

**THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION**

**AUDITED FINIANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION

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## Independent Auditor's Report

The University of Tennessee at Knoxville  
WUOT-FM Radio Station  
Knoxville, Tennessee

We have audited the accompanying financial statements of The University of Tennessee at Knoxville's WUOT-FM Radio Station (the "Station"), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Station as of June 30, 2016 and 2015, 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.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 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.

*Crosslin, PLLC*

February 12, 2017  
Nashville, Tennessee

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

This section of the University of Tennessee at Knoxville's WUOT-FM Radio Station's ("WUOT" or the "Station") annual financial report presents management's discussion and analysis of the financial performance of WUOT during the fiscal year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This discussion has been prepared by management, along with the financial statements and related note disclosures, and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

**Overview of the Financial Statements**

The report consists of three basic financial statements. The statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows provide information on WUOT as a whole and present a long-term view of the Station's finances. The accompanying notes to the financial statements are an integral part of the financial statements and are essential to understanding the data contained in the financial statements.

*The Statements of Net Position*

The statements of net position present the financial position of the Station at the end of the fiscal year and includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the Station. It segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year. The difference between total assets, total liabilities, and deferred outflows/inflows of resources is net position, which is an indicator of the current financial condition of the Station. Assets and liabilities are generally measured using current values. Capital assets; however, are stated at historical cost less an allowance for depreciation.

Net position is divided into three major categories. The first category, investment in capital assets, provides the Station's equity in property, plant, and equipment owned by the Station. The second category, restricted net position, is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net position is available for expenditure by the Station, but must be spent for purposes as determined by donors who have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, which is available to the Station for any lawful purpose.

The following table summarizes the Station's assets, liabilities, deferred outflows/inflows of resources and net position at June 30, 2016 and June 30, 2015.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

**Table 1. Summary of Net Position**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets	\$1,331,312	\$1,465,234
Capital assets, net	287,196	321,846
<b>Total assets</b>	<u>\$1,618,508</u>	<u>\$1,787,080</u>
<b>Liabilities</b>		
Current liabilities	\$ 27,700	\$ 39,493
Noncurrent liabilities	19,458	17,686
<b>Total liabilities</b>	<u>47,158</u>	<u>57,179</u>
<b>Net position</b>		
Investment in capital assets	174,796	200,226
Restricted	751,577	800,703
Unrestricted	644,977	728,972
<b>Total net position</b>	<u>\$1,571,350</u>	<u>\$1,729,901</u>

Current assets consist of cash and cash equivalents and the current portion of investments. Other assets include the long-term portion of investments. Current liabilities include the current portion of compensated absences. Noncurrent liabilities include the long-term portion of compensated absences.

Total net position decreased by \$(158,551), or 9 percent, during fiscal year 2016. The primary factor in the decrease in net position relates to losses on investments totaling \$(34,111) during fiscal year 2016 compared to gains on investments totaling \$274,006 during fiscal year 2015.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

**Table 2. Summary of Net Position**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets	\$1,465,234	\$1,288,364
Capital assets, net	321,846	184,759
<b>Total assets</b>	<b>\$1,787,080</b>	<b>\$1,473,123</b>
 <b>Liabilities</b>		
Current liabilities	\$ 39,493	\$ 59,618
Noncurrent liabilities	17,686	15,458
<b>Total liabilities</b>	<b>57,179</b>	<b>75,076</b>
 <b>Net position</b>		
Investment in capital assets	200,226	58,406
Restricted	800,703	533,367
Unrestricted	728,972	806,274
<b>Total net position</b>	<b>\$1,729,901</b>	<b>\$1,398,047</b>

The Statements of Net Position appears on page 9.

