382 due to gift revenue exceeding restricted expenditures. Unrestricted net position increased \$4,837 due to revenues and transfers from the University exceeding expenses. Net position, net investment in capital assets decreased by \$16,843 due to depreciation offset by additional capital equipment purchases.

2012 Versus 2011. Total net position decreased \$38,404 from June 30, 2011 to June 30, 2012. Restricted net position decreased \$24,545 due to restricted expenditures exceeding gift revenue. Unrestricted net position increased \$5,363 due to revenues and transfers from the University exceeding expenses. Net investment in capital assets decreased by \$19,222 due to depreciation offset by additional capital equipment purchases.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES			
Sales related to fundraising activities	\$ 85,764	\$ 35,208	\$ 40,475
Underwriting income	266,380	297,528	357,950
Up-link syndication income	1,080	270	810
Community service grants	139,501	144,584	139,203
Total operating revenues	<u>492,725</u>	<u>477,590</u>	<u>538,438</u>
OPERATING EXPENSES			
Program services	785,085	823,873	832,048
Supporting services	575,156	676,985	704,970
Depreciation	29,030	30,654	22,853
Total operating expenses	<u>1,389,271</u>	<u>1,531,512</u>	<u>1,559,871</u>
NET LOSS FROM OPERATIONS	<u>(896,546)</u>	<u>(1,053,922)</u>	<u>(1,021,433)</u>
NONOPERATING REVENUES			
Gifts	418,279	411,537	413,275
Grants from the University of Kentucky	528,525	603,758	617,034
Other, net	3,118	223	3,728
Total nonoperating revenues	<u>949,922</u>	<u>1,015,518</u>	<u>1,034,037</u>
Total increase (decrease) in net position	53,376	(38,404)	12,604
Net position, beginning of year	<u>1,030,270</u>	<u>1,068,674</u>	<u>1,056,070</u>
Net position, end of year	<u>\$ 1,083,646</u>	<u>\$ 1,030,270</u>	<u>\$ 1,068,674</u>

2013. WUKY Radio's operating revenues of \$492,725, primarily from underwriting income revenues of \$266,380, increased \$15,135.

Operating expenses totaled \$1,389,271 of which 56.5% was used for program services such as local programming production, broadcasting and program information expenses. The remaining 43.5% was used for supporting services such as management, fundraising, underwriting and grant solicitation expenses and depreciation. Operating expenses decreased \$142,241, primarily due to decreases in management and general, local programming production and fundraising expenses.

For the year ended June 30, 2013, net nonoperating revenues totaled \$949,922, primarily composed of \$418,279 from gifts and \$528,525 from grants from the University of Kentucky in the form of administrative and facilities support. The gifts were comprised of cash gifts and pledges that were received as the result of fundraising activities. Grants from the University of Kentucky decreased \$75,233 due to decreases in appropriation and other support from the University.

2012 Versus 2011. Operating revenue decreased \$60,848 when comparing fiscal year 2012 to 2011. This decrease was due primarily to a decrease in underwriting revenue. Operating expenses decreased \$28,359 due to decreases in underwriting and grant solicitation expenses. Net nonoperating revenues decreased \$18,519 due to decreases in equipment upgrades and other support.

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>2013</u>	<u>2012</u>	<u>2011</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (833,726)	\$ (851,970)	\$ (837,127)
Noncapital financing activities	844,363	811,945	850,843
Capital and related financing activities	(12,187)	2,748	(28,435)
Investing activities	<u>(556)</u>	<u>(8,178)</u>	<u>649</u>
Net decrease in cash and cash equivalents	(2,106)	(45,455)	(14,070)
Cash and cash equivalents, beginning of year	<u>209,506</u>	<u>254,961</u>	<u>269,031</u>
Cash and cash equivalents, end of year	<u><u>\$ 207,400</u></u>	<u><u>\$ 209,506</u></u>	<u><u>\$ 254,961</u></u>

2013. The major sources of cash included in operating activities were underwriting income of \$273,136 and sales related to fundraising activities of \$85,764. The largest cash payments for operating activities were \$493,144 to suppliers and \$752,434 for salaries, wages and benefits.

Cash provided by noncapital financing activities increased \$32,418 due to an increase in gifts received for other purposes.

Net cash used for capital and related financing activities of \$12,187 was for purchases of capital assets.

