

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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT.....	1 - 2
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED).....	3 - 11
FINANCIAL STATEMENTS	
Statements of Net Position.....	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows.....	14
Notes to Financial Statements	15 - 20



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, 2017 and 2016, 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, 2017 and 2016, 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 - 11 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

January 12, 2018
Nashville, Tennessee

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

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, 2017, with comparative information presented for the fiscal year ended June 30, 2016. 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 Station had no deferred outflows/inflows of resources as of June 30, 2017 or 2016. 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. However, capital assets 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, 2017, 2016, and 2015.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

Table 1. Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$1,380,290	\$1,331,312	\$1,465,234
Noncurrent assets	<u>263,747</u>	<u>287,196</u>	<u>321,846</u>
Total assets	<u>\$1,644,037</u>	<u>\$1,618,508</u>	<u>\$1,787,080</u>
Liabilities			
Current liabilities	\$ 38,257	\$ 27,700	\$ 39,493
Noncurrent liabilities	<u>21,530</u>	<u>19,458</u>	<u>17,686</u>
Total liabilities	<u>\$ 59,787</u>	<u>\$ 47,158</u>	<u>\$ 57,179</u>
Net position			
Investment in capital assets	\$ 146,519	\$ 174,796	\$ 200,226
Restricted	799,571	751,577	800,703
Unrestricted	<u>638,160</u>	<u>644,977</u>	<u>728,972</u>
Total net position	<u>\$1,584,250</u>	<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 and accrued payroll. Noncurrent liabilities include the long-term portion of compensated absences.

Total net position increased by \$12,900, or 1 percent, during fiscal year 2017. The primary factor in the increase in net position relates to gains on investments totaling \$106,410 during fiscal year 2017 compared to losses on investments totaling (\$34,111) during fiscal year 2016.

The Statements of Net Position appears on page 12.

The Statements of Revenues, Expenses and Changes in Net Position

The statements 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 (UNAUDITED)
JUNE 30, 2017 AND 2016

The summary of the Station's revenues, expenses and changes in net position for the years ended June 30, 2017, 2016, and 2015, are as follows:

Table 2. Summary of Revenues, Expenses and Changes in Net Position

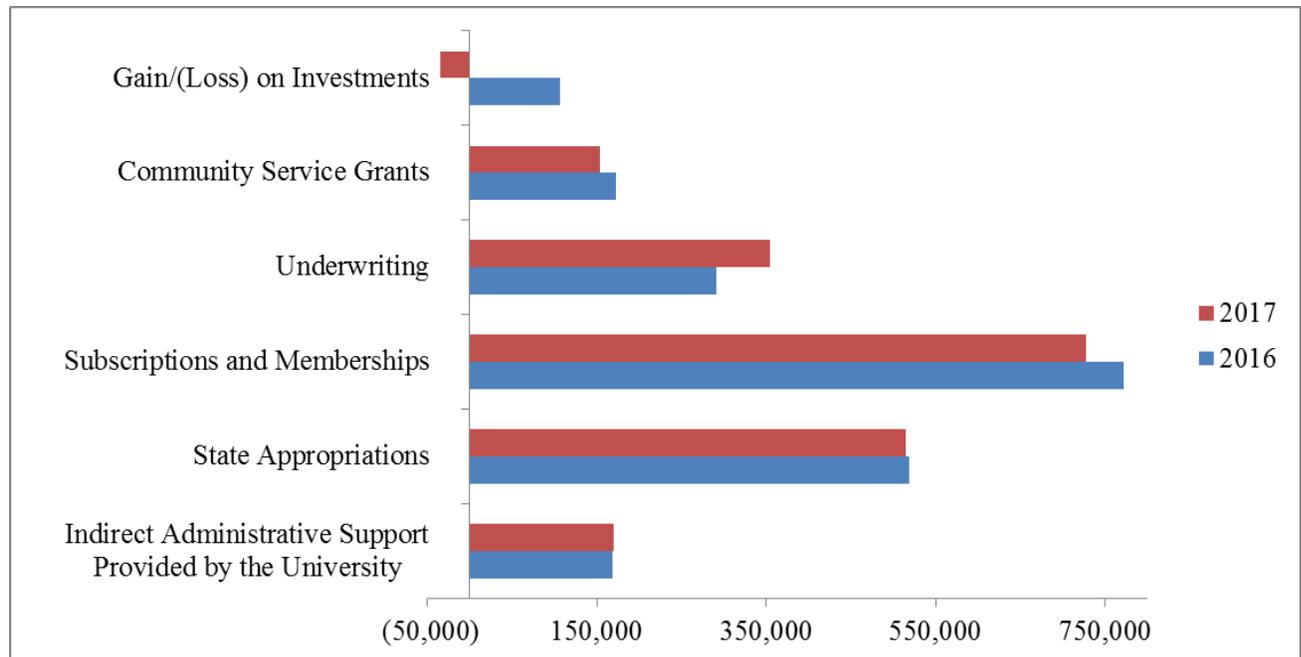
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 173,385	\$ 154,032	\$ 165,978
Operating expenses	2,016,690	2,045,518	2,106,125
Operating loss	(1,843,305)	(1,891,486)	(1,940,147)
Nonoperating revenues	1,856,205	1,732,935	2,272,001
Change in net position	12,900	(158,551)	331,854
Net position, beginning of year	1,571,350	1,729,901	1,398,047
Net position, end of year	<u>\$1,584,250</u>	<u>\$1,571,350</u>	<u>\$1,729,901</u>