*The Statements of Revenues, Expenses and Changes in Net Position*

The statement of revenues, expenses and changes in net position presents the operating results of the Station, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles. While the accounting classification of “nonoperating” revenues is appropriate for financial statement presentation, these sources of income (state appropriations, subscriptions and memberships, and underwriting) are vital to the ongoing operations of the Station.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

The summary of the Station's revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015, are as follows:

**Table 3. Summary of Revenues, Expenses and Changes in Net Position**

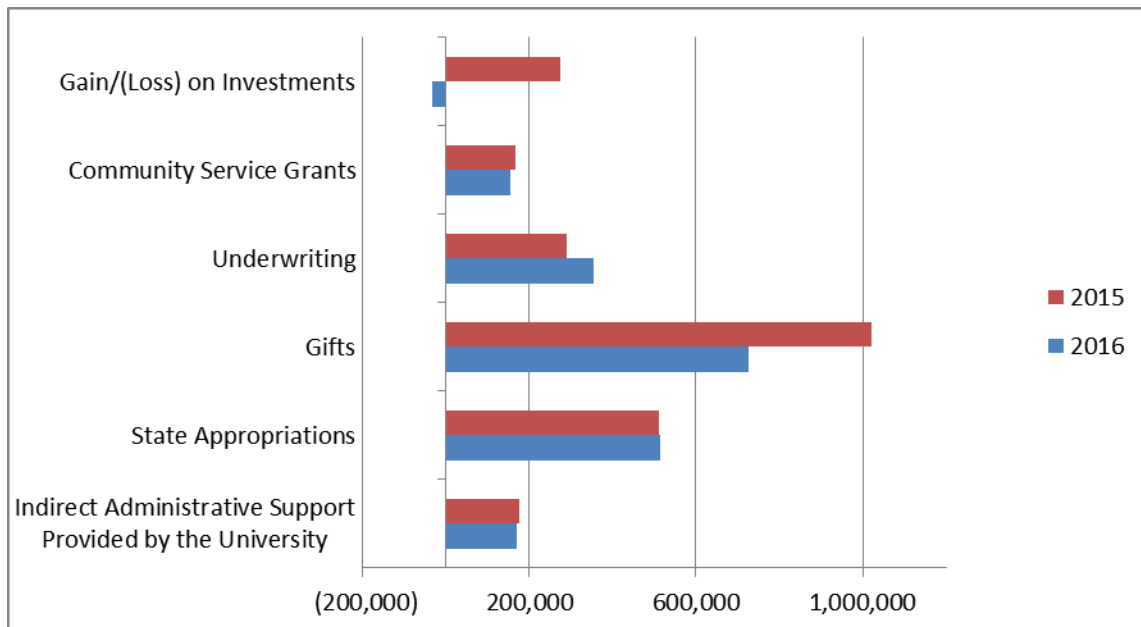
	<u>2016</u>	<u>2015</u>
<b>Operating revenues</b>	\$ 154,032	\$ 165,978
<b>Operating expenses</b>	<u>2,045,518</u>	<u>2,106,125</u>
<b>Operating loss</b>	(1,891,486)	(1,940,147)
<b>Nonoperating revenues</b>	<u>1,732,935</u>	<u>2,272,001</u>
<b>Change in net position</b>	(158,551)	331,854
<b>Net position, beginning of year</b>	<u>1,729,901</u>	<u>1,398,047</u>
<b>Net position, end of year</b>	<u><u>\$1,571,350</u></u>	<u><u>\$1,729,901</u></u>

The Statement of Revenues, Expenses and Changes in Net Position appears on page 10.

Revenues

Table 4 below illustrates revenues by source (operating and nonoperating), which were used to fund the Station's activities for the years ended June 30, 2016 and 2015.

**Table 4. Revenues by Source**





THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Community service grants, representing approximately 8 percent of revenue for FY 2016, decreased nominally. The Station's community service grant is administered through CPB and has remained steady for the past several years.
- State appropriations, representing approximately 27 percent of the Station's total revenue for FY 2016, increased nominally.
- Subscriptions and memberships (which include gifts) received, the largest percentage of the Station's revenue representing approximately 39 percent of total revenue for FY 2016, decreased considerably by \$295,094 due largely to two significant donations received in the prior year that were not received again in the current year.
- Underwriting revenue, which represents approximately 19 percent of revenue, increased approximately \$66,000 due to staffing changes.
- Losses on investments, decreasing 2 percent of the Station's total revenue for FY 2016, decreased by \$(308,117), primarily due to investment market conditions.