2012 Versus 2011. Net cash used by operating activities increased \$14,843 from June 30, 2011 to June 30, 2012, primarily caused by increases in salaries, wages and benefit expenses along with a decrease in cash provided by underwriting income. Net cash provided by capital and related financing activities increased \$31,183 primarily due to decrease in purchase of capital assets.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$700,485 at June 30, 2013, a decrease of \$16,843. Capital assets as of June 30, 2013 and changes in capital assets during the year are as follows:

	Balance June 30, 2012	Net Additions/ (Deductions)	Balance June 30, 2013
WUKY PBS Antenna	\$ 750,414		\$ 750,414
Equipment	687,020	\$ 12,187	699,207
	1,437,434	12,187	1,449,621
 <u>Accumulated depreciation</u>			
WUKY PBS Antenna	(84,433)	(18,760)	(103,193)
Equipment	(635,673)	(10,270)	(645,943)
	(720,106)	(29,030)	(749,136)
Total	\$ 717,328	\$ (16,843)	\$ 700,485

Debt. WUKY Radio had no debt at or during the year ended June 30, 2013.

Factors Impacting Future Periods

WUKY has two sources of funding that are impacted by the recent economic situation; membership and underwriting. Membership and underwriting revenue comprise 50% of WUKY's annual funding. WUKY has experienced little growth in its membership pool for three years. This is a result of multiple factors; lack of economic recovery, station programming and competition. The station has engaged in certain fundraising events to increase nonprofit community awareness. In addition, WUKY has also partnered with multiple community organizations to raise awareness of the station in additional demographics.

Underwriting sales has experienced downward pressure during this economic climate. However, WUKY is experiencing indicators that the climate is right for underwriting sales to increase. There has been increased contact from the business community seeking underwriting information from the station.

The economic recovery and its impact on revenue and revenue growth continues to be of concern to WUKY.

WUKY RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 207,366	\$ 209,506
Pledges receivable	20,392	54,961
Accounts receivable	95,509	7,880
Total current assets	<u>323,267</u>	<u>272,347</u>
Noncurrent Assets		
Restricted cash and cash equivalents	34	-
Pledges receivable	64,645	46,104
Endowment investments	23,363	20,223
Capital assets, net	700,485	717,328
Total noncurrent assets	<u>788,527</u>	<u>783,655</u>
Total assets	<u>1,111,794</u>	<u>1,056,002</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	28,148	25,732
Total current liabilities	<u>28,148</u>	<u>25,732</u>
Total liabilities	<u>28,148</u>	<u>25,732</u>
NET POSITION		
Net investment in capital assets	700,485	717,328
Restricted		
Nonexpendable	20,827	20,539
Expendable	247,152	182,058
Unrestricted	<u>115,182</u>	<u>110,345</u>
Total net position	<u>\$ 1,083,646</u>	<u>\$ 1,030,270</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Sales related to fundraising activities	\$ 85,764	\$ 35,208
Underwriting income	266,380	297,528
Up-link syndication income	1,080	270
Community service grants from Corporation for Public Broadcasting	139,501	144,584
Total operating revenues	<u>492,725</u>	<u>477,590</u>
OPERATING EXPENSES		
Program services		
Local programming production	563,771	596,358
Broadcasting	189,967	194,935
Program information	31,347	32,580
Total program services	<u>785,085</u>	<u>823,873</u>
Supporting services		
Management and general	311,572	361,805
Fundraising	230,883	259,225
Underwriting and grant solicitation	32,701	55,955
Total supporting services	<u>575,156</u>	<u>676,985</u>
Depreciation	<u>29,030</u>	<u>30,654</u>
Total operating expenses	<u>1,389,271</u>	<u>1,531,512</u>
Net income (loss) from operations	<u>(896,546)</u>	<u>(1,053,922)</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	418,279	398,491
Investment income	2,586	123
Grants (to) from the University of Kentucky for noncapital purposes	<u>528,525</u>	<u>602,624</u>
Net nonoperating revenues	<u>949,390</u>	<u>1,001,238</u>
Net income (loss) before other revenues, expenses, gains or losses	<u>52,844</u>	<u>(52,684)</u>
Capital grants and gifts	-	13,046
Grants (to) from the University of Kentucky for capital purposes	-	1,134
Additions to permanent endowments	<u>532</u>	<u>100</u>
Total other revenues (expenses)	<u>532</u>	<u>14,280</u>
Increase (decrease) in net assets	<u>53,376</u>	<u>(38,404)</u>
NET POSITION, beginning of year	<u>1,030,270</u>	<u>1,068,674</u>
NET POSITION, end of year	<u>\$ 1,083,646</u>	<u>\$ 1,030,270</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales related to fundraising activities	\$ 85,764	\$ 35,208
Underwriting income	273,136	313,718
Up-link syndication income	1,080	270
Grants	51,872	136,714
Payments to vendors and contractors	(493,144)	(521,573)
Salaries, wages and benefits	(752,434)	(816,307)
Net cash provided (used) by operating activities	<u>(833,726)</u>	<u>(851,970)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes		
Gifts received for endowment purposes	532	100
Gifts received for other purposes	427,562	360,123
Grants from the University of Kentucky for non-capital purposes	416,269	451,722
Net cash provided (used) by noncapital financing activities	<u>844,363</u>	<u>811,945</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	-	13,046
Purchases of capital assets	(12,187)	(10,298)
Net cash provided (used) by capital and related financing activities	<u>(12,187)</u>	<u>2,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	13,316	9,251
Interest and dividends on investments	614	608
Purchases of investments	(14,486)	(18,037)
Net cash provided (used) by investing activities	<u>(556)</u>	<u>(8,178)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,106)	(45,455)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>209,506</u>	<u>254,961</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 207,400</u>	<u>\$ 209,506</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (896,546)	\$ (1,053,922)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	29,030	30,654
Donated facilities and administrative support from the University of Kentucky	112,247	150,902
Change in underwriting pledges receivable	6,756	16,190
Change in accounts receivable	(87,629)	(7,870)
Change in accounts payable and accrued liabilities	2,416	12,076
Net cash provided (used) by operating activities	<u>\$ (833,726)</u>	<u>\$ (851,970)</u>
NONCASH TRANSACTIONS		
Donated facilities and support from the University of Kentucky	\$ 112,246	\$ 150,902
Donated equipment from the University of Kentucky	\$ -	\$ 8,992
Capital assets disposal	\$ -	\$ 3,642