The Statements of Revenues, Expenses and Changes in Net Position appears on page 13.

Revenues

Table 3 below illustrates revenues by source (operating and nonoperating), which were used to fund the Station's activities for the years ended June 30, 2017, 2016, and 2015.

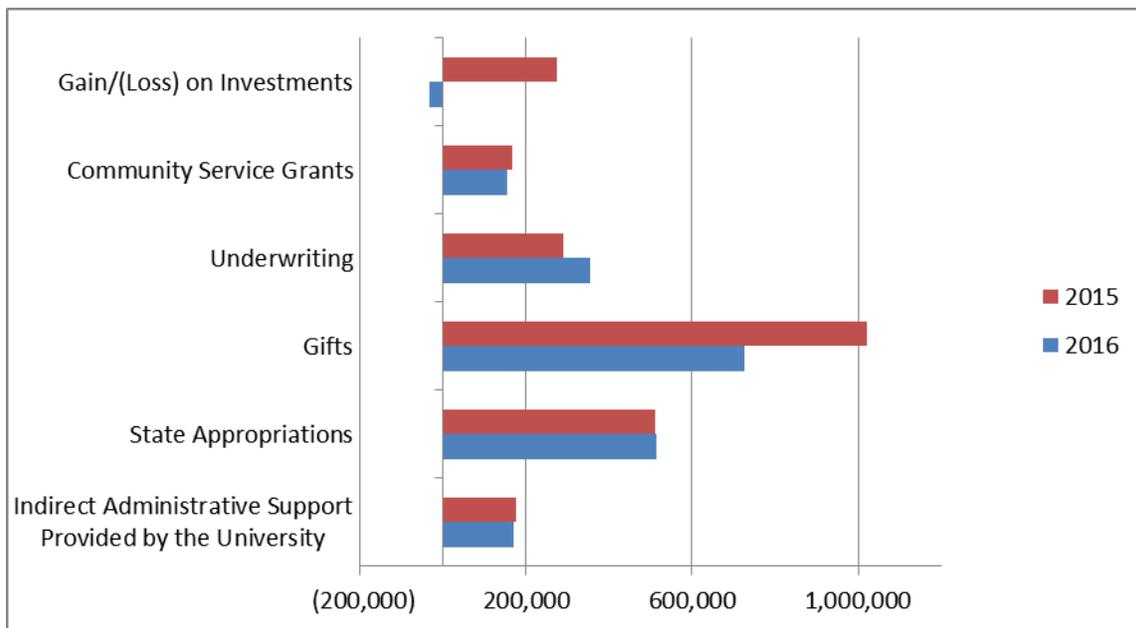
Table 3. Revenues by Source



THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
 WUOT-FM RADIO STATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 JUNE 30, 2017 AND 2016

Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Community service grants, representing approximately 9 percent of revenue for FY 2017, increased nominally. The Station's community service grant is administered through CPB and has remained steady for the past several years.
- State appropriations, representing approximately 26 percent of the Station's total revenue for FY 2017, increased nominally.
- Subscriptions and memberships (which include gifts) received, the largest percentage of the Station's revenue representing approximately 38 percent of total revenue for FY 2017, increased by \$44,285 due to increased giving.
- Underwriting revenue, which represents approximately 14 percent of revenue, decreased approximately \$63,000 due to several underwriters not renewing.
- Gains on investments, representing 5 percent of total revenue, increased due to better overall market conditions.



THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

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.

Expenses

The Station's operating expenses by natural and functional classification for the years ended June 30, 2017, 2016, and 2015, are as follows.

Table 4. Expenses by Natural and Functional Classification

Year ended June 30, 2017:

Functional Classification	Natural Classification			Total Functional
	Salaries and Benefits	Operating	Depreciation	
Programming and production	\$ 475,873	\$ 517,822	\$ -	\$ 993,695
Broadcasting	35,370	114,970	-	150,340
Program information and promotion	67,293	710	-	68,003
Management and general	262,698	282,762	-	545,460
Fundraising	71,792	50,233	-	122,025
Underwriting and grant solicitation	81,409	3,384	-	84,793
Paid for premiums	-	24,097	-	24,097
Depreciation	-	-	28,277	28,277
Total natural	\$ 994,435	\$ 993,978	\$ 28,277	\$ 2,016,690

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

Table 4. Expenses by Natural and Functional Classification - Continued

Year ended June 30, 2016:

Functional Classification	Natural Classification			Total Functional
	Salaries and Benefits	Operating	Depreciation	
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	242,076	-	480,164
Fundraising	69,805	49,938	-	119,743
Underwriting and grant solicitation	113,923	8,820	-	122,743
Paid for premiums	-	13,216	-	13,216
Depreciation	-	-	37,205	37,205
Total natural	<u>\$1,049,784</u>	<u>\$ 958,529</u>	<u>\$ 37,205</u>	<u>\$ 2,045,518</u>

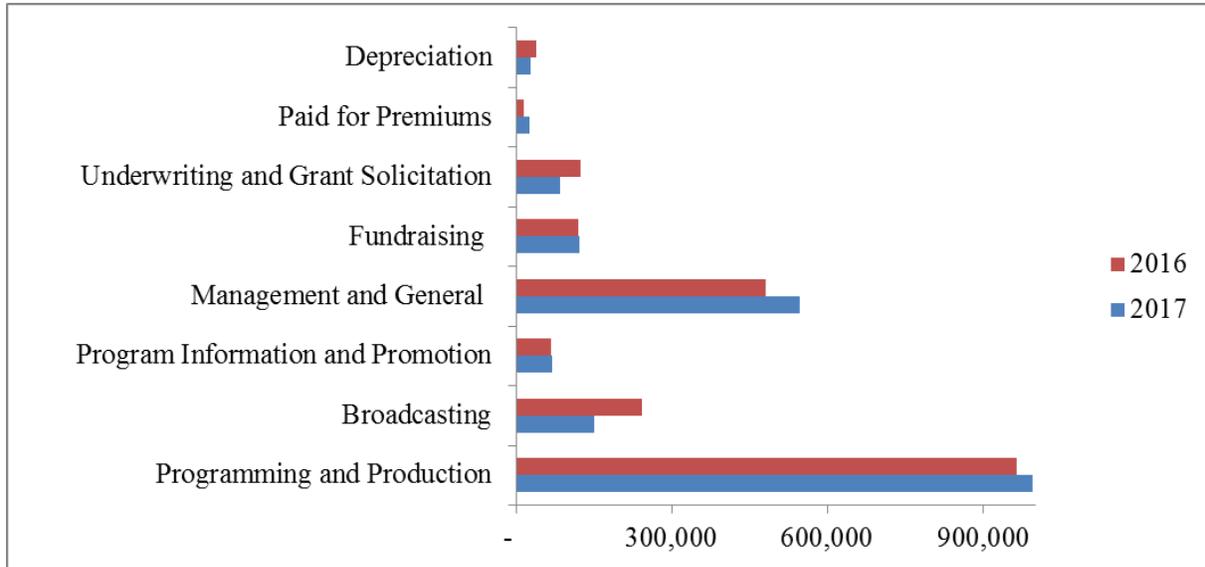
Year ended June 30, 2015:

Functional Classification	Natural Classification			Total Functional
	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
Total natural	<u>\$ 1,023,284</u>	<u>\$ 1,045,660</u>	<u>\$ 37,181</u>	<u>\$ 2,106,125</u>

Natural classifications show the type of expense regardless of program. For the year ended June 30, 2017, 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
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