The summary of the Station's revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014, are as follows:

**Table 5. Summary of Revenues, Expenses and Changes in Net Position**

	<u>2015</u>	<u>2014</u>
<b>Operating revenues</b>	\$ 165,978	\$ 162,232
<b>Operating expenses</b>	<u>2,106,125</u>	<u>1,996,102</u>
<b>Operating loss</b>	(1,940,147)	(1,833,870)
<b>Nonoperating revenues</b>	<u>2,272,001</u>	<u>1,773,383</u>
<b>Change in net position</b>	331,854	( 60,487)
<b>Net position, beginning of year</b>	<u>1,398,047</u>	<u>1,458,534</u>
<b>Net position, end of year</b>	<u>\$1,729,901</u>	<u>\$1,398,047</u>

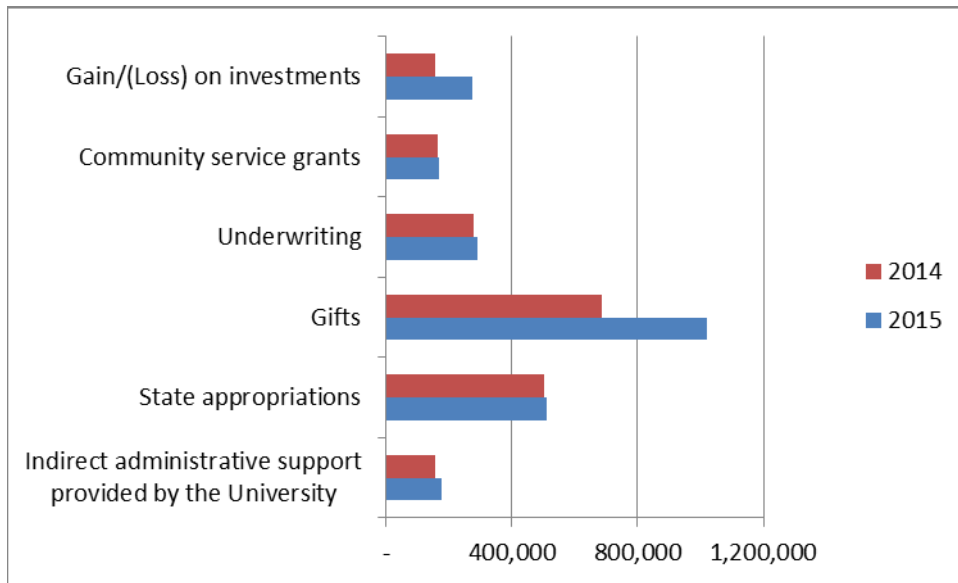
The Statement of Revenues, Expenses and Changes in Net Position for FY 2015 appears on page 10.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
 WUOT-FM RADIO STATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2016 AND 2015

Revenues

Table 6 below illustrates revenues by source (operating and nonoperating), which were used to fund the Station's activities for the years ended June 30, 2015 and 2014.

**Table 6. Revenues by Source**



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Community service grants, representing 7 percent of revenue for FY 2015, increased nominally. The Station's community service grant administered through CPB has remained steady for the past several years.
- State appropriations, representing 21 percent of the Station's total revenue for FY 2015, increased nominally.
- Subscriptions and memberships (which include gifts) received, the largest percentage of the Station's revenue representing 42 percent of total revenue for FY 2015, increased considerably by \$337,952 due largely to two significant donations.
- Underwriting revenue, which represents 12 percent of revenue, increased nominally.
- Investment income, representing 11 percent of the Station's total revenue for FY 2015, increased by \$119,969, primarily due to investment market conditions.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

Expenses

The Station's operating expenses by natural and functional classification for the years ended June 30, 2016 and 2015, are as follows.

**Table 7. Expenses by Natural and Functional Classification**

**Year ended June 30, 2016:**

<b>Functional Classification</b>	<b>Natural Classification</b>			<b>Total Functional</b>
	<b>Salaries and Benefits</b>	<b>Operating</b>	<b>Depreciation</b>	
Programming and production	\$ 470,893	\$ 492,708	\$ -	\$ 963,601
Broadcasting	91,989	149,968	-	241,957
Program information and promotion	65,086	1,803	-	66,889
Management and general	238,088	242,075	-	480,163
Fundraising	69,805	49,939	-	119,744
Underwriting and grant solicitation	113,923	8,820	-	122,743
Paid for premiums	-	13,216	-	13,216
Depreciation	-	-	37,205	37,205
<b>Total natural</b>	<b><u>\$ 1,049,784</u></b>	<b><u>\$ 958,529</u></b>	<b><u>\$ 37,205</u></b>	<b><u>\$ 2,045,518</u></b>