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

WUKY Radio is an organizational unit of the University of Kentucky (the University), which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. WUKY Radio is owned and operated by the University. Funds for operations are received by the University and through the University of Kentucky Research Foundation (the Foundation), the University's fiscal agent for contracts and grants.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net 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.

During the year ended June 30, 2013 WUKY Radio adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. GASB 63 has been applied retrospectively, by reclassifying certain 2012 financial statement line items to conform with the presentation requirements of the standard.

In addition to assets, GASB No. 63 requires the presentation of a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period. WUKY Radio has no items that qualify for reporting in this category.

In addition to liabilities, GASB No. 63 requires the presentation of a separate financial statement element, deferred inflows of resources, which represents an acquisition of net position that applies to a future period. WUKY Radio has no items that qualify for reporting in this category.

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 2,000 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 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 has made 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 whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

For the years ended June 30, 2013 and 2012, the University's endowment standard spending rule provided for annual distributions of 4.25% of the 60 month moving average market value of fund units. In recognition of recent adverse market performance, reduced spending rules were established for certain endowments whose market value was less than the contributed value as of December 31st, which is the measurement date for calculating spending distributions for the following fiscal year. Additionally, for the years ended June 30, 2013 and 2012, the University's annual endowment management fee was 0.25%, however endowments whose market value was less than the contributed value as of December 31st were exempt from the management fee in the subsequent fiscal year.

The amount of gross spending policy distribution in accordance with the University's endowment spending policy was \$433 and \$449 for the years ended June 2013 and 2012, respectively.

For future years 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 will be 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 will be constrained so that the calculated rate is at least three percent, and not more than six percent, of the current Endowment market value. The hybrid spending policy will be phased in over two years. The year ended June 30, 2014 will serve as a transition year to the new policy and spending will be based on four percent of the average market value for the preceding 60 months. The hybrid policy will be fully implemented in the year ending June 30, 2015.

Additionally, for fiscal years ending June 30, 2014 and thereafter, spending and management fee withdrawals will be suspended on all endowments with a market value less than the contributed value by more than 20% at December 31st of the prior year. Endowments with a market value less than the contributed value by more than 10% will undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA.

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.

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

Operating Activities. WUKY Radio defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net 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 Statement 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 of Kentucky, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in section 115 of the Internal Revenue Code of 1986 as amended.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Cash on deposit with the University of Kentucky	\$ 207,400	\$ 209,506
Investment in the University of Kentucky pooled endowment fund	<u>23,363</u>	<u>20,223</u>
	<u>\$ 230,763</u>	<u>\$ 229,729</u>
Statement of Net Position classification		
Cash and cash equivalents	\$ 207,366	\$ 209,506
Restricted cash and cash equivalents	34	-
Endowment investments	<u>23,363</u>	<u>20,223</u>
	<u>\$ 230,763</u>	<u>\$ 229,729</u>

At June 30, 2013, the University's pooled endowment fund consists of common and preferred stock (4.3%), pooled equity funds (37.9%), pooled private equity funds (8.3%), pooled absolute return funds (20.2%), pooled real return funds (8.5%), pooled real estate funds (6.7%), U.S. Treasury fixed income (0.8%), government agency fixed income funds (0.9%), corporate fixed income funds (2.3%), pooled fixed income funds (9.3%) and cash equivalents (0.8%).