Table 5. Expenses by Functional Classification

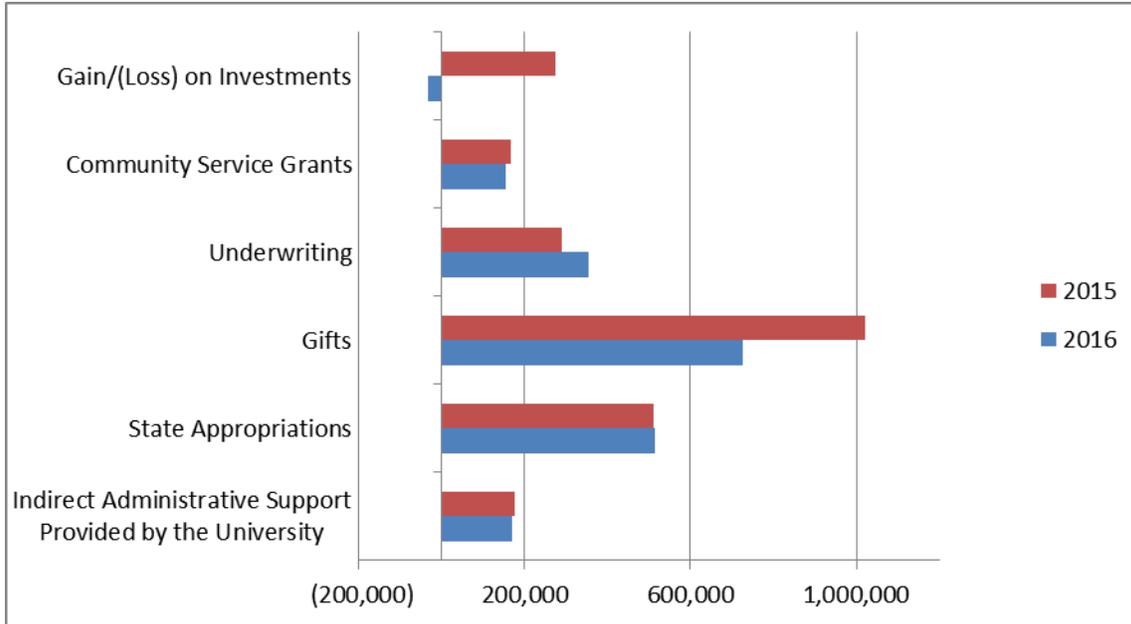


Comparison of Fiscal Year 2017 to Fiscal Year 2016

- Programming and production, representing approximately 49 percent of total expenses for FY 2017, increased by \$30,094, or approximately 3 percent, which is consistent with prior year.
- Broadcasting, representing approximately 7 percent of total expenses for FY 2017, decreased by \$91,617, or approximately 38 percent. The Station kept engineering costs down significantly, and had one less major employee on salary for the year, thus resulting in the noticeable decrease from the prior year.
- Management and general, representing approximately 27 percent of total expenses for FY 2017, decreased \$65,296 or approximately 14 percent, mainly due to changes in staffing.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
 WUOT-FM RADIO STATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 JUNE 30, 2017 AND 2016

Table 5. Expenses by Functional Classification - Continued



- 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 UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016

Capital Assets

At June 30, 2017, 2016, and 2015 the Station had \$146,519, \$174,796, and \$200,226, respectively, invested in capital assets, net of accumulated depreciation of \$692,747, \$664,470, and \$627,265, respectively. Depreciation charges totaled \$28,277, \$37,205, and \$37,181 for the years ended June 30, 2017, 2016, and 2015 respectively. These assets are comprised of equipment. The decrease in equipment is related primarily to depreciation expense recorded during fiscal year 2017.

Economic Factors that Will Affect the Future

A primary economic factor facing the Station is the State of Tennessee's funding through the University. This year, funding to the Station increased from \$515,270 in FY 2016 to \$518,553 in FY 2017. Approximately 26 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, 2017 AND 2016

	2017	2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 268,675	\$ 266,652
Investments	1,111,615	1,064,660
Total current assets	1,380,290	1,331,312
NONCURRENT ASSETS:		
Investments	117,228	112,400
Capital assets, less accumulated depreciation	146,519	174,796
Total noncurrent assets	263,747	287,196
 TOTAL ASSETS	 \$ 1,644,037	 \$ 1,618,508
LIABILITIES:		
CURRENT LIABILITIES:		
Current portion of compensated absences	\$ 27,194	\$ 27,700
Accrued payroll	11,063	-
Total current liabilities	38,257	27,700
NONCURRENT LIABILITIES:		
Noncurrent portion of compensated absences	21,530	19,458
Total noncurrent liabilities	21,530	19,458
 TOTAL LIABILITIES	 59,787	 47,158
NET POSITION:		
Investment in capital assets	146,519	174,796
Restricted:		
Nonexpendable:		
Programming	117,228	112,400
Expendable:		
Programming	682,343	639,177
Unrestricted net position	638,160	644,977
Total net position	1,584,250	1,571,350
 TOTAL LIABILITIES AND NET POSITION	 \$ 1,644,037	 \$ 1,618,508