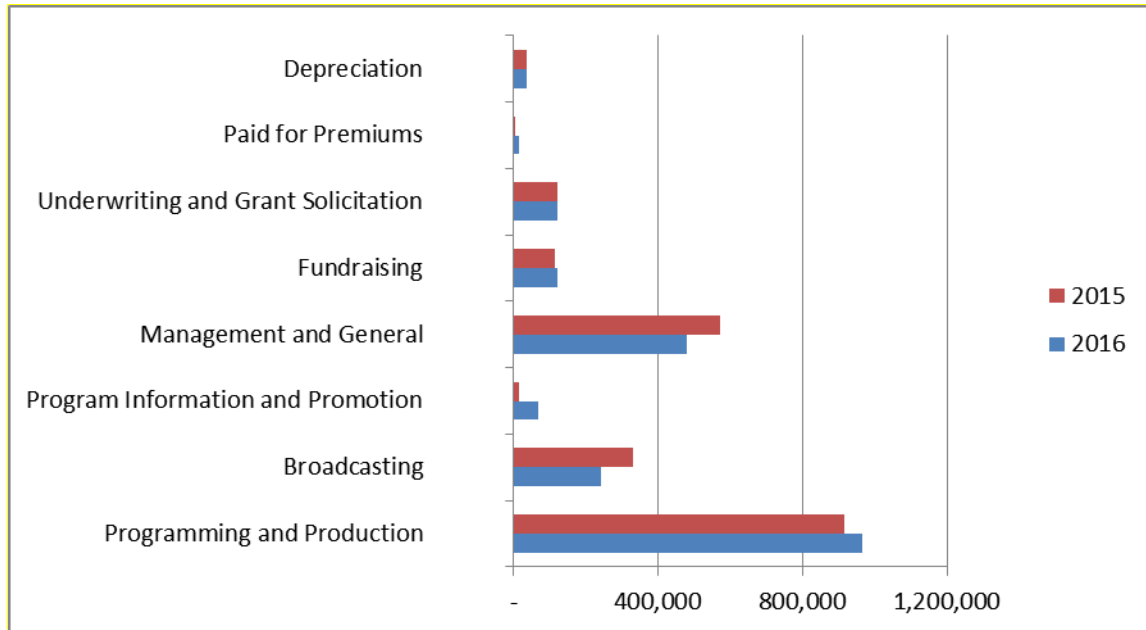
**Year ended June 30, 2015:**

<b>Functional Classification</b>	<b>Natural Classification</b>			<b>Total Functional</b>
	<b>Salaries and Benefits</b>	<b>Operating</b>	<b>Depreciation</b>	
Programming and production	\$ 396,340	\$ 520,077	\$ -	\$ 916,417
Broadcasting	89,477	239,507	-	328,984
Program information and promotion	11,052	2,805	-	13,857
Management and general	355,703	214,402	-	570,105
Fundraising	60,406	51,984	-	112,390
Underwriting and grant solicitation	110,306	12,381	-	122,687
Paid for premiums	-	4,504	-	4,504
Depreciation	-	-	37,181	37,181
<b>Total natural</b>	<b><u>\$ 1,023,284</u></b>	<b><u>\$ 1,045,660</u></b>	<b><u>\$ 37,181</u></b>	<b><u>\$ 2,106,125</u></b>

Natural classifications show the type of expense regardless of program. For the year ended June 30, 2016, approximately 51 percent of total expenses are attributed to salaries and benefits. Operating expenses represent approximately 47 percent of total expenses. The remaining 2 percent of total functional expenses is a result of current year depreciation expense.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Table 8. Expenses by Functional Classification**



Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Programming and production, representing approximately 47 percent of total expenses for FY 2016, increased by \$47,184, or approximately 5 percent, which is consistent with prior year.
- Broadcasting, representing approximately 12 percent of total expenses for FY 2016, decreased by \$(87,027), or approximately 26 percent. The Station held down equipment costs in FY 2016 as well as has less repairs.
- Program information and promotion, representing 3 percent of total expenses for FY 2016, increased \$53,032 or approximately 383 percent, primarily due to the Station increasing advertising design costs in the current year; whereas, the Station had no advertising design costs in FY 2015.
- Management and general, representing approximately 24 percent of total expenses for FY 2016, decreased \$89,941 or approximately 16 percent, mainly due to changes in staffing.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

The Station's operating expenses by natural and functional classification for the years ended June 30, 2015 and 2014, are as follows.