At June 30, 2012, the University's pooled endowment fund consists of common and preferred stock (3.6%), pooled equity funds (37.5%), pooled private equity funds (7.5%), pooled absolute return funds (19.7%), pooled real return funds (9.5%), pooled real estate funds (6.6%), U.S. Treasury fixed income funds (1.0%), government agency fixed income funds (1.0%), corporate fixed income funds (2.9%), pooled fixed income funds (10.5%) and cash equivalents (0.2%).

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 statement 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. 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. Additionally, endowment investments held by the University's fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, WUKY Radio will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash on deposit with the University is invested in deposits and repurchase agreements which are held in the University's name. Deposits and repurchase agreements with the Commonwealth of Kentucky are held in the Commonwealth's name. The University maintains records evidencing WUKY's ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of WUKY Radio's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. WUKY Radio's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer.

As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, all such deposits in excess of Federal Depository Insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five 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, 2013, WUKY Radio had no underlying investments in any one issuer which represent 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 fixed income managers are limited to a duration that is within +/-25% of the duration of the Barclays Aggregate Bond Index.

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit.

WUKY Radio's exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. 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, 2013 and 2012, WUKY Radio recorded the discounted value of operating pledges using a rate of two and three percent, respectively.

At June 30, 2013, pledges are expected to be collected over the next three years, as follows:

	<u>2013</u>	<u>2012</u>
Operating gift	\$ 150,126	\$ 164,877
Underwriting	<u>20,391</u>	<u>27,147</u>
Total	170,517	192,024
Less discount and allowance	<u>85,480</u>	<u>90,959</u>
Total	<u>\$ 85,037</u>	<u>\$ 101,065</u>
Current Portion	\$ 20,392	\$ 54,961
Noncurrent Portion	<u>64,645</u>	<u>46,104</u>
Total	<u>\$ 85,037</u>	<u>\$ 101,065</u>

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2013 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
WUKY PBS Antenna	\$ 750,414			\$ 750,414
Equipment	<u>687,020</u>	<u>\$ 12,187</u>	<u>\$ -</u>	<u>699,207</u>
	<u>1,437,434</u>	<u>12,187</u>	<u>-</u>	<u>1,449,621</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	84,433	18,760	-	103,193
Equipment	<u>635,673</u>	<u>10,270</u>	<u>-</u>	<u>645,943</u>
	<u>720,106</u>	<u>29,030</u>	<u>-</u>	<u>749,136</u>
Net capital assets	<u>\$ 717,328</u>	<u>\$ (16,843)</u>	<u>\$ -</u>	<u>\$ 700,485</u>

Capital assets as of June 30, 2012 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
WUKY PBS Antenna	\$ 750,414			\$ 750,414
Equipment	<u>687,020</u>	<u>\$ 12,187</u>	<u>\$ -</u>	<u>699,207</u>
	<u>1,437,434</u>	<u>12,187</u>	<u>-</u>	<u>1,449,621</u>
<u>Accumulated Depreciation</u>				
WUKY PBS Antenna	84,433	18,760	-	103,193
Equipment	<u>635,673</u>	<u>10,270</u>	<u>-</u>	<u>645,943</u>
	<u>720,106</u>	<u>29,030</u>	<u>-</u>	<u>749,136</u>
Net capital assets	<u>\$ 717,328</u>	<u>\$ (16,843)</u>	<u>\$ -</u>	<u>\$ 700,485</u>

Additions to equipment and equipment depreciation include \$10,126 of equipment and \$8,992 of equipment depreciation in equipment transferred from UK.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Payable to vendors and contractors	\$ 18,312	\$ 14,399
Due to the University of Kentucky for accrued payroll	<u>9,836</u>	<u>11,333</u>
Total	<u>\$ 28,148</u>	<u>\$ 25,732</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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Facilities and administrative support from the University consists of:		
Allocation of Executive Vice President for Finance and Administration, Office of the Treasurer and Development office costs	\$ 29,963	\$ 65,438
Maintenance, physical plant, operations and utilities	81,939	85,120
Use charge in accordance with CPB Regulations, for use of McVey Hall, Radio Tower and Transmitter Building	<u>344</u>	<u>344</u>
	<u>\$ 112,246</u>	<u>\$ 150,902</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 2012 to 2013. Settlements have not exceeded insurance coverage during the past three years.

8. RECLASSIFICATIONS

Certain reclassifications have been made to the fiscal year 2012 financial statement amounts to conform to the 2013 financial statement. Certain transactions previously reported as reductions of cash and cash equivalents are now being reported as accounts payable and accrued liabilities in the Statements of Net Position. Such reclassifications had no effect on the change in net position.



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