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, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Community service grants	\$ 173,385	\$ 154,032
Total operating revenues	173,385	154,032
OPERATING EXPENSES:		
Program services:		
Programming and production	993,695	963,601
Broadcasting	150,340	241,957
Program information and promotion	68,003	66,889
Support services:		
Management and general	545,460	480,164
Fundraising	122,025	119,743
Underwriting and grant solicitation	84,793	122,743
Paid for premiums	24,097	13,216
Depreciation	28,277	37,205
Total operating expenses	2,016,690	2,045,518
Operating loss	(1,843,305)	(1,891,486)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	518,553	515,270
Subscriptions and memberships	771,459	727,174
Underwriting	291,634	354,578
Indirect administrative support provided by the University	168,149	170,024
Gains (losses) on investments	106,410	(34,111)
Total nonoperating revenues	1,856,205	1,732,935
CHANGE IN NET POSITION	12,900	(158,551)
NET POSITION - BEGINNING OF YEAR	1,571,350	1,729,901
NET POSITION - ENDING OF YEAR	\$ 1,584,250	\$ 1,571,350

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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from community service grants	\$ 173,385	\$ 154,032
Cash paid to suppliers and vendors	(825,829)	(788,688)
Cash paid to employees	(981,806)	(1,059,622)
Net cash used in operating activities	(1,634,250)	(1,694,278)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from underwriting income	291,634	354,578
Cash received from state appropriations	518,553	515,270
Cash received from subscriptions and memberships	771,459	727,174
Net cash provided by noncapital financing activities	1,581,646	1,597,022
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	-	(11,775)
Net cash used in capital and related financing activities	-	(11,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	54,627	54,452
Net cash provided by investing activities	54,627	54,452
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,023	(54,579)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	266,652	321,231
CASH AND CASH EQUIVALENTS - ENDING OF YEAR	\$ 268,675	\$ 266,652
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (1,843,305)	\$ (1,891,486)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	28,277	37,205
Indirect administrative support provided by the University	168,149	170,024
Changes in assets and liabilities:		
Compensated absences	1,566	(10,021)
Accrued payroll	11,063	-
Net cash used in operating activities	\$ (1,634,250)	\$ (1,694,278)

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, 2017 AND 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of Tennessee at Knoxville's 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) gains (losses) on investments, 3) underwriting, 4) subscriptions and memberships, including gifts, and 5) 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.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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.

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, the Station received indirect administrative support totaling \$168,149 and \$170,024, respectively.

C. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 839,266	\$ -	\$ -	\$ 839,266
Less: accumulated depreciation	<u>(664,470)</u>	<u>(28,277)</u>	<u>-</u>	<u>(692,747)</u>
Capital assets, net	<u>\$ 174,796</u>	<u>\$(28,277)</u>	<u>\$ -</u>	<u>\$ 146,519</u>

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>

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

D. NONCURRENT LIABILITIES

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

	June 30, 2017			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Compensated absences	<u>\$47,158</u>	<u>\$66,318</u>	<u>\$(64,752)</u>	<u>\$48,724</u>
	June 30, 2016			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Compensated absences	<u>\$57,179</u>	<u>\$59,032</u>	<u>\$(69,053)</u>	<u>\$47,158</u>

E. OPERATING LEASES

In May 1987, the Station entered into a noncancelable operating lease for a tower and a transmitter building. 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, 2017 and 2016. The following is a schedule of future minimum rental payments required under the lease as of June 30, 2017.

Years Ending <u>June 30,</u>	<u>Amount</u>
2018	\$18,000
2019	18,000
2020	18,000
2021	18,000
2022	<u>18,000</u>
Total future minimum lease payments	<u>\$90,000</u>

THE UNIVERSITY OF TENNESSEE AT KNOXVILLE
WUOT-FM RADIO STATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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. Currently, this site is the Stations auxiliary transmitting site. 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.