**Table 9. Expenses by Natural and Functional Classification**

**Year ended June 30, 2015:**

<b>Functional Classification</b>	<b>Natural Classification</b>			<b>Total Functional</b>
	Salaries and Benefits	Operating	Depreciation	
Programming and production	\$ 396,340	\$ 520,077	\$ -	\$ 916,417
Broadcasting	89,477	239,507	-	328,984
Program information and promotion	11,052	2,805	-	13,857
Management and general	355,703	214,402	-	570,105
Fundraising	60,406	51,984	-	112,390
Underwriting and grant solicitation	110,306	12,381	-	122,687
Paid for premiums	-	4,504	-	4,504
Depreciation	-	-	37,181	37,181
<b>Total natural</b>	<u>\$ 1,023,284</u>	<u>\$ 1,045,660</u>	<u>\$ 37,181</u>	<u>\$ 2,106,125</u>

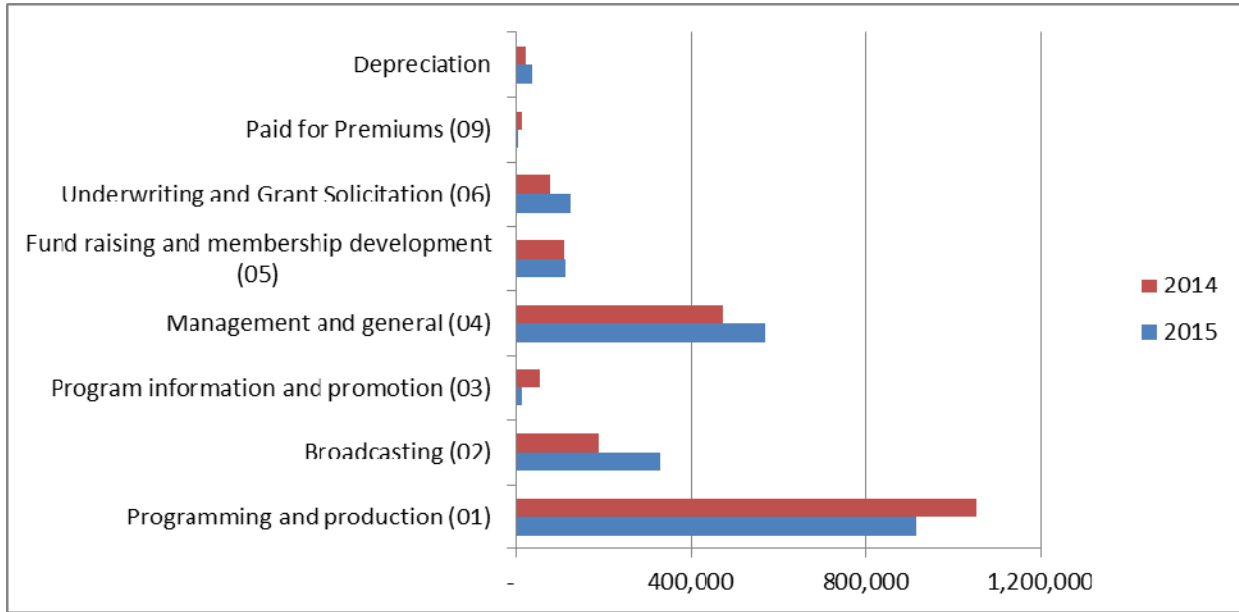
**Year ended June 30, 2014:**

<b>Functional Classification</b>	<b>Natural Classification</b>			<b>Total Functional</b>
	Salaries and Benefits	Operating	Depreciation	
Programming and production	\$ 509,075	\$ 546,313	\$ -	\$ 1,055,388
Broadcasting	86,306	104,727	-	191,033
Program information and promotion	53,916	480	-	54,396
Management and general	281,664	193,297	-	474,961
Fundraising	39,779	68,408	-	108,187
Underwriting and grant solicitation	73,646	2,802	-	76,448
Paid for premiums	-	13,063	-	13,063
Depreciation	-	-	22,626	22,626
<b>Total natural</b>	<u>\$ 1,044,386</u>	<u>\$ 929,090</u>	<u>\$ 22,626</u>	<u>\$ 1,996,102</u>

Natural classifications show the type of expense regardless of program. For the year ended June 30, 2015, approximately 49 percent of total expenses are attributed to salaries and benefits. Operating expenses represent approximately 49 percent of total expenses. The remaining 2 percent of total functional expenses is a result of current year depreciation expense.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

**Table 10. Expenses by Functional Classification**



Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Programming and production, representing 44 percent of total expenses for FY 2015, decreased by \$138,971, or 13 percent, as a result of staff salary and benefit decreases due to the loss of the long time Morning Edition host.
- Broadcasting, representing 16 percent of total expenses for FY 2015, increased by \$137,951, or 72 percent. The Station held down equipment costs in FY 2014 in anticipation of a costly transmitter project that occurred in fiscal year 2015. The Station purchased a new transmitter in 2015, which was capitalized by the Station.
- Program information and promotion, representing 1 percent of total expenses for FY 2015, decreased \$40,539, or 75 percent, from a reduction in costs associated with printing and postage for local music programs. The station also had no advertising design costs in FY 2015.

**Capital Assets**

At June 30, 2016 and 2015, the Station had \$174,796 and \$200,226, respectively, invested in capital assets, net of accumulated depreciation of \$664,470 and \$627,265, respectively. Depreciation charges totaled \$37,205 and \$37,181 for the years ended June 30, 2016 and 2015, respectively. These assets are comprised of equipment. The decrease in equipment is related primarily to depreciation expense recorded during fiscal year 2016.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015

**Economic Factors that Will Affect the Future**

A primary economic factor facing the Station is the State of Tennessee's funding through the University. As in years past, the state continues to reduce funding to the University. Approximately 25 percent of annual funding flows through the University, and additional reductions in state funding could have an adverse effect on the Station's operations. Furthermore, the Station relies on listener support. Through gifts, as well as underwriting income, the Station can provide the types of programming its listeners have come to enjoy.

**Requests for Information**

This financial report is designed to provide a general overview of the station's finances for those with an interest in the station's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Regina Dean, Director, WUOT, the University of Tennessee, 209 Communications Building, Knoxville, Tennessee 37996-0322.

UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 266,652	\$ 321,231
Investments	1,064,660	1,144,003
Total current assets	1,331,312	1,465,234
NONCURRENT ASSETS:		
Investments	112,400	121,620
Capital assets, less accumulated depreciation	174,796	200,226
Total noncurrent assets	287,196	321,846
 TOTAL ASSETS	 \$ 1,618,508	 \$ 1,787,080
LIABILITIES:		
CURRENT LIABILITIES:		
Current portion of compensated absences	\$ 27,700	\$ 39,493
Total current liabilities	27,700	39,493
NONCURRENT LIABILITIES:		
Non current portion of compensated absences	19,458	17,686
Total noncurrent liabilities	19,458	17,686
 TOTAL LIABILITIES	 47,158	 57,179
NET POSITION:		
Investment in capital assets	174,796	200,226
Restricted:		
Nonexpendable:		
Programming	112,400	121,620
Expendable:		
Programming	639,177	679,083
Unrestricted net position	644,977	728,972
Total net position	1,571,350	1,729,901
 TOTAL LIABILITIES AND NET POSITION	 \$ 1,618,508	 \$ 1,787,080

The accompanying notes are an integral part of the financial statements.



UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Community service grants	\$ 154,032	\$ 165,978
Total operating revenues	154,032	165,978
OPERATING EXPENSES:		
Program services:		
Programming and production	963,601	916,417
Broadcasting	241,957	328,984
Program information and promotion	66,889	13,857
Support services:		
Management and general	480,164	570,105
Fundraising	119,743	112,390
Underwriting and grant solicitation	122,743	122,687
Paid for premiums	13,216	4,504
Depreciation	37,205	37,181
Total operating expenses	2,045,518	2,106,125
Operating loss	(1,891,486)	(1,940,147)
NONOPERATING REVENUES:		
State appropriations	515,270	511,455
Subscriptions and memberships	727,174	1,022,268
Underwriting	354,578	288,971
Indirect administrative support provided by the University	170,024	175,301
(Losses) Gains on investments	(34,111)	274,006
Total nonoperating revenues	1,732,935	2,272,001
CHANGE IN NET POSITION	(158,551)	331,854
NET POSITION - BEGINNING OF YEAR	1,729,901	1,398,047
NET POSITION - ENDING OF YEAR	\$ 1,571,350	\$ 1,729,901

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from community service grants	\$ 154,032	\$ 165,978
Cash paid to supplies and vendors	(788,688)	(870,359)
Cash paid to employees	(1,059,622)	(1,041,181)
Net cash used in operating activities	<u>(1,694,278)</u>	<u>(1,745,562)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from underwriting income	354,578	288,971
Cash received from state appropriations	515,270	511,455
Cash received from subscriptions and memberships	727,174	1,022,268
Net cash provided by noncapital financing activities	<u>1,597,022</u>	<u>1,822,694</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(11,775)	(179,001)
Net cash used in capital and related financing activities	<u>(11,775)</u>	<u>(179,001)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	54,452	43,524
Net cash provided by investing activities	<u>54,452</u>	<u>43,524</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(54,579)	(58,345)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>321,231</u>	<u>379,576</u>
CASH AND CASH EQUIVALENTS - ENDING OF YEAR	<u>\$ 266,652</u>	<u>\$ 321,231</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (1,891,486)	\$ (1,940,147)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	37,205	37,181
Indirect administrative support provided by the University	170,024	175,301
Changes in assets and liabilities:		
Compensated absences	(10,021)	(17,897)
Net cash used in operating activities	<u>\$ (1,694,278)</u>	<u>\$ (1,745,562)</u>

The accompanying notes are an integral part of the financial statements.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE  
WUOT-FM RADIO STATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of Tennessee at Knoxville WUOT-FM Radio Station (the “Station”) is operated by the University of Tennessee at Knoxville (“UTK” or the “University”). The Station is managed by the University’s Radio Center. Only funds administered by the University are included in the financial statements. There are no financially interrelated organizations associated with the Station that are not administered by the University.

Basis of Presentation

The financial statements of the Station have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (“GASB”).

Basis of Accounting

For financial statement purposes, the Station follows pronouncements issued by the GASB because of its relationship with UTK and follows the same reporting principles as the University. The University is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Gifts and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Operating revenues consist of the community service grants. Operating expenses for the Station include: 1) programming and production, 2) broadcasting, 3) program information and promotion, 4) management and general, 5) fundraising, 6) underwriting and grant solicitation, 7) paid for premiums, and 8) depreciation.

All other activity is nonoperating in nature. This activity primarily includes: 1) state appropriations, 2) investment income, 3) underwriting, 4) additions to permanent endowments, 5) subscriptions and memberships, including gifts, and 6) indirect administrative support provided by the University.

When both restricted and unrestricted resources are available for use, generally it is the Station’s policy to use restricted resources first.

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A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the Station's portion of the readily available sources of cash from the University such as demand deposits, certificates of deposit, and temporary investments in marketable securities. The required risk disclosures are presented in the University's and the University of Tennessee Foundation, Inc.'s financial statements.

Investments are valued at fair value. Disclosures regarding custodial credit risk, interest rate risk, credit risk, concentration of credit risk, and foreign currency risk are presented in the University's and the University of Tennessee Foundation, Inc.'s financial statements.

The University of Tennessee Foundation, Inc. (the "Foundation") is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code* (the "Code"). The Foundation was formed to support the University of Tennessee and its financial statements are consolidated into the University's financial statements. To review the audit report of the University of Tennessee, please contact the Controller's Office, the University of Tennessee, 201 Andy Holt Tower, Knoxville, Tennessee 37996-0100.

Capital Assets

Capital assets, which include only equipment, are reported in the statements of net position at historical cost or at fair value at the date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materiality extend the assets' useful lives are not capitalized. Those expenditures are charged to operating expense as incurred. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 20 years.

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A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

The Station's employees accrue annual leave at varying rates, depending on classification or length of service. Some employees also earn compensatory time. Generally, all permanent full-time employees and certain part-time employees are entitled to accrue and carry forward calendar-year maximums of 42 days of annual vacation leave. The amount of these liabilities is reported in the statements of net position.

Components of Net Position

The Station's net position classifications are defined as follows:

*Investment in capital assets* - This component of net position consists of capital assets, net of accumulated depreciation of those assets. If the Station had debt related to the acquisition or construction of capital assets, this net position component would be presented "net" of such related debt. As of June 30, 2016 and 2015, the Station had no debt related to its capital assets.

*Restricted net position* - This component of net position is divided into two categories as follows:

*Expendable restricted net position* - Expendable restricted net position includes resources for which the station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Nonexpendable restricted net position* - Nonexpendable restricted net position consists of endowment and similar-type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may be expendable or added to the principal.

*Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "investment in capital assets" or "restricted net position."

Income Taxes

As part of the University, the Station is exempt from federal income taxes under Section 115 of the Code. Contributions to the Station are deductible by donors as provided under Section 170 of the Code.

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B. INDIRECT ADMINISTRATIVE SUPPORT

Indirect administrative support is support the Station receives from the University, including, but not limited to, the use and care of the facilities and administrative oversight by University officials. For the years ended June 30, 2016 and 2015, the Station received indirect administrative support totaling \$170,024 and \$175,301, respectively.

C. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 827,491	\$ 11,775	\$ -	\$ 839,266
Less: accumulated depreciation	<u>(627,265)</u>	<u>(37,205)</u>	<u>-</u>	<u>(664,470)</u>
Capital assets, net	<u>\$ 200,226</u>	<u>\$(25,430)</u>	<u>\$ -</u>	<u>\$ 174,796</u>

Capital assets activity for the fiscal year ended June 30, 2015, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 665,715	\$ 179,001	\$(17,225)	\$ 827,491
Less: accumulated depreciation	<u>(607,309)</u>	<u>( 37,181)</u>	<u>17,225</u>	<u>(627,265)</u>
Capital assets, net	<u>\$ 58,406</u>	<u>\$ 141,820</u>	<u>\$ -</u>	<u>\$ 200,226</u>

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D. NONCURRENT LIABILITIES

The following is a summary of changes in noncurrent liabilities for the years June 30:

	June 30, 2016			Ending Balance
	Beginning Balance	Additions	Payments	
Compensated absences	<u>\$57,179</u>	<u>\$59,032</u>	<u>\$(69,053)</u>	<u>\$47,158</u>
	June 30, 2015			
	Beginning Balance	Additions	Payments	Ending Balance
Compensated absences	<u>\$75,076</u>	<u>\$59,558</u>	<u>\$(77,455)</u>	<u>\$57,179</u>

E. OPERATING LEASES

In May 1987, the Station entered into a noncancelable operating lease for a tower and a transmitter building. Currently, this site is the Station's auxiliary transmitting site. The lease term is 25 years with a renewal option of 10 additional years. The first two payments were set at \$7,000 annually. Payments thereafter are indexed based on the U.S. Department of Labor's Consumer Price Index. The Station has exercised the option to renew for an additional 10 years.

Expenses under the lease were \$18,000/year for both the years ended June 30, 2016 and 2015. The following is a schedule of future minimum rental payments required under the lease as of June 30, 2016.

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	\$ 18,000
2018	18,000
2019	18,000
2020	18,000
2021	18,000
Thereafter	<u>18,000</u>
Total future minimum lease payments	<u>\$108,000</u>

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E. OPERATING LEASES - Continued

In January 2002, the Station entered into another operating lease for the use of a tower and for space in a transmitter building. The Station began using this tower and building as its main transmitting site in fiscal year 2006. The lease term is 60 years with an option to renew for another 30 years. The Station leased a parcel of land to a regional corporation. In turn, the corporation agreed to build a broadcast tower and a transmitter building on the land and to lease space on the tower and in the building to the Station. No cash payments are exchanged between the parties. The two leases describing the agreement, the Tower Lease Agreement and the Ground Lease, run concurrently.